

**A Grander, Greener Global Bargain:
Generating Growth by Refocusing Trade Liberalization on Energy and Green Solutions**

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A Transformative Opportunity for Sustainable Growth

The November 15, 2008 meeting of G20 leaders in Washington, DC was convened to craft a response to the global financial crisis. President Bush was still in office and indeed still had two months to go in his presidency. Since the November meeting, the financial crisis has become a spreading global pandemic and the entire global economic system is in serious peril. The upcoming April 2, 2009 meeting in London is the opportunity for the G-20, a grouping of twenty developed and developing nations that account for ninety percent of world gross national product and eighty percent of world trade, and this is the news president's chance to point the way toward a revival of world growth. It is an historic growth moment for Obama and other world leaders to reorder global priorities for the twenty first century and harness market forces to advance and spread economic prosperity. It is another chance, after many decades of delay, to finally link the energy and the environmental crises and start tackling them systematically and proactively.¹ It is also time for a new generation of leaders to revitalize the institutions which were designed sixty years ago by leaders meeting in Bretton Woods, New Hampshire, and adapt these institutions to today's hugely challenging tasks

Since the end of World War II, global growth and poverty reduction has been premised on trade growth through greater market liberalization and adherence to rule of law. Today, however, as job losses climb, pressure mounts on governments in all countries to take protectionist trade measures that roll back market liberalization and compromise legal commitments based on principles of non-discriminatory national treatment. This essay offers several concrete recommendations to the G-20 to turn this crisis into an opportunity for the G-20 to coordinate global leadership to address the economic and trade crisis in such a way that the world's energy needs and environmental well-being are also considered. Linking these goals will help build political support at home to underpin any one nation's commitment to undertake multilateral obligations.

Economic Crises, Nationalistic Measures and Global Political Instability

At their November 2008 summit, the G-20 leaders expressed the necessity of “rejecting protectionism” promising that for “12 months, [they would] 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.”² A clear

¹ As Nicolas Stern in “Connecting Climate Change and Economic Recovery,” notes “Thinking that the economic crisis takes precedence over the climate crisis ... is just confusion. That just misses the point about how we can put our policies on these two things together in a very constructive way.”<http://e.mckinseyquarterly.com/WORT002FEC6EC3061FD192F1458F20>

² . “Declaration Summit on Financial Markets and the World Economy, G-20, November 15, 2008. See in particular G-20 statement indicating a “Commitment to Open Global Economy” paragraphs 12 and 13.

commitment, however, has not been kept. According to the World Bank, seventeen of the G-20 nations have taken new measures that restrain trade or discriminate in favor of national firms.³

A United States example is the “Buy American” clause of the American Recovery and Reinvestment Act of 2009, which President Barack Obama signed February 17, 2009. The final bill took some of the sting out of the originally drafted legislation by stating that the provision must be administered in a way that is consistent with U.S. international trade agreements. The US government has yet to clarify whether money allocated under the stimulus plan to U.S. state governments would be covered by the provision; currently thirteen U.S. states do not have procurement commitments under the WTO Government Procurement Agreement (GPA).⁴

Even the subdued version of “Buy American” is the basis for concern that the clause, while WTO compliant, still licenses discriminatory treatment against countries that are not signatories to the GPA -- most prominently Brazil, China and India. Ironically, this could be an incentive for these prominent countries to sign on to the GPA. However, if other nations are less artful than the United States in drafting similar bailouts, their trading partners would be within their rights to retaliate by raising their “bound tariffs” to levels well above the applied/actual tariffs they may have in place today. In his January 24th report, WTO director Pascal Lamy stated that the effects of raising these tariffs could cut the value of global trade by up to 8 percent.⁵ The stakes are particularly high for developing countries that have pursued export driven policies, which are the only countries experiencing continued, albeit anemic, growth in 2009, in spite of the burdens from dragging commodity prices, slowing tourism, and shrinking remittances.

In this recession, protectionist measures will likely differ from the across-the-board tariff hikes that the United States of America imposed under the Smoot-Hawley Act of 1930 which economists believe helped turn a deep recession into the Great Depression. While developing countries are deploying tariff measures that also provide government revenue, most twenty first century protection is not as clear cut. Instead, many developed and some emerging economies like China are introducing domestic subsidies (so-called “bailouts”) which, like tariffs, are a common instrument that can distort trade.⁶ Because few of the 153 WTO members keep their commitments to notify biannually the WTO when they have adopted domestic subsidies, the area is an opaque and underappreciated threat which more easily comes from the relatively richer countries that have more power to subsidize.

Other measures will likely take the form of so-called “contingency protectionism,” including countervailing duty measures against subsidized imports, anti-dumping complaints, and

³ For more data on trade measures, please reference Elisa Gamberoni and Richard Newfarmer, “Trade Protection: Incipient but Worrisome Trends,” 4 March, 2009. <<http://www.voxeu.org/index.php?q=node/3183>>

⁴ “U.S. Provides WTO Members Assurances on ‘Buy America Provisions,” *International Trade Daily*, 26 Feb. 2009.

⁵ “Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade Related Developments,” *WTO* Jan. 2009: 1-14.

⁶ According to The Global Subsidies Initiative, “Next to tariffs, subsidies are a common instrument that distorts trade, either by promoting a nation’s exports in sectors where others’ have a comparative advantage, or by subsidizing national industries and goods that substitute imports from abroad.”

safeguard actions.⁷ These measures grew out of bargaining among negotiators during previous rounds of multilateral liberalization. They are legitimate temporary actions when executed according to WTO rules, but they have the same impact of reducing overall trade. As such, they increase global trade friction and together could swamp the WTO dispute settlement mechanism (DSM).

US unemployment numbers have reached a peak not seen for more than a quarter century, which was the last time the major economies engaged in such high stakes trade skirmishes, if not actual trade wars.⁸ Today, the risk of global instability from trade wars is even greater. This is not just because this dual recession/financial crisis is the worst since the Great Depression. It is also because globalization has expanded, and so many more nations rely on trade for investment and growth. The increased complexities of global supply chains over the century further exacerbates the potential for unanticipated second and third order effects.

Economic turmoil in Latvia, Ukraine and Iceland has already rocked governments. When governments bend to domestic political pressure to resort to nationalistic measures, this can lead to tit for tat responses that weaken economies and can trigger even greater instability. Ominously, the linkage between national security and economic policy was highlighted by Admiral Dennis Blair, Director of National Intelligence, in his February testimony before the Senate Select Committee on Intelligence: “The primary near-term security concern of the United States is the global economic crisis and its geopolitical implications,”⁹ Admiral Blair emphasized. Because of these concerns, the Obama White House asked the Central Intelligence Agency Director to include an Economic Intelligence Briefing in his daily White House report that highlights threats to world stability

When the US faced a serious industrial recession in the 1980s, the major manufacturing giants in the auto and steel industries mounted successful protectionist campaigns which inspired industries including semiconductors and machine tools to do the same. Protectionism feeds on itself domestically as well as internationally. As a result of steel and auto protection last time, for a decade the world was saddled with so-called OMAs (Orderly Marketing Agreements) limiting auto trade between two of the world’s great economic superpowers, the United States and Japan. In addition, the United States negotiated Voluntary Restraint Agreements (VRAs) with twenty seven nations on a wide range of steel products. The VRAs had morphed out of hundreds of subsidy and dumping complaints filed at the Department of Commerce and USITC by US steel companies and workers. Steel users in America paid the price for this protection. They paid more for steel and lost manufacturing jobs to countries that paid less. Machines tool makers took hits, and so did parts makers. Everyone paid.

Global Economic Leadership Challenge to the new US Administration and G-20

President Barack Obama’s administration is surely cognizant of the leadership role that the

⁷ Anticipating a rise in cases, the United States International Trade Commission (USITC) last week requested a 10 percent budget increase for fiscal year 2010 “ITC Requests 10 Percent Increase in FY’ 10 Due to Expected Rise in 337, AD/CV Cases,” *International Trade Daily*, 27 February 2009.

⁸ Jack Healy, “651,000 Jobs Reported Lost in February,” 6 March 2009. <http://www.nytimes.com/2009/03/07/business/economy/07jobs.html?_r=1&hp>

United States must play to restart the U.S. domestic economy. In his first months in office, the new US President has managed to pass a domestic economic recovery stimulus package, increase financial help for banks and automobile companies, start an assistance program for perhaps nine million families with shaky home mortgages, issue a blueprint for banking reform, and propose a budget plan. The G-20 meeting in April will signal whether and how President Obama and the United States will step into the global economic leadership role that America has played since the dawning of the post WWII Bretton Woods era.

What should President Obama and the G-20 propose to propel the global trade engine, which has generated prosperity for sixty years? The answer: **A Grander, Greener Global Bargain**

Recommendations for Catalyzing a Sustainable Trade Agenda

The November G-20 did not fully anticipate that the globe would be gripped so rapidly by such a dramatic global economic recession. So its work program was more focused on the financial crisis and architectural reform of the International Monetary Fund (IMF) and multilateral banks. The November *Declaration on Financial Markets and the World Economy* does include a “commitment to an open global economy.” However, the November pledge against taking protectionist measures could be used to generate deeper consideration of the role that the WTO can play both alone and in cooperation with the IMF, World Bank, and other multilateral banks. Neither did the November G-20 take cognizance that the crisis that threatened world stability the year before was driven by skyrocketing prices for food and fuel and that it could happen again. The newly formed G-20 is the forum that should recognize the linkage between energy, climate change, national security, trade, economic growth and instability and take the lead to weave together a tighter, more coordinated, disciplined global trade agenda.

1. Anti Protection Pledge: The G-20 should extend its November pledge against protectionist measures beyond its initial 12 month period and empower the WTO to monitor adherence and issue quarterly public reports.

2. WTO Surveillance Prospectively: The G-20 should task the WTO to monitor the industrial support programs --- like those for automobiles --- that its member states are undertaking. U.S. and European support for the automobile industry that amounts to at least \$40 billion and growing are the most prominent.¹⁰ (This does not include measures taken by China and Japan.¹¹)

The WTO can play a bigger role in making transparent and disciplining the execution of

¹⁰ The US has appropriated \$17.4 billion in loans, Canada \$3.2 billion, Sweden \$2.8 billion, Germany \$2.3 billion incentive for car buyers and \$642 million towards innovation, and France \$385 million for restructuring the car industry and a \$1.2 billion loan to support Peugeot and Renault. On February 18th, Chrysler and GM returned to Congress seeking an additional \$14 billion dollars.

¹¹ Although criticism abounds against measures taken to support “domestic” car industries, a recent article by the *Economist* highlights the 21st century reality of a “car industry [that] has become so globally integrated it is extremely difficult for governments to help “domestic” industries in isolation, whatever their intent” “Too many moving parts,” *Economist*, 5 February 2009.

these support programs or “bailouts” to limit damage to the world trading system.¹² According to the WTO Agreements on Subsidies and Countervailing Measures (SCM Agreement), each member country is committed to notify the WTO when it adopts a domestic subsidy that can be trade distorting. Today, information is available for less than half of the WTO Membership. Transparency can make for better decisions taken in home countries reflecting more national, economic, not political priorities. And it could help to avoid a return to the era of the 1980s when rounds of subsidies, countervailing duty measures, and other measures resulted in industrial deals that carved up global markets.¹³

The G-20 could enhance the role and authoritative visibility of the WTO by providing it with the necessary resources to work and issue timely public reports in this area. The WTO and the IMF also should be directed to share resources in order to achieve rapid, factual, and analytic surveillance for every WTO member nation without exception.

3. Trade Financing: Trade financing is another key concern. WTO Director Lamy has taken a positive step to create a global liquidity pool to cover the shortfall in financing which is a critical lubricant to world growth. The WTO is coordinating with the World Bank and the IMF, which are best suited to perform this function.

4. A Grander Greener Global Bargain Where Trade Rules Apply to Energy: The G-20 should send a proactive liberalizing signal to the world. The question is how. Should the G-20 call for a revival of the Doha Development Round of multilateral talks? I have my doubts. The new US Administration is pressed to manage the legacy it inherited from the previous Administration. To try to revive the moribund talks after seven and a half years of negotiations may be fruitless and distract from other politically pressing priorities.¹⁴ The Doha Round suffers from scant support in Congress which holds the Constitutional power to regulate foreign commerce. Leading US business and farm groups have called on President Obama to push advanced developing countries like India and Brazil to offer “balance and greater ambition” to these efforts, and have said that otherwise there is “no basis for another ministerial meeting.”¹⁵

There are other ways to maintain and expand the benefits of trade. The G-20 should link their

¹² In a recent Global Subsidies Initiative sponsored interview, Julius Sen, Research Associate at the London School of Economics’ International Trade Policy Unit, states the bailouts are NOT consistent with WTO rules on subsidies. “Any grants, concessional loans or other forms of state aid have to be applied in a non-discriminatory fashion; should not be trade distorting; and should not have any local content obligations which would violate the TRIMS agreement on investment conditionalities”

“Will Government Bailouts Lead to Trade Wars?” *Global Subsidies Initiative* March 2009.

<<http://www.globalsubsidies.org/en/subsidy-watch/analysis/will-government-bailouts-lead-trade-wars>> (The author is a member of the High Level Advisory Committee for the Global Subsidies Initiative.)

¹³ Under the General Agreements on Trade in Services (GATS), nations providing financial services bailouts are not similarly obligated.

¹⁴ Some analysts believe the failure derived from a flawed template that tried to get members to commit to broad formulaic principles and then later negotiate their exceptions rather than vice versa as occurred during the Uruguay Round.

¹⁵ “U.S. Business, Farm Groups Urge Obama to Reassess Approach to WTO Trade Talks,” *International Trade Daily*, 27 February 2009.

action program to the work of global leaders preparing for climate change talks at Copenhagen next year to advance economic, trade and climate change goals. The G-20 should breathe life into WTO activities, other than sponsoring the Doha Round, including:

- a. Making a down payment on a **greener, grander bargain** by pledging to undertake WTO sponsored plurilateral, sector-by-sector agreements to reduce trade barriers on clean energy goods and services. Such a sector specific undertaking by G-20 members might snowball into broader WTO commitment just as a US-Japan bilateral in the 1990s formed the basis for the WTO's Information Technology Agreement ITA .
- b. Empowering the WTO to monitor and publicize industrial and agricultural measures that are trade distorting, impoverishing, and environmentally degrading. The Director General has recently expressed interest in undertaking greater surveillance prospectively. The WTO surveillance function should be directed to look not only prospectively but also retrospectively into laws and regulations that G-20 nations have accumulated when they are particularly egregious from a point of view of trade, poverty, and sustainability. If a nation thought that it might come in for surveillance that might tip a decision to alter its domestic policies. Examining the ethanol tariffs which are part of a broader US biofuels subsidy policy would make a particularly impactful statement, particularly on Brazil.
- c. Shining a light on the fact that WTO rules do not cover trade in energy. Recognizing that energy is the lifeblood of the global economy, it should not remain outside the world trade system for another thirty years.¹⁶ The agriculture stalemate at Doha should be telling trade negotiators that this may be the moment to shift their efforts away from agriculture so that they have more time and resources to double-down on energy. This could be a way to end the long WTO negotiating stalemate with countries like India.

On November 15, 2008 members of the G-20 “committed to the rule of law, respect for private property, open trade and investment, and competitive values.” Virtually every member of the G-20 is a member of the WTO. They should pledge to initiate negotiations to apply the WTO rules to the energy sector. The members of the G-20, who are also members of OPEC, should play by the rules of the marketplace, no exceptions.

The United States, China and other G-20 Members

The G20 membership of developed and developing nations reflects the shift in economic power in the world. For a variety of different reasons, some G-20 members may not be willing to take tough decisions to be part of a collective action. If that happens, individual nations, including the United States and China, should be prepared to work opportunistically with those countries within the G-20 that will act. The past multilateral trade rounds depended on the US working together with Canada, Europe, and Japan: the Quad. The G-20 is an experiment which still requires leadership and focus. The United States has traditionally played that role, often

¹⁶ For further discussion please reference comments made by Edward L. Morse from the Council on Foreign Relations' "\$100 Per Barrel Oil: Consequences for U.S. National Security" discussion held on February 13th 2008.

with important help and cooperation with key European friends. Is the US ready to play this role?

There are two hopeful political developments suggesting that President Obama is laying a good political basis to advance a positive trade agenda that is also consistent with its climate change goals. One of the least noticed components of the American Recovery and Reinvestment Act of 2009 was the reform of the Trade Adjustment Assistance (TAA) program, which expanded assistance to service-industry employees as well as workers in manufacturing. Passage of changes to the TAA had eluded Congress the entire eight years of the Bush administration. The TAA reforms were three years in the making and are the result of significant bipartisan cooperation in the Congressional committees responsible for trade.. Passage of TAA reform is a key domestic political predicate to any bipartisan trade liberalizing initiative. In addition, President Obama's budget plan contemplates redirecting trade distorting agricultural subsidies away from subsidizing production and toward conservation goals.

What role will China play? This essay has neither examined exchange rate policies, nor the unstable role played by trade deficits or trade surpluses, nor the traditional role played by the United States as the consumer of first and last resort for countries like China pursuing export driven growth strategies. China has been a great beneficiary of America's open market for imports, and China has stunned the world by its rapid economic clout. Will China now undertake economic policies to demonstrate that it recognizes its critical national stake in maintaining the global trading system?¹⁷ China would seem to have national interests compatible with multilateralism and globalization. The great export superpower has the potential to be a great consumer, for example. .China's initial \$586 billion dollar stimulus suggests it knows it needs to spend on domestic consumption including providing health services to its people.¹⁸ It remains to be seen how much this can be linked into broader G-20 efforts, but certainly this needs to be considered.

¹⁷ With regard to China's \$585 billion dollar stimulus program, China's Prime Minister Wen Jiabao "outlined a barrage of construction, increased subsidies and economic measures aimed at continuing his nation's modernization despite a world financial crisis." Michael Wine, "*China Outlines Ambitious Plan for Stimulus*", 4 March 2009. <<http://www.nytimes.com/2009/03/05/world/asia/05china.html?scp=1&sq=Economy%20Drives%20Agenda%20in%20China%20Congress&st=cse>>

¹⁸ "What the Chinese Stimulus Package Means," *International Herald Tribune*, 23 November 2008.