

Business in an interdependent world

A new approach to enabling global trade and investment



Foreword

Responsible trade, investment and entrepreneurship are the drivers of economic growth and job creation. Getting the regulatory framework right to facilitate this is essential. But how? Peace and prosperity in the West have been built on the foundations of a mutually agreed rules-based trading system, which has been phenomenally successful in providing a framework for lifting millions out of poverty across the globe. But there are many shortcomings and recent negotiations have failed to deliver results. Why?

Now that the economies of the world are so interdependent, we question whether traditional approaches to trade negotiations are the right way forward. In this era of globalisation, it is arguably no longer appropriate to pursue negotiations from a single-country perspective when supply chains are multinational and issues of concern are more often than not about domestic regulation. Another problem is the vocabulary that is used, such as negotiating 'concessions' and trading one sector off another. Rather than seeking what essentially amounts to complex barter trade deals, shouldn't governments be coming together to build user-friendly regulatory frameworks that facilitate responsible trade, investment and entrepreneurship and provide a strong basis for improving labour and environmental standards worldwide? Can this be done in a manner that is understandable and efficient?

I would like to thank Neil McMillan in particular for drawing together these reflections from the AmCham EU Trade and External Affairs Committee on the realities of global business today and the mismatch with existing multilateral trade negotiation agendas and approaches. This document concludes with a number of thoughts on how the EU and US could work with other countries to meet the challenges of sustaining and further developing effective multilateral agreements that enable business to deliver sustainable economic growth. AmCham EU hopes that these will be useful, and that it can continue to make a constructive contribution to progress on these important issues.

Sharon Leclercq-Spooner

Chair,

AmCham EU Trade and External Affairs Committee

Introduction

Changes to the global economy present new challenges for multilateral trade negotiations. There is a growing gap between companies, including those represented at the American Chamber of Commerce to the European Union (AmCham EU), who already treat their markets as global, and the approach of trade negotiators, which has 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 (DDA), it is time to look at how trade policy is formulated and negotiated.

New thinking is necessary to reflect changes in the nature of trade. The world trading and trade policy community need to work together to create policy that takes into account the linkages and interdependence between countries and communities in an age of globalisation. This means moving away from adversarial national negotiating approaches to recognising that the globalised economy has already created strong interdependence between countries and examining how collaboratively to make rules appropriate to this new reality.

State of play

Globalisation results directly 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.

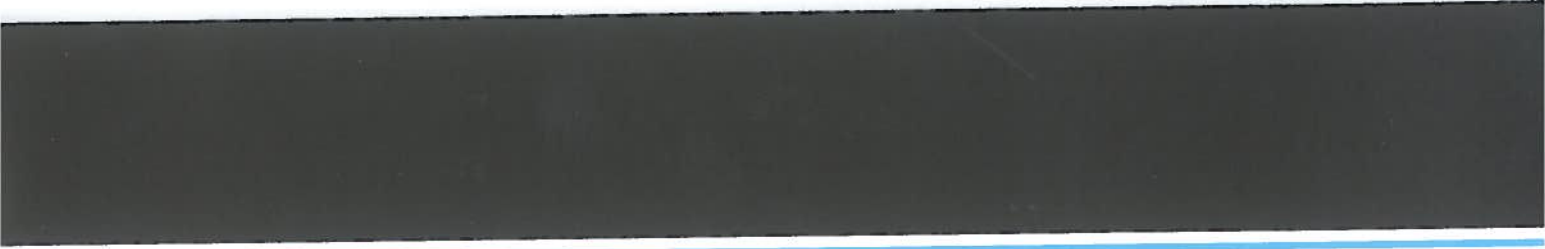
“ ‘Trade’ no longer fully reflects the complex sets of interrelationships that global production now entails. ”

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 WTO rules need to be adjusted. The experience of many companies operating in multiple markets, many of which are members of AmCham EU, suggests

that such a review is long overdue, and needs to be accompanied by a fundamental rethink of how we negotiate trade agreements. Indeed, the term ‘trade’ no longer fully reflects the complex set of interrelationships that global production now entails.

Any sophisticated product - whether physical, digital or (often) a combination of both – typically comprises products, both physical and intellectual, from many 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. Products are now often 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. It is becoming increasingly difficult to give products and services a specific nationality with such a complex global market and supply chain.

The success of the GATT and WTO in breaking down barriers to international trade and the integration of business activity have made the task of trade negotiations 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.

Business and government need to support continued liberalisation

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 history of the global economy since the end of the Second World War has demonstrated that embracing change can improve the economic standing of all countries, including those adversely affected during the initial stages of transition.

“ Trade liberalisation represents the only answer to the question of how to promote growth. ”

There is therefore a real need for business and government to restate the arguments in favour of free trade as a driver of better living standards, rather than an exploiter of weaker economic players. 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.

Any response to economic downturn that involves the raising of new trade barriers to 'protect' domestic interests, can lead – as it did after the 1929 crash – to a spiral of protectionist deflationary policies turning an acute crisis into a decade of depression. This is not an experience we should repeat.

“ Trade barriers are state-imposed limitations on individuals' and companies' freedom to choose the product or service best suited to their needs.

” There are winners and losers in any competition, and free trade makes competition more acute. But it is tempting, particularly in the short term, to believe that a country can benefit from ignoring the rules and exploiting open export markets while closing its own. This is, however, an economic dead end.

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. This has been the rationale for the various rounds in the history of trade negotiation. 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 that 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

As many economic studies have shown, the country that opens its market almost always gains more significantly than those seeking to export to it.¹ 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 that could expose them to problems in the long-term.

1. 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).

Have trade negotiators caught up with the realities of doing business?

While the marketplace may be globalised, trade negotiations can appear to be stuck in the 1940s. The language of 'concessions' or 'trade defence' instruments gives the impression that opening markets is a dangerous concession to an aggressive exporter, with no benefits to the home market.

AmCham EU believes that trade policy, and the domestic political attitudes that determine how trade negotiators act internationally, needs to catch up with what is happening in the commercial world, and move away from regarding trade as a zero-sum game. Trade barriers are state-imposed limitations on individuals' and companies' 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, and the economic efficiency of their 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. It makes absolute sense for the two 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 multilateral solutions**, and move away from past tendencies to regard each other as competitors.

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 Transatlantic Economic Council (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.

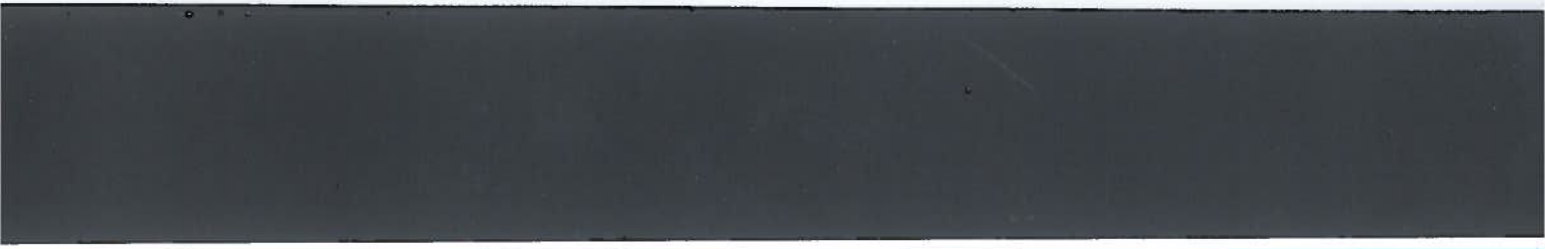
In view of the failure of the single undertaking approach, AmCham EU strongly supports the efforts of the WTO Director-General in taking forward **individual negotiations step-by-step with a view to multilateral solutions**.

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 negotiations in these areas.

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; and
- 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 provide major benefits on a global basis.

In taking these considerations further, however, close attention will be necessary to creating global rules in ways that 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 policy community wants to reconnect to business - and individuals - it needs to show that it can deliver results more quickly.**

Business and trade negotiators share the objective of generating renewed momentum for removing barriers to economic growth. These barriers represent billions of dollars of potential revenue to countries which are

bound up in rules that make economies less efficient. For large companies, these barriers cost money, which the consumer ultimately pays for. For smaller companies, they mean that the company does not enter the market in the first place.

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 and government must do their utmost to present the arguments in favour of international trade, and do so quickly.

“ If the international trade policy community want to reconnect to business – and individuals – it needs to show that it can deliver results more quickly ”

Every month of inaction holds back economic growth. Progress on multilateral liberalisation and mutually agreed rules will ensure the continued health of the multilateral framework and will boost economies across the globe.



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 US investment in Europe totalled €1.7 trillion in 2010 and directly supports more than 4.2 million jobs in Europe.

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