



Trade is at the centre of a power struggle

Trade is an engine for growth, development, and job creation. It has helped millions out of poverty and enhanced the role of emerging and developing economies. China is a good example of a country that has become a world superpower thanks to trade. Since China's integration into the World Trade Organisation 20 years ago, its economic development has been impressive.

The system works because it is based on solid and reliable rules at multilateral level – under the World Trade Organisation (WTO) – but also at regional or bilateral level – negotiated between partners from all over the world in the form of trade agreements. By lowering tariffs and regulating non-tariff measures that may have an impact on global trade, the global trading system aims at deepening economic cooperation. The EU, as a major trading and investment block, plays an important role in this respect, promoting at all levels free and fair trade that brings benefits to all – developed and developing economies, businesses, workers, and consumers.

However, over the past years, this fundamental premise about the benefits of trade has been challenged. In part, this has been the result of the global and financial crisis, which raised questions about the positive impact of globalisation and made many governments turn to unilateral and protectionist measures; in part because current trade rules, especially under the WTO, do not reflect the reality of digitalisation and the increased role of services in the economy.

Ten years after the spark of the crisis, governments are still using measures that have an adverse impact on trade. For instance, a recent WTO report¹ found that most trade-restrictive measures introduced among the G20 since 2012 remain in place and new ones have been introduced, resulting in historical highs of protectionism. In addition, the OECD reported in its economic outlook for 2019² that, while overall global growth has stabilised, it remains weak, and that trade growth – covering both goods and services – has fallen sharply.

This data shows very clearly that current tensions in global trade have an impact on growth and isolate countries. Trade is at the centre of a power struggle for world economic dominance and this is having an impact on companies and the economy. The trade war between the U.S. and China is not only affecting the two concerned economies but is also having a global effect. European companies active in China

and the US are suffering from measures and counter-measures on both sides. This uncertainty is not good for investments and it does not help companies concentrate on key challenges like climate change or digitalisation.

This power struggle is multilaterally very visible through the crisis in the WTO. The U.S., a founding member of the WTO, has decided to take its distance and follow a unilateral path of trade. At the same time, it seems that China is reluctant to assume more commitments at multilateral level, which better correspond to its real economic gravity. This has resulted in bringing the WTO to a standstill, affecting all its core functions – negotiating new rules, enforcing and monitoring trading rules.

In this context, the number one priority for the WTO and its members should be to find an effective solution to unblock the Appellate Body. The continuous refusal of the U.S. to approve new judges is detrimental and will likely cause the collapse of the Appellate Body by December 2019. For businesses, it is clear that rules not respected and properly enforced are empty. Without rules it will be the strongest that will impose their will and the weakest will have to follow with no possibility to influence the game.

We also need to find multilateral solutions to address overcapacity, unregulated industrial subsidies, and the role of State-Owned-Enterprises. Practices from some leading trading powers are causing serious concerns and contribute to increased trade tensions. The EU, the U.S., and Japan have joined forces and are working on concrete proposals to address this issue. European businesses stand behind this trilateral process and expect tangible results over the next months. We support open markets but we want a level playing field as well.

The global trading environment will not become easier unless the above-mentioned challenges are met effectively and rapidly. Rules bring clarity and they can offer an honest broker solution in case of conflict. Unilateral actions and economic pressure will only bring resentment and will not help to deliver economic stability and growth.

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¹ www.wto.org/english/news_e/news19_e/trdev_24jun19_e.htm
² <https://oe.cd/economicoutlook>