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The Future of Global Trade

Shanker Singham
Sir Martin Donnelly KCB
Vicky Pryce

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Following a short period lecturing in law at the University of Leicester, Jacqueline Minor joined the European civil service, first at the Court of Justice and subsequently at the Commission. After more than 20 years' working on internal market issues, she served as Head of the Commission's Representation in the UK from 2013 to 2017. She is an Honorary Senior Fellow of Regent's University London.

Foreword

Good evening ladies and gentlemen and can I welcome you to Regent's University this evening for this third and last in the series of seminars organised in co-operation with the Senior European Experts. My name is Jackie Minor and I am a member of the Senior European Experts group. I am deputising this evening for the Vice Chancellor, Aldwyn Cooper, who unfortunately is ill and unable to be with us but naturally sends his very best wishes for a very successful seminar.

This third seminar is perhaps the most ambitious in the series, we are looking at nothing less than the future of global trade. The three members of this evening's panel will be discussing whether we have reached a turning point in international trade. Most of you I hope have already seen the paper prepared as a background document for this evening's discussion which looks at patterns of trade since the end of Second World War when, for a long period, international trade was regarded not only as a catalyst for increasing global prosperity but also a facilitator for global stability and by extension, global understanding.

It is well known, I think, that multi-lateral trade negotiations have been stalled for well over 25 years, leading major economies to turn to pluri-lateral, regional and bilateral agreements. But recently there has been, I think, a questioning of the value of trade and of its consequence, which is frequently regarded as globalisation.

Opinion seems to have shifted both in the public and in some sections of the elite. In my previous incarnation I had the challenge of trying to explain and defend the TTIP agreement to the general public, many of whom were sceptical about the value of such an agreement. But it is not only the public, we have also seen the leaders of some of the world's major economies suggesting that they regard international trade as something which is a not an unalloyed virtue

So I think the question for this evening is: have we reached that turning point? Is this the start of a retreat from trade liberalisation or is it the emergence of a new approach, possibly with new leading players and new rules?

These are some big questions, and we are very fortunate to have three experts to respond to them. In the order in that they have agreed to speak, first of all we have Shanker Singham, who is a renowned international trade lawyer, one of the world's leading competition and trade lawyers with a background of having worked both in the UK and the US. He is currently the director for international trade and competition at the Institute of Economic Affairs.

After him, Sir Martin Donnelly will speak. Sir Martin was, until his retirement from the civil service, permanent secretary at the Department for International Trade and he has also been permanent secretary at the Department for Business, Innovation & Skills. He is a member of the Senior European Experts group. Our final speaker will be Vicky Pryce, who has occupied senior economic positions in government, accounting, banking and the oil sector. She is now on the board for the Centre for Economics & Business Research. These three in turn will take about 10-15 minutes to comment on the paper and the questions raised by it. We will then turn to the audience for questions, observations and discussion.

Shanker Singham

Director, International Trade & Competitions Unit, Institute of Economic Affairs

Shanker Singham is one of the world's leading trade and competition lawyers, and adviser to governments and companies. He authored the leading academic textbook on the subject of trade, competition and regulatory frameworks, and has lectured, written and spoken extensively. His recent focus has been on anti-competitive market distortions and efforts to reduce barriers to global free trade.

Shanker Singham

It is very good to be here and very good to be talking about international trade, a subject that in the UK we have started discussing with the greatest sense of urgency than has existed for some time.

What I would like to do is to talk about three things. First of all I would like to talk about the context of the global trading system, where we stand in the global trading system and a little bit of history on how we got to where we are. What are the dynamics in the global trading system now? And then I will talk about developments in the WTO, developments with pluri-lateral agreements, the bilateral agenda that is going around the world. I will focus there a little bit on US trade policy and the approaches of the Trump administration. Finally, I will focus on some comments about UK trade policy going forward.

What is the context for the global trading system? As set out in the paper, we saw from 1947 to around 1994 a very successful trading system that consistently lowered all the barriers between nations and brought more countries into the system and brought more products and services. Initially, the GATT agreement was an agreement only on goods but we brought services into the WTO system in 1994 with the Uruguay round.

It is important to note that at the beginning of the GATT system it wasn't intended to only be only about goods, it was intended to cover many, many different things including international trade in services. It was Congress during the Truman administration which reacted against the loss of US sovereignty and that is why we ended up with the General Agreement on Tariffs & Trade, which was basically a stop-gap measure until we could return to the broader agenda. It took 50 years or so to return to the broader agenda, but we did succeed in returning to the broader agenda.

As was noted, and is clearly stated in the paper, this period between 1947 and the mid-1990s was an incredibly explosive period for global growth. Global growth between 1947 and, let's say, 2000 grew by as much – by some measures – as 400 per cent. Compare that [with growth] between 1270 and 1914 of about 100 per cent and you start to see this take-off as a result, in my view, of the liberalisation of trade and the reduction of all the barriers. That was the situation in 1995.

If you went back 20-plus years to 1997 you would be very optimistic about the future of world trade and the future of the trading system and therefore the future of the global economy. You would be sitting there when we had negotiated the Uruguay Road and we had got services into the international trading system. Sectorally, we had concluded a basic telecoms agreement with a reference paper on competition safeguards, which goes very much into the regulatory system behind all the barriers. The reference paper on competition safeguards deals with interconnection policy in telecoms, it deals with anti-competitive specialisation. The next stop was financial services and energy services. These were supposed to follow with similar reference paper type arrangements dealing with regulatory issues and regulatory barriers.

When services were introduced into the WTO system on a positive as opposed to a negative basis, the countries would then have to put their services on the table for a negotiation of liberalisation affirmatively. We had a built-in agenda in services under the WTO agreement when countries were supposed to put those services on the table for further negotiation.

That was 1997 and we were very optimistic that we would cover all of those issues. What happened, as again was noted, was the collapse in support for the international trading system, a reaction against globalisation and trade. Simultaneously, we have privatisations going on in the former Soviet Union and Central and Eastern Europe. We have Latin America coming out of the import substitution days in 1992 and creating a backlash against liberalisation. In countries like Venezuela and so on, people were saying well, we thought that liberalisation was supposed to make us all richer but in fact we see the gatekeepers of the economy doing very well but we are not doing very well ourselves. Hence enter leaders like Hugo Chavez and a retreat from global trade negotiations, which were temporarily suspended with the launch of the Doha Round.

It's important to note that the Doha Round was launched shortly after 9/11 and it was very much an attempt to bring the world together after 9/11 and it wasn't an indication that suddenly there was support for the global trading system. And consequently Doha has languished and is almost completely dead now. So we have had 23 years without the conclusion of a global trade round which is the longest period we have seen in the history of the GATT system. It is incredibly important in the global trading system to keep negotiating, to keep lowering barriers because there is an innate tendency for protectionist interests to rise up. If you don't have disciplines on them, if you aren't in a constant state of negotiation, of reduction of those kind of barriers, they will rise.

In fact that is what we have seen. We have seen if you look at measures of global industrial output or global trade growth, a stalling of those since before the financial crisis. This isn't simply that we have had a financial crisis and then we had a slowdown. The slowdown was starting before the financial crisis and it has continued and that is one of the reasons why it has taken so long to recover from the financial crisis.

What we have seen since the financial crisis, and the global trade alert of the University of St Gallen has a very good analysis of this, is an increase in the behind the border barriers in trade. So when Pascal Lamy very famously said after the crisis, well we didn't engage in protectionism, we didn't whack up the tariff, well that's true that we didn't do that but what we did do was massively increase the regulatory protections, global content regulations, other ways of protecting powerful vested interest groups, and these are the same groups that have essentially benefited from the status quo of behind the border barriers and distortions.

What we also saw in the last two decades, or even further back than the last two decades, was, in general terms (looking at the global trading system and the privatisations that occurred in much of the world, and the liberalisation that occurred in regions like Latin America) a forward movement on the reduction of all the barriers and property rights protection. But almost no movement on competition and other actions to build competitive markets, or rather markets characterised by competition on merit. We also saw an attempt to build up domestic competition agencies to deal with these the issues. So we have seen the rise over the last 25 or so years of in a number of competition agencies around the world who have nobly attempted to promote competition in their economies against powerful and incredibly strong vested interests that have become significantly more powerful as a result of benefiting from distortions that liberalisation cannot touch.

So what do we do with this world? I have painted a fairly bleak picture, but I think the picture is fairly bleak in terms of the international trading system and the global economy. That is why we hear Christine Lagarde and other economists talking about the new economic order, limited growth is what we are going to expect and we have other economists like Robert Gordon talking about the end of innovation, that we have seen the high water mark of innovation. Is there anything that we can do in this world?

I think what we are seeing in the World Trade Organisation is a recalibration on what its role is. This is not an unusual concept. At the end of every significant trade round you do have this period where there is a shift from the multilateral to the pluri-lateral approach. We saw this in the Tokyo Round. After a significant bit of liberalisation in the Tokyo Round we had much more pluri-lateral agreements, so agreements amongst nations where you had like-minded groups of nations coming together to do agree something. For example, the government procurement agreement is a pluri-lateral agreement from the Tokyo round.

If you look at what happened in the Argentina trade ministerial meeting of the WTO last December, there were a number of pluri-lateral working groups that were established. In that format we have the pluri-lateral trade in services group. We are starting to see groups of countries getting together to try to promote liberalisation where they can. It hasn't happened yet but there is a possibility for the Doha agenda in services as well. There is no reason you don't have every country involved in building up a Doha agenda in services and gaining a greater liberalisation in services on a pluri-lateral basis.

Aside from the WTO side of things, we also have the pluri-lateral and regional trade agreements. Starting with NAFTA and moving through agreements like the TPP and the attempt to do the TTIP negotiations between the EU and the US. It is important to give you a bit of background on the origins of the Trans-Pacific Partnership because, of all the regional agreements, I think it is the most liberalising one, the most developed one. That is partly a result of the way it was formed.

As a result of the slowdown in the trading system, as a result of the problems that we were seeing, New Zealand and Singapore (they trade very much with each other), through their trade ministers Lockwood Smith and George Yeo, said we need to have a high standard agreement, a bilateral agreement that others can join, an open access agreement to trigger this development in the trading system. That became P4 plus one. At the same time the US came into it and the US had a vision of like-minded group of countries coming together. This ultimately became the Trans-Pacific Partnership which includes now Japan. If the US were to be part of it would be a significant percentage of world trade. And also a significant way, I would argue the only way, of actually containing the threat to the global system of state owned enterprises and other sovereigns in China. I don't think any bilateral agreement by any country including the EU and the US will have effect on disciplining those distortions in global markets. We have to have a more regional approach to that. The Chinese have their own trade agreements they are pushing around the region, including the ASEAN agreement. That covers very limited liberalisation and very much focused on border barriers.

The Trump administration has moved into a sort of bilateral world. They want to do trade deals only with bilateral partners. They are characterised by countries with which the US doesn't have a trade deficit with and there aren't too many of those. And also countries where there isn't going to be a race to the bottom, there isn't going to be an off-shoring of US jobs – there is a series of things the Trump administration is thinking of.

Now I think, and I was in Washington, I was a trade adviser to Mitt Romney in 2008 and 2012 and to Marco Rubio in 2016, so we saw the Trump phenomenon on trade fairly close up. I think we have to be a bit more nuanced about the Trump administration's approach to trade. I don't think it is as black and white as people suggest. There are two scenarios here. There is one scenario, which you might argue is more likely, which is the 'bring me tariffs' scenario. 'We are going to protect US people, US industry, from all these foreign imports'. Then there is another scenario which is actually dealing with market distortions and dealing with the barriers in other countries and their distortions, particularly in China, which they are very focused on, and finding ways of limiting and lowering those distortions.

You saw Ambassador Lightizer, the US Trade Representative, really pushing that agenda, successfully, in the Argentina Trade Ministerial and agreeing with the EU and Japan to lower distortions in third countries; there is a joint WTO declaration on that point. I think there is all to play for actually with respect to the US.

I also think that Trump has on trade policy, and actually on lots of other policies, has the same operational sort of MO: you throw a big bomb – we are going to leave the NAFTA agreement and then you systematically roll back as industry objects. This is why on

Friday he instructed Ambassador Lightizer to look at the TPP again. I am very confident that the US will come back into the TPP notwithstanding what he recently said, mainly because US industry when they start to lose a lot of market share in Japan will actually start to lobby the White House quite ferociously, which is what they have done with NAFTA, which why the US is not going to be leaving the NAFTA agreement.

I will close by talking by just very quickly about UK trade policy in this world.

I think that what the UK should be looking at is actually what every country that has a trade policy is looking at, which is what we can do to unilaterally to improve our own tariff positions, our own tariff schedules, improving our own domestic regulatory environment and making it more competitive.

What we can do bilaterally? Obviously the EU agreement is a huge part of that bilateral agenda but isn't the only part of that bilateral agenda. I think there are other things that we can do, particularly an agreement with the US. For all the reasons I have just laid out the US administration has an interest in a UK agreement and support for the UK in the context of a trade agreement in the Congress, in both the House and the Senate, is very, very high. So much so – I'll just give you an anecdote - that my old law firm is the only a former firm in history to have John W. Taylor and Trent Lott, former Speaker of the House, former Senate Majority Leader, as partners in the firm at the same time so they count heads well. They believe that the chances of a comprehensive trade agreement with the UK is so high that actually they are advocating NAFTA accession for the UK, not because they care about the UK acceding to NAFTA because that is they think the only way the NAFTA renegotiation will actually get over the line in the Congress.

What do we want from the EU? What we want is a comprehensive free trade agreement that has the maximum of regulatory recognition and builds on existing WTO principles, builds on OECD principles like the competition assessment toolkit and the regulatory toolkit of inspections. Certainly you would expect and hope for broad agreement between the UK and the EU on regulation that is far beyond what has been achieved so far there but is a direction of travel on which we are seeking to build on. But there has never been a situation where two entities have identical regulations at the point of the UK's exit.

Then pluri-laterally what could the UK do? Well, pluri-laterally there are lots of things the UK can do pluri-laterally, including acceding to agreements like the Trans-Pacific Partnership. But to do that it will require both authority over customs schedules and the tariff schedules and authority over the regulatory system because regulatory changes will no doubt be required for that sort of accession.

Then the WTO. The UK is the second biggest exporter of services and is one of the largest foreign investors in the world. It will be expected to play a significant role in helping to build up that built-in agenda on services, may be kick some life back into the trade in services agreement and open up other pluri-lateral agreements like the recently set up pluri-lateral group on e-commerce.

In order to do all of those things you need three fundamental things: one is that you have to have control of your tariff schedules, you need to have regulatory autonomy and then the third one is perhaps the most important one. This is the one where I would argue we don't spend enough time thinking about this. Which is, what are our domestic settings? Are we in fact going to be an open liberal trading country or are we not? I speak on a lot of panels with the Australian High Commissioner Alexander Downer and he jokingly tells audiences, 'I don't think you know who you are'. Unless you do know who you are, unless you have a clear set of negotiating objectives, it is very difficult actually to maintain and execute an independent trade policy.

We are going to have to go through that process very quickly because we are going to have to do that as we go through the EU agreement process, which basically is going to be very tense from now on. But that is something we are going to have to think about. Industry is going to have to think about their global position, what they want from the world. So for the pharmaceutical industry, what do you want? All of these things and from that figure out what you want to do across the whole gamut of an independent trade policy. What you want the UK and the EU agreement therefore to look like.

I am not confident that we have gone through a lot of that process but it is very important that we do. I do think, and I will close with this, if we do, if we are able to do that then there is a positive future here globally because there are significant distortions in the world, because there are significant barriers in the world, there is an opportunity to remove a lot of those, to improve the quality of global supply chains, the completion between global supply chains and therefore create wealth and unleash benefits.

I started off with a very negative view of the world, which I think is the reality now, but I don't think it necessarily has to be that way in the future.

Sir Martin Donnelly KCB

Former Permanent Secretary, Department for International Trade

Prior to his role as Permanent Secretary at the Department for International Trade, Sir Martin was Permanent Secretary at the Department of Business, Innovation & Skills. His civil service career included senior appointments in the Treasury, Foreign Office and Cabinet Office. He is a member of the Senior European Experts group.

Sir Martin Donnelly KCB

Good evening everyone. It is a real pleasure to be here. I don't want to repeat either the overview that Shanker has given to you or the points made, I think, very clearly in the paper.

I want to give some slightly more personal reflections based on in part my experience of dealing with trade policy for several decades inside government and also dealing with businesses who actually have to trade. We do sometimes start too far down the road on trade. Trade is essentially something which you do for comparative advantage. It is not something that governments, it is something that companies, firms and individuals do because they can add value in the process. You have got to remember that trade doesn't exist in some sort of negotiated hyper-space.

I am uncertain about the future of world trade. The point about trade growth as a percentage of GDP falling over the decades has been well made and we could spend several days thinking about this alone. One of the challenges of course is that the make-up of trade can change and I find the picture, no doubt deliberately, a throwback to a 1950s model, except about containers in the 1950s of course. That's not where valued added comes from.

It is increasingly difficult for the statistics to catch where valued-added is coming from. There was that nice little piece by one of the commentators recently pointing out that, when you take gold out of trade flows, you get quite different figures. Talking about trade in raw materials like oil and gas is fundamentally different from talking about how a service economy works. I don't think national statisticians can be blamed for the fact that it is very difficult to accurately map what's going on in digital trade, in movements of data around the world, these increasingly do add value. The fact that a lot of trade between developed
economies, it is certainly true in the UK, particularly, and not just with the European Union, companies invest in order to build links in the integrated supply chains.

A huge amount of trade in advanced economies is in intermediate goods. We have all heard the examples of automotive or chemicals sectors in Europe which have become highly integrated. Actually, significant parts of the services market, from audio-visual to legal services, to aspects of financial services, have become very integrated within the European Union's service sector. Some to a more limited extent have become more integrated globally.

So the GATT/WTO model of institutions, I think, is seriously under pressure. Just briefly to recap, we all woke up with Seattle in the late 1990s to realise that trade was not something that could be left to trade negotiators. Decisions about market access affect people's lives and livelihoods and their perceptions of welfare, of health standards, of who owned the companies that they worked for or the people delivered services to them.

The Doha Round was meant to focus on development. I think we have made more progress on development than we often recognise with initiatives like ‘anything but arms’ and so on but we haven’t found it easy to bring all parts of the world equally into the global trading system. It is worth perhaps pausing over what the World Bank said – it has been referred to in the paper - you don’t just need the tariffs removed, you need a strong financial sector, you need education, be educating girls as well as boys, you need a governance system that keeps corruption and rent-seeking under control and, as the Chinese have shown, you need the rapid development of infrastructure, both physical and digital. If you don’t do that then the fact that trade barriers may no longer be in place is not going to play a significant role by itself in sustainable development.

The other area we have found increasingly difficult is investment protection and the free movement of capital, which has of course become massively freer in the last forty years, even inside the European Union where there were still significant capital controls in various countries through the 1980s. The problem of free movement of capital is that it involves very clear questions of control - how much or how far industries can be purchased and owned by third countries or independent investors. But also how far control of international property can be moved around within companies and globally.

We are now in a globally integrated, what I call a low trust global economy, and that has several consequences. One is that it makes sense in that sort of economy to be part of a large block. The three large blocks are: the United States and NAFTA; China which has yet to a produce coherent, sustainable, trading relationship which reflects the intensity of its trading relations with much of eastern and southern Asia but we may see more progress in that direction in the decade ahead; and of course the European Union and the countries around it.

Against that background, we are not doing very well on the challenge to integrate China as more of a global rule taker. It is interesting that ten years ago we tried very hard to achieve an EU-US trade deal not just for the obvious welfare gains but more fundamentally as a way of ensuring the West, broadly defined, continued to set rules for trade and investment, including capital movements around the world. That has not happened and may well never happen now. So we have to find alternative routes to bring China in to being a responsible setter of new rules as well as working within existing WTO rules. That is a complex process. I think we need to spend more time on it and it gets more difficult every year.

I would argue that with the arrival of President Trump, we have a US that no longer explicitly supports the WTO rules-based system. It is prepared to say it is does not favour that system and in particular, its disputes resolution mechanism, which is already creaking. This move to a more muscular, bilateral approach by the US makes new trade deals, including with the UK, significantly harder to reach.

And of course now trade negotiation has to cover everything: data privacy, environmental and consumer protection, intellectual property, sensitive sectors such as agriculture, and public procurement rules. There is the challenge of opening federal public procurement markets before we can make any sort of deal with the US in public procurement.

A further challenge I think we all struggle with, is movement of people. Any serious trade deal with a country like India has to involve a significant visa provision in order to allow India to exploit its comparative advantage in certain services, digital services for example, and that is going against some wider political trends.

Let’s look briefly at the more optimistic side of the balance sheet because our economies are increasingly intertwined. The data and digital economy is now massively further advanced than even a decade ago. There are whole new generations of companies from digital design, through to digital everything. I enjoyed meeting one in Sheffield recently which was basically a one-person digital scaffold designer. This person worked out of a local school, as a digital role model for the pupils. It is interesting how a new generation of businesses simply start from an entirely digital model. Go to London Fashion Week and you can find people selling their designs online to Singapore at the same time as they are selling their clothes in London.

We can’t separate the digital economy from the rest of the economy, and that economy is profoundly global. I don’t see that process unwinding. It is also relevant that travel costs, including air travel costs, continue to fall; I think that trend will continue, which makes it easier to provide services in person.

In services, we have across the world a shortage of globally competent experts. In sectors from the classic research that we all know so well, that is, universities, the research institutes, pharma, and healthcare professionals. I would underline that it goes all way through digital, data and software engineers to plumbers, electricians, construction workers and skilled agricultural workers. There is a skill shortage across the world and not all these skills are easy to transfer without the people who have them. This has become part of the global economy; there is a global market of skills and we are all part of it.

Similarly, successful businesses, large businesses, work with integrated supply chains. They encourage a lot of competition within their structures. The notion of plants competing with each another on a global, and certainly on a continental, basis is now common. This is how large companies seek to maintain and capture further competitive advantage by running their own internal markets and of course by seeking to outsource where they can the smaller, limited, parts of that supply chain. You want to be part of that supply chain and you don’t want to put unnecessary barriers in the way. Those barriers are going to be regulatory rather than tariff barriers most of the time.

I want to sound a note of caution about services integration across the world. I think services integration that you see in the European Union is qualitatively different from that you would experience in most, if not all, of the rest of the world because it is judicially supported. It relies upon a high degree of trust in delivering mutual recognition of standards, both for professionals and for consumers, for environmental standards and rapid redress for businesses, small businesses as well as large, and consumers, which you cannot do if you merely running services markets on a unilateral basis. If you think about the Trans-Tasman Agreement, quite a deep relationship in services between Australia and New Zealand, it does not have the same legal underpinning. Governments can and do remove services concessions when they feel like it, which has a chilling effect on investment. I think it important to realise that the EU model, while difficult to achieve and imperfect, delivers a higher level of legally certain integration and therefore competition, than others.

Against that background we have people who are showing that they do not like the model of globalisation which we are delivering. They don't like, in the West at least, 10 years of austerity and stagnant or falling living standards; and they don't like the fact that our attempts, certainly in the UK and also in the United States, to adjust out of heavy industries left communities that were permanently scarred and still find it difficult to adjust to the new economic forms of value-added today. There are issues around identity, particularly but not just among older populations. Identity politics is not a good basis for welfare economics. This is a significant challenge not just in the west but to all countries seeking to continue to provide growth through global markets, competition and trade.

My final thoughts: what should we look forward to ahead? Personally, I would say that if we have eight years of the Trump administration we will find it very difficult to move back to a more rules-based system because this does require the United States to continue basically to play broadly within the rules. That will leave us without the system of imperfect fallback WTO safety net which we have had up to now. We will be in unchartered and very dangerous territory without functioning multilateral rules.

Secondly, I think we will see a deepening of services provision but mostly within trading blocks rather than across them and the EU will continue to stand out as the only deeper integrated services market in the world. And the UK certainly will have the choice of working within that block by accepting its rules. I cannot see a third way and neither does the European Union. Big trading blocks will continue to dominate, and reciprocity will continue to be a very important part of trade negotiations.

It is likely there will be a parallel innovative economy of small firms, sometimes under the radar, sometimes working through the very large firms who are able to manage global complexities. Quite how that fits in in terms of regulation, particularly with digital and data provision in areas like privacy, is going to be one of the big unanswered questions we will have to grapple with.

I think it is worth remembering too, that the macroeconomic world over the next decade is likely to be less stable because we used up a lot of our credit, literally, in dealing with the financial crisis 10 years ago. The next time we have a financial crisis we will have much more indebted economies as a starting place with less scope for interest rate reductions than there were. And pressures to turn to the wrong, protectionist responses will be significantly greater than last time around.

Trade negotiations, will work even less well because trade negotiations are just too important to be left to trade negotiators. They deal with such a wide range of issues – so much discussion in the UK and the EU, or the United States, concerns agricultural health standards or the way in which we manage our health care and pharmaceutical systems, and access to them, or the way in which we control some national access to media and intellectual property. These are not issues that trade negotiators find it easy to deal with and for most of the value-added we are talking about, tariffs are frankly irrelevant outside the sensitive and small area of agriculture.

We face a challenging decade ahead. I think we can both no longer prosper without the global markets we have created but politically we are not very happy with the constraints that they bring. On that point I suggest we open up the discussion.

Vicky Pryce

Economist, author and commentator

Vicky Pryce has held senior economic positions in the civil service, accounting, banking and oil sectors. She is on the board of the Centre for Economics and Business Research and is a Fellow of the UK Academy for Social Sciences and of the Society of Professional Economists. Her books include *Greekonomics: The Euro Crisis and Why Politicians Don't Get It,* (2013) and *Why Women Need Quotas (2015).* She is co-founder of Good Corporation, a company set up to promote corporate social responsibility.

Vicky Pryce

You will be relieved to hear that there isn't very much left to say after those two great speakers. We did not rehearse it, we had no idea what each of us was going to say. So we have been scribbling like mad, crossing out those things that we were going to say that have been covered.

I think the interesting thing about trade is that it is something that has become rather interesting to the man on the street. I take part in, I am sure other people here do to, in an annual event organised by the Institute of Ideas. They have this Barbican weekend where normally the people who turn up are the types of people we associate with the liberal, long-haired, creative, sandal-wearing, relaxed part of the population who go there because they are interested in ideas, particularly on the creative side of the spectrum but also deeper philosophical issues. We were having a panel on trade, I thought well, in an event like this we probably won't get very many people coming. Well, we were in a room double the size, if not triple the size of this room. It was completely and utterly packed, standing room only, and was the best-attended event, which was quite extraordinary. So something has happened. Everything we always said in terms of the need to be teaching economics from when children are still small, at school and so on, seems to have happened with Brexit, just like that. Though I am completely against it, I do think it has actually made people be a bit more aware and interested in these issues and I think that is good news.

The paper that we all saw really touches on a number of very important aspects of trade policy. It is worth bearing in mind that obviously trade is good news. That is one of the things we were unanimous on the panel. By opening up hitherto closed markets, it allows people to become richer, as the paper here is arguing. Of course you worry about distribution and so on, you worry about the pace, worry about what it means in individual regions, *et cetera*, but overall it is generally acknowledged that opening up trade helps prosperity and growth. All models show that the relationship between trade and world GDP has been very strong.

Despite a long period of recovery since the financial crisis we have still not returned to pre-crisis world growth rates. And if you look at the world economy right now, we see that expectations for 2018 actuals and forecasts for the next few years have been downgraded by most economists. Why is this? Well, trade may well be the answer because it has not been recovering anything like as fast as you would have expected it to have done in recent years.

Before the financial crisis, there had been such interconnectivity because remember, one of the reasons why we had this strong growth in trade in recent decades, was because of improved and internationally acceptable and enforced standards, many currencies were allowed to float freely, capital controls were abolished on many parts of the world and then of course China opened up as well. What this resulted in, was this huge interconnectivity, money moved to where it could get the better returns and banks became international. Of course it was overdone and financial regulation failed to keep pace and this huge interconnectivity led to the financial crisis and the ‘great recession’ that all experienced some 10 years ago. Banks had to back off, not lend as much.

There followed huge retrenchment by the banking sector and there was a real credit crunch, particularly in areas such as the Eurozone and also with it a lack of trade finance too with banks not trusting each other across borders. It is only in the last couple of years that the huge efforts that Draghi as head of the European Central Bank has made that have we seen an improvement again in actual lending and we are now seeing, after some hiccups, Europe growing really strongly.

The finance issue has been important. Add to that trade sanctions, the problems in Russia, Brazil and so on which meant that the so called BRIC countries also suffered after a while, partly due to drops in commodity prices as the West’s demand slowed down and many followed the West into recession after a gap.

What has happened since? There were actually quarters when world trade volumes in 2015 and 2016 were falling but it was only in 2016 and in 2017 that finally we saw synchronised rises in exports and imports again in both developed and emerging markets. We all breathed a sigh of relief and the IMF starting upping its forecasts for the world economy to about four per cent, which would be going back to where we were before the financial crisis in terms of yearly growth. And it was all on the back of trade. But the new US tariffs on most producers of steel and aluminium, including the EU, and the threat of an escalation in the trade dispute between the US with China have meant that those global growth forecasts had probably been too optimistic. So the importance of trade is clear for all to see.

I think what this paper is also highlighting though, and it has already been touched on by previous speakers, is what it means in terms of how we move forward. A major benefit of globalisation is that prices for the consumer have been quite low but in the process the competitive environment has been districted. Some very large firms have emerged and those are going to be able to move their production processes and use international supply chains wherever it suits them causing disruption in places left behind with winners and losers emerging and grievances appearing which have to be tackled by domestic policies to address them/overcome them. Not always easy.

As I said the type of globalisation we have seen in the last few decades has resulted in an influx of cheaper products from emerging markets that has kept costs and prices lower in the West than they would otherwise have been. And yet all central banks seem to think that it was their clever use of monetary policy and inflation targeting that achieved this whereas in fact it had very little to do with their actions. In reality it has all too do with China and the opening up lots of other markets and cheap goods coming in and has allowed growth to be faster and with less inflation at given levels of employment than would otherwise have been the case. In many western nations the non-accelerating inflation rate of unemployment (NAIRU) has fallen everywhere as a result.

But of course globalisation is causing distortions and unbalancing some economies. What we had thought as economists was that because of everything gets increasingly commoditised – given that we get it from wherever it is cheaper to do it – what will be happening is that it will be that the knowledge-based sectors that will do well, it will be the knowledge that people have in their head or through experience they have got, which will be the ones that do well and pay well as they will be valued more. We all anticipated therefore that this knowledge based economy where talent and knowledge matters would result in the share of wages in GDP increasing. Which of course is not what has been happening. Instead it is the profits that have increased as a share of GDP with real incomes as we know in many countries hardly increasing in the last 30 years for the average worker. It is quite shocking really that in this respect globalisation hasn't brought the benefits that we expected. What has happened instead is that particularly multinationals have been taking an increasing share of the profits and the GDP of most economies.

It is worth then, thinking about what kind of global environment, what can we do about this global structure that we have? I am afraid we go back to the big countries and the countries forming strong regions between them to be effective, the big players, just as we were hearing from Martin. It really is only the big trading regions that can have an impact on the multinationals. It is the big trading regions that can force competition policy. It is the big trading regions that can tax them properly and across borders. I am not suggesting for a minute that they are doing it at present or they are doing it correctly but that is where the emphasis should be. Doing it on your own is difficult if you are a relatively small country. I am just thinking again about Brexit and the UK. But it is the EU Commission that has taken on Microsoft, it the EU Commission which is now looking at Facebook's actions. Had we had proper cross-country privacy regulation earlier some of the improper use of our personal data would not have happened. And it is only through international cooperation that Google and Amazon will ever pay their proper share of tax in individual countries and in the absence so far of an international digital sales tax, individual country efforts are unlikely to be very successful.

Where does it leave the smaller firms? If you ask people right now about their views on Brexit or what the economic conditions are, what you find is that big firms tend to be slightly more optimistic than the little ones even though they worry. They can move things from one place to another but smaller firms can't. Yes we know for example that smaller firms can indeed grow through better use of IT and export services more easily this way. But the further away they go they have to deal with different property laws, they have to have a joint venture partner somewhere, banks they are going to deal with that are less open and transparent, there is widespread corruption in many countries that they will have to navigate through. Of course, we have in government people who are supposed to help you in such places. But that is all costly in time and effort and in reality selling somewhere far away that one does not know well and with different norms to the one you are used to can be prohibitively expensive for the smaller firms, which have until now taken advantage of the proximity and Single Market conditions of the rest of the EU to expand their trading activities with the countries of the region.

So I think what is happening right now is that there is a gap developing in this country - but also more widely - in the standing of different sized firms in this globalised environment with the small firms increasingly losing out. And given that in the UK, at any rate, the majority of people work for small firms they will end up being the ones left behind with the quality of the jobs that will then be available to migrate to not as high or well paid as before, particularly under a hard Brexit, and frankly under any Brexit scenario currently on offer. If that is the case, and this gap widens, then I think the political tensions we are going to have in the developed world in particular are going to be with us for quite some time and that is my worry.

Discussion

Banks and trade finance

The discussion began with a question to the panel about the position of the banks in relation to the sharp fall in world trade after the financial crisis. The questioner suggested that the shortage of trade finance referred to by Vicky Pryce was partly the result of the large fines on the banks for having breached money laundering and anti-terrorist finance rules, which had made their lending policies more cautious.

Shanker Singham agreed that corresponding banking relationships had fallen dramatically after the crisis, but he thought that it was not just because of money laundering and terrorism issues but also because of increased capital requirements and increased regulation. He argued that we need to move to a regulatory system in finance that is pro-competition.

Restrictions on a Brexit trade agreement

In response to a question about whether most favoured nation requirements in existing EU trade agreements with third countries would restrict the EU's ability to offer the UK a good deal on trade, Shanker Singham said that the CETA and South Korean trade treaties didn't cover regulatory matters, so the EU would not have to concede that. On the broader question of market access, he described the picture as 'quite nuanced', with it not necessarily being the case that the EU would have to grant existing free trade partners the same terms it agreed with the UK but he recognised that it was particularly important issue in the negotiations.

Mutual recognition

Vicky Pryce made the point that under existing EU rules it was clear if you are not in the EU/EEA 'you cannot have mutual recognition' in financial services, certainly for retail banking. You could have at least partial equivalence on some investment banking, meaning banks could have a passport. She made the additional point that when you are not in EU you are third country. This was something the UK had worked for and the result had in part been third country banks coming to the UK in order to be able to operate in the Single Market.

Trade and democracy

One questioner speculated as to whether the 'EU has infantilised several generations of British politicians on trade' and whether the separation of powers was the best system for building up specialisation in trade matters.

Shanker Singham noted the advantages of the US system, where very experienced negotiators are in the Trade Representative's office. You need someone who is in charge of trade negotiations with detailed knowledge, he said, because so much of trade negotiation is about detail.

Martin Donnelly observed that most trade negotiations now involve experts from government departments and from regulators. This reflected the fact that most negotiation is now about regulation not tariffs. The problem is that trade negotiation depends on those departments in regulation, e.g. DEFRA. The UK Trade Department is an integrator and negotiator. Negotiations with the US are a problem because of its own complex internal regulatory system. In general, he said, regulators have duties that are primarily domestic. It was only in a structure like the EU that you have the deep integration of regulation that gives confidence to investors that regulation will last for a period of time.

A former MEP observed that to get new trade agreements around the world, the UK would need regulatory freedom but that would shut off most of the options which would enable strong trading links to continue with the EU. He wondered where the opportunities were that could conceivably make up for the losses in EU trade and thought that protectionist feeling would rise not fall if the UK allowed in lower-standard food.

Jacqueline Minor noted that consumers want both low prices and high standards. They also want innovation, but not at the cost of the kind of society they are part of. These tensions could be seen in the discussions on the proposed Trans-Atlantic Trade & Investment Partnership (TTIP), she said. Those hostile to TTIP were concerned about lowering regulatory standards and the NHS, whereas those supportive were interested in expanding their markets.

Shanker Singham said that good regulatory practice was something included in every trade agreement today. The aim was to have the least damaging system in terms of competition and to have regulatory co-ordination between trading partners. He pointed out that the WTO rule is that regulatory differences should not stop common regulatory goals; he believed that the UK should be discussing this with the EU now.

Asked why if the EU had accepted the principle of equivalence in medical qualifications for many years it would not accept that for trade, Martin Donnelly said it was a question of trust and a question of legal framework. The EU's legal framework was unique. It can tighten standards or change them through its own legal framework, including safety for people and products, in a way that does not exist outside, for example in the OECD.

Vicky Pryce added that you cannot address problems with larger companies unless you are part of a bigger block because those companies are too powerful for most individual countries to take on.

Finally, Shanker Singham agreed with Martin Donnelly that the UK is asking the EU for a trade agreement which went beyond anything that exists now. He believed that there was more flexibility in trade negotiations with the EU in the past – it had grown less flexible over time. In terms of trading opportunities, there was, he said, a huge premium on growth because of ageing populations and artificial intelligence. It was essential to go after the surpluses that there are in the world in a way we have not done so far.

The Future of Global Trade

Background Paper by the Senior European Experts

Introduction

One of the most striking features of the global economy since the end of the Second World War has been the expansion of trade. Trade grew at more than eight per cent a year every year between 1950 and 1973. This record expansion was slowed by the oil price shocks of the 1970s but even so, trade expanded by an average of 6.2 per cent a year between 1950 and 2007, outstripping rises in global GDP – a much faster rate than the previous fastest period of global growth, 1850-1913.[1]

Yet 10 years after the global financial crisis the factors that led to that post-war trade boom appear to be either absent or under threat. The progress toward ever closer and more effective international trade co-operation has slowed, if not quite stopped, with the stalling of multilateral trade negotiations through the World Trade Organisation (WTO). Since the Seattle summit of the WTO in 1999 there has been growing evidence of a loss of public support for free trade, because of the actual and perceived negative effects of globalisation.

The election of Donald Trump as US President in 2016, on an anti-trade, protectionist 'America First' platform is an unprecedented threat to post-war US support for the multilateral trade system. The Brexit vote in the UK can similarly be interpreted, as one commentator has put it, 'as part of a broader questioning of the institutional architecture of global neo-liberal capitalism'.[2] The rise of China as an economic and political power heavily involved in world trade, along with the development of other emerging economies, has rendered an already complex picture more obscure.

Can the existing world trade order survive an unprecedented series of attacks? Is global trade, and the globalisation with which it is connected, as economically and socially beneficial as its supporters claim? Or has growing trade contributed to a decline in stable employment and the rise of an underclass who face a dystopian future of low-pay, low-skill work with few opportunities for personal development, and exclusion from rising levels of prosperity?

Trade affects all of us; it is the means by which we exchange the fruits of our labours for the things we need or want. Rising global trade is both a cause and a consequence of rising global prosperity. A paralysis or decline in world trade can quickly cause recession and even economic depression. The current doubts about world trade are not an abstract debate but matter to the real economy.

1 See World Trade Organization, World Trade Report 2008: Trade in a Globalizing World, 7 July 2008, p. 15
2 Graham Taylor, *Understanding Brexit: Why Britain Voted to Leave the European Union* (Bingley: Emerald Publishing, 2017), p. 40

At this critical juncture, the Senior European Experts and Regent's University, London have come together to host a debate on the future of global trade. This background paper has been prepared by the Senior Experts for that seminar and is published as a contribution to debate.

Background: the post-war expansion of world trade

Political factors

At the end of the Second World War there was a determination to avoid a return to the protectionism seen in the 1930s, which had helped to turn recession into depression, and which, by contributing to economic collapse, had fuelled the rise of the Nazis and other extremist parties in Europe.

In 1947, the General Agreement on Tariffs and Trade (GATT) laid down the architecture for the current multilateral system of trade regulation. The GATT (later the World Trade Organisation, WTO) is part of a network of international economic institutions (which also include the World Bank and the International Monetary Fund) that provide the foundation for global commerce. US leadership was critical to the foundation and continuing success of these institutions because its policy moved from one of protectionism and isolation in the 1930s to one of engagement and co-operation after 1945.

The GATT lays down two main rules. These are: 'most favoured nation' (MFN) treatment and 'national treatment'. These rules apply slightly differently as between goods and services. For goods, the first means that a WTO member must offer the same tariff to all other members of the WTO; and the second means that once import duties (if any) have been paid, imports must be treated no differently from domestic goods or services. These rules generally apply unless a WTO member has negotiated a bilateral free trade agreement (FTA) or customs agreement with another WTO member covering substantially all their mutual trade or, like the EU, incorporate such features in deeper regional integration arrangements.[3]

The creation of the GATT was a part of wider move towards trade liberalisation that followed the end of the Second World War. Across the western world, countries adopted trade policies that lowered tariffs on goods imports, promoted trade on the terms of the GATT and, in some cases, reduced government interventions in the economy that protected national industries. Although such trade liberalisation was not comprehensive, for example it rarely applied to the agriculture or services sectors, it nonetheless contributed to the dramatic growth of world trade. More countries joined the GATT and adopted its trading rules, further expanding the global trading market in goods. A number of Asian countries became significant participants in global trade notably Japan, Singapore and South Korea. Growth was however at a lower level in Africa and South and Central America and these countries tended to trade less.

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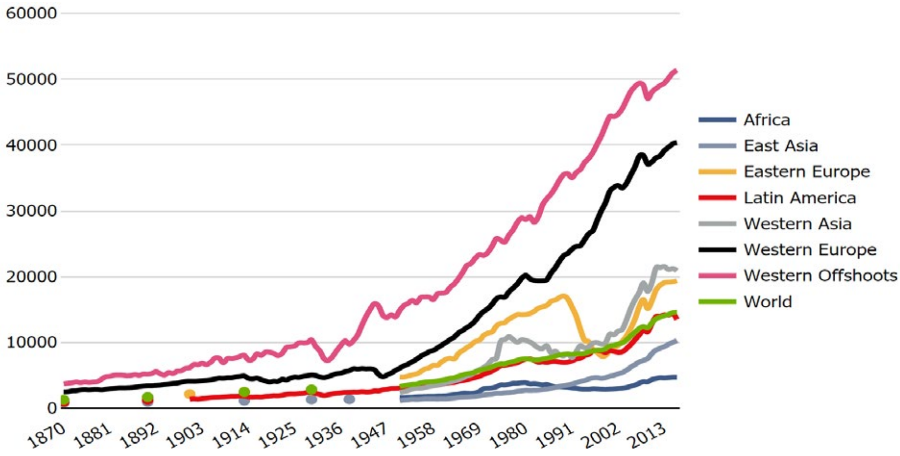
3 For an explanation of how the WTO works and its rules, see Slaughter and May, 'Brexit Essential: The World Trade Organization', 13 September 2016

Economic factors

A number of economic factors contributed to the dramatic increase in trade after the Second World War. The first of these was income growth after 1945. Trade had been artificially reduced by the war, which had both disrupted normal trade patterns (especially in Europe) and led to the diversion of huge amounts of national income and productive resources to war-related economic activity, such as the production of military equipment. One study has found that trade amongst adversaries in WW2 was reduced by almost 20 per cent in 1945.4 But it is important to note that protectionist policies and increased transport costs had led to a sharp fall in trade between the two World Wars, so that by 1939 it was roughly half what it had been in 1913.[5]

The coming of peace led to a period of adjustment as countries began to repair war damage and trade slowly resumed. Figure 1 illustrates the extraordinary growth in GDP per capita since 1870, but particularly that since 1945. The largest growth has been in the USA, Canada, Australia and New Zealand but GDP per capita in Western European has risen more than threefold since the war. There have been big increases too in Asia and, more recently, Eastern Europe. The disappointing performance of Africa is as obvious as the contrasting success of the Western world and Asia.[6]

Figure 1: Real GDP per capita (at 2011 prices, US Dollars)

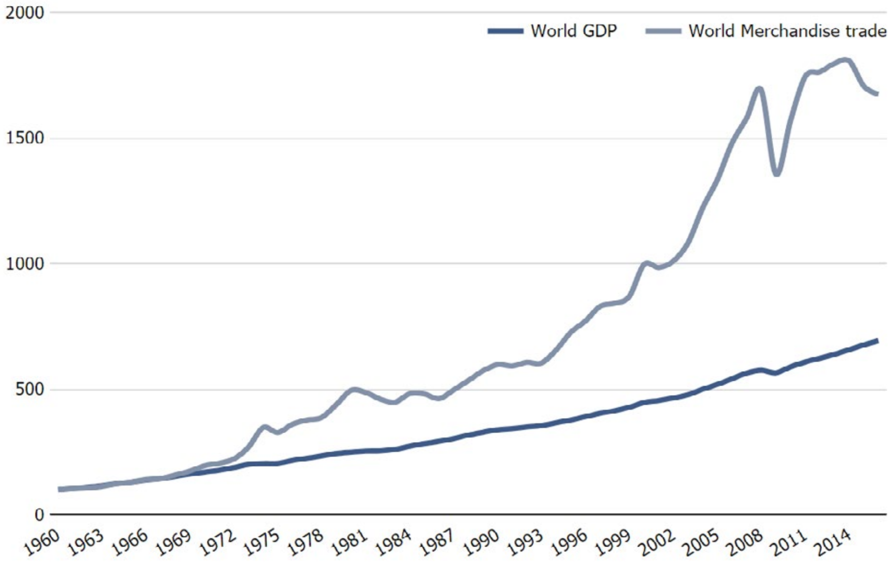


Source: Maddison Project, 2018

The degree to which trade growth extended economic growth can be seen in figure 2, which shows the increase in GDP overlaid on the increase in trade in merchandise since 1960.

4 Reuven Glick & Alan M. Taylor, Collateral Damage: Trade Disruption and the Economic Impact of War, Working Paper 2005/11, Federal Reserve Bank of San Francisco, p. 18
5 Cited in Reuven Glick & Alan M. Taylor, *supra* n. 4, p. 24
6 Max Roser, 'Economic Growth', Our World in Data, 26 February 2018

Figure 2: World trade and GDP. 1960 to 2016 (2010 US$. billion)



Index 1960 = 100
Source: World Bank

Another important factor in post-war economic growth was the reduction in tariffs, as the key feature of trade liberalisation, which reduced the cost of imports, perhaps by as much as an average of 25 per cent.[7]

The fall in transport costs is often cited as a major factor in the increase in world trade after 1945. This was partly because the price of a barrel of oil almost halved in real terms between 1945 and 1966 but also as a result of changes in technology.[8] The development of new and larger aircraft, the construction of far larger freight vessels and, crucially, the development of the shipping container all contributed to reduced trade costs. The invention of the shipping container in 1956, based on concepts used earlier in Britain and by the US armed forces, enabled large quantities of goods to be carried safely and securely on different methods of transport – road, rail and ship – in the same container.[9] Crucially, the container made it easier to transfer goods from ship to shore, a process that hitherto had been slow and labour intensive. Indeed, as one economic study puts it:

> 'the handling of cargo was almost as labour intensive after World War II as it was during the beginning of the Victorian age'.[10]

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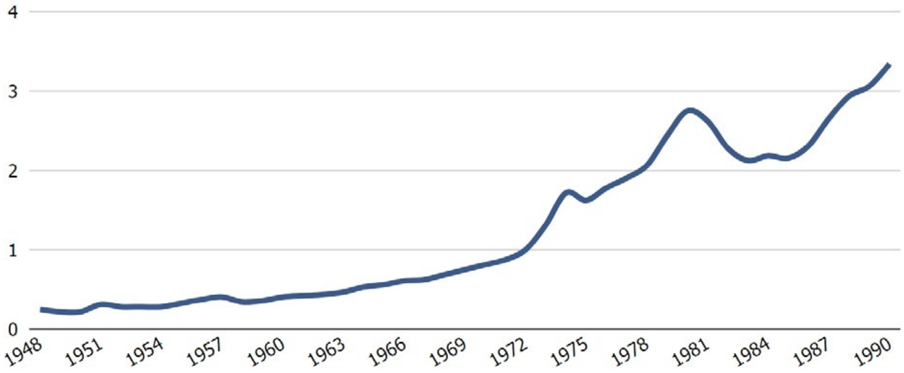
7 Calculation published in Scott L Baier & Jeffrey H Bergstrand, 'The growth of world trade: Tariffs, transport costs, and income similarity', *Journal of International Economics*, 53(1), 2001, pp. 1-27
8 Using the price of oil in US dollars per barrel with an inflation calculator: see Quandl, 'Crude Oil Prices from 1861', 22 January 2018
9 World Shipping Council, 'History of Containerization', 2 July 2017
10 Daniel M. Bernhofen, Zouheir El-Sahli & Richard Kneller, Estimating the effects of the container revolution on world trade, Lund University, 7 February 2013, p. 6

The introduction of the container in international trade in 1966 speeded up the transport of goods, reduced costs and thus contributed to the expansion of trade. Figure 3 shows this very clearly.

Figure 3: The growth of world trade (deflated): 1948-1990

Container adoption 1966-1983



Source: Estimating the effects of the container revolution on world trade, 2012
System expansion

After 1947 trade liberalisation continued, at a widening degree of multilateralism as GATT membership increased. A further eight GATT rounds of trade liberalisation negotiations led to successive and substantial reductions in tariffs, which more than reversed the protectionist tariff structures of the 1930s and brought a fresh, low-tariff global trading environment. They also brought new progressive approaches to reducing non-tariff barriers. In parallel, the development of regional economic co-operation organisations like the European Economic Community, further stimulated trade in those regions through reductions in tariffs and later through the removal of non-tariff barriers (such as product standards and national regulations that had a protectionist effect). The growth in trade that followed these developments created a win-win effect by which more trade led to higher levels of economic growth which in turn was followed by a further expansion in trade and more growth. In addition, the decline of command economy policies in Africa and Asia and the adoption of free market policies in China, India and Eastern Europe – following the end of European communism – contributed to further increases in global trade.

This expansion of world trade was continuous over the whole of the post-war war period but unsurprisingly the 650 per cent increase in the price of crude oil between 1970 and 1973, as well as later spikes in the price between 1979 and 1981, did have some dampening effects.[11] Rampant inflation in many countries, unsustainable government debt burdens and recession prompted by these problems all had a depressing effect on economic activity in the 1970s. Although tariff barriers were abolished within the European Communities, protectionist policies continued in respect of services (in civil aviation services for example). Outside the EEC, progress towards a further lowering of tariffs through the GATT slowed as countries in recession were reluctant to support further liberalisation measures.

In the 1980s and 1990s there was a return to multilateralism leading to the Marrakech Agreement concluding the GATT Uruguay Round and bringing about the WTO Agreements. The placed the former GATT on a new footing as the World Trade Organisation, enhanced by a greatly strengthened Dispute Settlement Understanding and broadened to cover services (via the General Agreement on Trade in Services, GATS) and to include agriculture (previously covered in principle but excluded in practice). Subsequent GATS protocols helped to liberalise the increasingly important telecommunications sector. Bilateral trade treaties also proliferated, including the North American Free Trade Agreement (NAFTA) between the USA, Canada and Mexico which came into force at the beginning of 1994. This was another example of a regional trading bloc being created under the rules of the GATT which had the effect of stimulating trade in that region. Other regional trade groups emerged in the 1990s, including Mercosur in South America, whose members are Argentina, Brazil, Paraguay and Uruguay. These bilateral and pluri-lateral trading arrangements, made under the WTO rules, coexist satisfactorily with multilateralism.

The introduction of the WTO's Dispute Settlement Understanding was a major step forward in trade liberalisation because it introduced independent arbitration and restricted unilateral national retaliation. National legislation, such as section 301 of the US Trade Act 1974, which allows the President to impose trade sanctions to protect US industry, was effectively overridden by the new WTO rules; indeed, since 1995 the US has not introduced any trade sanctions under section 301.[12]

Threats to world trade

The post-war trading architecture created a successful world trade system partly because it helped to provide legal certainty (including effective dispute resolution) which gave confidence to investors and consumers. Combined with the fall in tariffs and the development of easy and cheap transportation, the post-war period has seen what some commentators refer to as a 'golden age' of world trade.

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11 Price per barrel of crude oil (OECD figures) cited in David Meredith & Barrie Dyster, *Australia in the global economy: continuity and change* (Cambridge: Cambridge University Press, 1999), p. 228

12 See David Lawder & Lesley Wroughton, 'In a rare bipartisan display, Democrats back Trump on China trade probe', Reuters, 2 August 2017

But the popularity of free trade is heavily dependent on the competitiveness of an economy and the risks that it may be seen to bring. For those under threat from it, the supposed merits of open competition are counter-intuitive. As Macaulay said, 'free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular'.[13] For a globally competitive country (as the UK was in the nineteenth century) free trade became for a time the dominant political philosophy. Even in the nineteenth century, however, there was for many years a strongly held view (until the repeal of the Corn Laws) that this could not apply to agriculture; and in the early twentieth century, as the UK visibly lost industrial competitiveness to the US, it gave way to a major debate on free trade versus 'Tariff Reform' and reliance on Imperial Preference. The case for free trade has always to be repurposed and reiterated.

In recent years there has been a growing sense that the post-war trade system is either under strain or at the very least faces major new challenges.

The social impacts of trade

One of these challenges is rising concern about the social effects of trade. There is a developing argument that free trade, often seen as part of the broader economic development known as globalisation, benefits large corporations at the expense of individuals and of wider society. Untrammelled free trade, it is suggested, has accelerated the decline of heavy industry, for example the coal and steel industries in the USA, because it has allowed unfair competition to develop. This 'unfair competition' is said to manifest itself in lower wage levels, lower standards of safety and other forms of employment protection, paving the way for undercutting less competitive businesses in higher cost countries. President Trump made much of this argument during the 2016 U.S. presidential election campaign. This was not however a new argument – it had been made at different times by politicians across the U.S. political spectrum.

It is also an argument that has often been heard in European countries as de-industrialisation has accelerated over the last 20 years. The run-down of heavy industry in Britain, France, Germany and elsewhere has devastated communities, leading to high concentrations of unemployment, particularly amongst older male workers, with all the associated loss of income, status and dignity. These developments have resulted in de-population in parts of Europe (Eastern Germany for example) and a growing resentment at the failure of politicians to either save declining industries or to bring new jobs and opportunities to the affected areas. The French National Front, Alternative for Germany and other political parties from the extremes of left and right have exploited these concerns to make gains at the expense of mainstream politicians.

Does free trade promote reductions or increases in welfare? The difficulty for advocates of free trade is that, as one commentator has put it, 'free trade is preferable in the long-run but produces losers in the short-term'.[14]

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13 *Essay on Mitford's History of Greece* (1824)
14 Damian Hind, 'How do Free Trade Agreements Affect the Domestic Economy? Evidence from the United States', Policy Exchange, 7 November 2016

This reflects the fact that its benefits are spread widely but thinly while its disbenefits tend to be heavily concentrated in individual industries – a recurrent challenge to making the political case for free trade. Research by the US Congressional Budget Office, for example, shows that FTAs signed by the US have led to increased trade and overall prosperity but have hurt workers in sectors that have been displaced. The effect has been most marked in low skilled occupations and in manufacturing.[15] US governments have tried to compensate losers by providing support to the worst affected communities, but Trump has cut some of this since his election.

A further difficulty is that it is not the trade or indeed immigration consequences, of FTAs alone that have had these effects but a combination of factors. This is true of the decline of the coal sector in the US and Europe, where environmental concerns led to a switch from coal to gas in electricity generation in the 1990s and which has been accelerated since by evidence of the global warming consequences of burning coal. New jobs have been created in the renewable energy sector – in fact there are more jobs in solar power in the US than there are in the coal industry – but they are not necessarily located in the declining coal communities and they may require skills that former coal workers do not have.[16]
Structural changes of the kind seen in the energy sector are often linked to globalisation by critics of free trade as are increased movements of people resulting from cheaper and more easily accessible travel. But the evidence suggests that a multiplicity of factors may be at work, including technological change. True, in some countries governments need to do more to mitigate the negative impact of trade on particular sectors of the economy. But education, skills and training also loom large: the UK has struggled since 1945 to come up with a viable and effective skills training system capable of providing both individuals and employers with the support they need. The need for fresh investment in domestic infrastructure is another factor. But factors such as these are invariably national issues, not matters for which the GATT, or indeed the EU, can be blamed.

A further argument about the societal impacts of trade liberalisation relates to its relationship with multinational businesses. Critics have claimed, for example, that the EU's approach to free trade agreements with third countries has leaned too far towards supporting multinational businesses investing in the EU. They cite the proposed clauses concerning investment protection in the EU-Canada Comprehensive Economic and Trade Agreement (CETA) as an example of this phenomenon and the alleged potential for US businesses to exploit contracting out in the NHS. Those countering this argument see attacks on investor protection clauses as either based on ignorance or as a thinly-disguised anti-trade or anti-capitalist agenda. Nonetheless, the EU did alter the investor protection clauses of CETA and has adopted new procedures to ensure that its approach to trade negotiations is more open and inclusive than in the recent past.

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15 *Ibid.*
16 Discussed in Hillary Rodham Clinton, *What Happened* (New York: Simon & Schuster, 2017), p. 283

There is also concern about the environmental effects of trade. Again, this concern has been articulated in the EU, whose own research has found that trade can have negative consequences in terms of its carbon footprint, its impact on land use and its impacts on species.[17] In specific terms, the impact of palm oil production in Indonesia has been cited by critics as an example of the negative consequences of trade.[18]

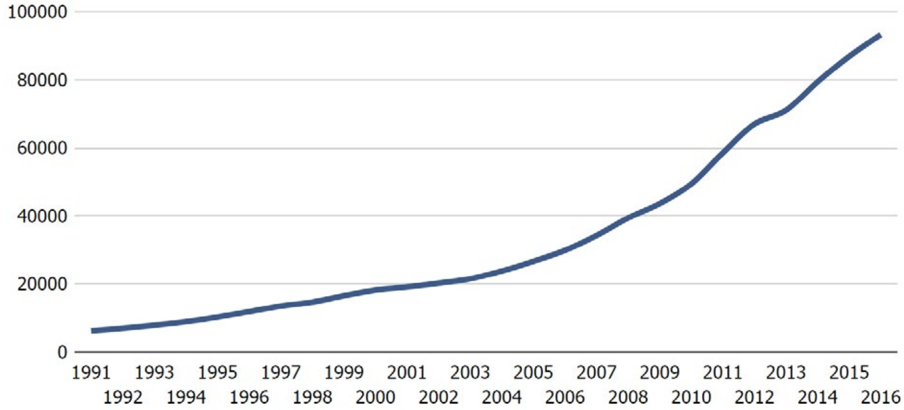
Impact of trade on developing countries

Critics of free trade also argue that developing countries are harmed by it. They claim that it empowers large multinational companies to impose one-sided arrangements on poorer countries, enabling them to exploit people and resources with minimal added value to the country concerned. The examples of subsidised Western agricultural products being 'dumped' (*i.e.* sold at less than cost price) in Africa or of Chinese exploitation of mineral resources are often cited by those making this argument. However, the facts tend to be more complex and variable, depending on the country concerned and the strength of its domestic institutions and capacity to regulate. It is also often the case that multinational companies take exemplary care, not least for reputational reasons, to follow labour standards and avoid corrupt practices. In addition, developed WTO members utilise the provisions in the WTO agreements enabling them to offer very low or zero-rate tariffs to developing countries; something the EU has done for many years and the UK has indicated it will continue to do after Brexit.

A detailed study by the World Bank, in response to concerns about the impact of opening up of African economies between 1981 and 2000, showed that trade does tend to reduce poverty but where three conditions are met.[19] The study found that many African countries are able to meet these conditions – a strong financial sector, a high level of education and strong governance – but not all. Studies by the IMF and others have come to similar conclusions. Countries that opened up their economies in the 1990s, such as India, Vietnam and Uganda, experienced faster growth and greater poverty reduction.[20] After liberalisation of the Indian economy began in 1991, its GDP grew over the next 25 years by an astonishing 2216 per cent, often achieving growth rates of 7-9 per cent per year.[21] Figure 4 shows the growth in income per capita in India since 1991 in rupees.

17 See European Commission, Global Environmental Impacts of EU Trade in Commodities, 22 November 2013, p. 4
18 See, for example, 'Trade by the people, for the people', Thilo Bode, Politico, 8 February 2018
19 Raju Jan Singh, 'Evidence That Trade Does Reduce Poverty, But Only If the Conditions Are Right', World Bank, 19 February 2013
20 David Dollar, 'Globalization, Inequality, and Poverty since 1980', World Bank, 2001 cited in International Monetary Fund, 'Global Trade Liberalisation and the Developing Countries', IMF Issue Brief 01/08, November 2001
21 See '25 years of liberalisation: A glimpse of India's growth in 14 charts', Aprameya Rao & Kishor Kadam, *Firstpost*, 7 July 2016

Figure 4: India: per capita net national income in Rupees (current prices)



Source: Reserve Bank of India

Such dramatic growth can have adverse consequences, and there is a vigorous debate about the growth of income inequality in India and whether the proceeds of growth have been fairly shared. But India has gone from a country with persistent low levels of economic growth, shocking levels of poverty and a reliance on international aid to being the ninth largest economy in the world in 2016 with forecasts that it could be the second largest by 2050.

A loss of US leadership?

The growing disquiet about the alleged impact of trade on the US economy had led previous Presidents, including George W Bush and Barack Obama to take action against alleged 'steel-dumping' by China. The difference between their approach and that of Trump was that they did not explicitly reject the post-war US policy of promoting free trade but rather sought to address what they saw as unfairness's or breaches of the rules. Trump's argument, by contrast, was that free trade has often harmed America because other countries have done better from it. He decided, once elected, to withdraw the US from the Trans-Pacific Partnership, a trade treaty involving 11 other countries, before it entered into force. Taken together with Trump's decision to block the appointment of new members of the WTO Appellate Body, this signalled a clear shift in US trade policy.[22]

Trump's decision in March 2018 to announce unilaterally and on an extremely dubious claim of national security grounds increased tariffs on imports of steel and aluminium triggered immediate threats of retaliatory measures by the EU and China. Concerns were raised that this unilateral action by the US, and the responses it would likely trigger, could set off a new global trade war.

22 Decisions in the WTO are unanimous amongst 164 members so the US can block appointments of this kind if it chooses to do so: 'Trump could cause world trade system to freeze up after vetoing appointment of judges, diplomats fear', Tom Embury-Dennis, *The Independent,* 28 November 2017

But while he has shifted policy, power is shared in the United States and it is not clear that the majority of members of Congress support his anti-trade rhetoric. Indeed, his own Republican Party largely disagrees with him on this issue. It remains to be seen whether Trump's leadership on trade will be followed by the rest of his party and by Congress. If that did happen it would represent a revolution in post-war US trade policy.

The extent to which such a switch in US policy would affect global attitudes to trade liberalisation is hard to judge. When Trump pulled the US out of the Trans-Pacific Partnership the remaining 11 countries decided to press ahead without the USA. There is no sign of a fundamental shift against trade liberalisation within the EU too, although the UK's departure will weaken the pro-trade group of Member States within it. In fact, the EU is pressing ahead with a series of bilateral trade deals, several of them with significant economies such as Australia, New Zealand, Japan, the Mercosur countries (where an existing agreement is being broadened in scope), several ASEAN members, and Mexico.

Changes in the structure of trade

Changes in the structure of trade are one of the biggest challenges. In the recent past there was a clear distinction between goods and services but this now being blurred. For example, aircraft manufacturing companies such as Airbus and Boeing are moving increasingly towards a model in which they sell servicing contracts alongside the aircraft. A similar trend can be seen amongst the railway rolling stock manufacturers.[23] This growing tendency for services to be 'embedded' in goods, to be combined in one package for the consumer, represents a fresh challenge for the international trade system and its underlying assumptions about the nature of trade flows and value chains.

Furthermore, the service sector makes up an increasingly large share of the economies of developed countries. For example, services now represent 80 per cent of the UK economy. Barriers to trade in services exist in many economies. They include rules relating to professional qualifications, national licensing systems and other regulatory barriers which have the effect of excluding foreign businesses from competing in the provision of services.

In terms of goods, removing tariff barriers has been highly beneficial in stimulating trade but there is much more still to do to remove non-tariff barriers. As tariffs have been reduced, it is the non-tariff barriers, such as product standards and national rules on health and safety that have become the main obstacle to the expansion of trade in non-agricultural goods. The EU is unusual in having developed a range of methods to remove non-tariff barriers to trade, including in the service sector. Other advanced economies have much further to go in opening up trade in services.

23 The growth of Boeing's services business is discussed in Alex Derber, 'Boeing Edge And Its Impact On The Aviation Services Market', MRO-Network, 1 May 2013

The growth of internet retailing is a further challenge. This stimulates cross-border trade but the consumer buying direct from another country often loses protection as it is difficult in practice to enforce consumer protection laws from outside the host country of the supplier. New ways of ensuring regulatory compliance and consumer protection are needed. The internet also provides a platform for criminals to defraud consumers, and this phenomenon can act as a deterrent to cross-border trade.

Who makes the rules?

The WTO has adopted rules governing trade in goods – the original GATT (as amended since 1947) – and a more limited set concerning trade in services. But a host of other, non-tariffs barriers to trade remain. Countries exporting to the US, for example, may find themselves bound by one set of rules for a particular product or service but when exporting to the EU have to comply with entirely different regulations. Few individual countries have the economic power to set product standards and other rules that can influence global trading but the United States, and increasingly, China do so. The EU has become a major rule-setter because its Single Market covers 28 countries and 500 million people. As it has one of the most advanced systems for making and enforcing common rules and standards, it has gained particular leverage.

In time, there could be a situation in which the EU, China and the US were in greater competition as rule-setters than they are today. At present Chinese businesses, for example, often adopt EU standards because the EU market is so important to them. But as the Chinese economy expands the Chinese government may decide that regulatory alignment with the EU has more costs than benefits. Chinese influence is spreading across Asia and Africa partly through its 'One Belt, One Road' initiative and this will increase China's leverage in trade negotiations. The US will continue to be reluctant to adopt the rules of others and will want to remain a rule-setter. Rule-setting is particularly complex within the United States because of the separate powers of the federal and state governments.

This trend towards the concentration of rule-setting power risks placing countries outside the EU, USA and China in the unenviable position of being rule-takers. Small and medium-sized countries outside these three blocs often already find themselves obliged in practice to stay close to the rules of one of them in order to maintain their international trade (for example, Switzerland and the EU's financial services rules). A key dilemma of Brexit is whether the UK will find itself in this position since it will want to trade with its closest neighbours, who are all in the EU (or the European Economic Area associated with it) while expanding its existing trading links with the US (its largest single country export market) and with China.

The future of global trade: questions for debate

For a long period since the war international trade has expanded in a largely benign environment. The politics of trade have been about how to ensure its continuing expansion. The negative consequences of trade in some sectors or communities have either not been the focus of political or societal concern or have been blamed on factors other than trade. This is now changing as trade politics is increasingly about dealing with the negative consequences of trade liberalisation in some places, or least responding to the perception that it is to blame. The electoral consequences of this shift have already been seen in countries as diverse as the US, France and the Netherlands. Will this trend continue? Will a new generation of consumers turn away from materialism in the sense of the consumption of goods and seek new experiences instead? If so, what are the consequences for global trade?

Throughout this period there has been progress on both bilateral and multilateral trade agreements without any evidence that they are incompatible and the GATT in fact provides for both. Trump's view that only bilateral agreements can be in the US interest, and his disruptive policies towards multilateral agreements and the WTO, are likely to lead to damage to the overall structure of world trade.

Strong trends in one direction tend to provoke a reaction in the opposite direction. Does that mean that there will be a revival of interest in achieving multilateral trade agreements within the WTO? Will China and the EU exploit the potential power vacuum created by the shift in US trade policy to expand their own influence in this area? Will the US decline as a rule-setter and China become more important in this way? Can the EU achieve substantial free trade agreements with economies hitherto known for their protectionism, such as India and Mercosur? And, finally, what of the countries that sit outside the emerging trade blocs? Are they at risk of becoming bit part players in a global trading system that will increasingly serve the interests of the big trade power blocs and exclude the small and medium-sized countries – which after Brexit will include the UK? Whatever does happen, trade will remain central to the political debate nationally and globally.

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