« The future of international trade, investments and trade negotiations. »

Recommendation of the Economic and Social Commission of 17 June 2016, endorsed by the Central Council (July 20th 2016)

The Economic and Social Commission of the European League for Economic Cooperation (ELEC), which met in Milan on 17 June 2016, discussed the topic, **"The future of international trade, investments and trade negotiations"**, with a number of experts in the field: Mr. Luca de Carli, Deputy Head of the Trade Strategy Unit, European Commission; Professor Thomas Cottier, Emeritus Professor at the University of Berne and former Managing Director of the World Trade Institute; Mr. Charles-Henri Weymuller, Head of the *bureau de la politique commerciale* [Office for Trade Policy] at the *Direction générale du Trésor* [the French Treasury], reporting to the ministries for the economy and finance; Mr. Guillaume Duval, the editor of the journal "Alternatives économiques". Ambassador Gianfranco Varvesi also read a message from the former President of the Council of Ministers of the Republic of Italy, Enrico Letta.

I. The commission highlights the following points from these discussions:

1. Since the economic crisis of 2008-2009, the previously high **rate of growth in international trade** (close to 7% a year, on average, between 1995 and 2008)[1]) has seen a marked slowdown; in 2009, levels of trade even experienced a fall in absolute terms (-3%), not just in the growth rate. Some observers believe this should be seen as a permanent correction, linked to a loss of momentum in the "fragmentation of value chains", and to recent trends towards protectionism, even neo-nationalism, which are being seen in a number of countries; conversely, others expect a return to historical rates of growth in trade, at levels twice that of global GDP growth, which is, itself, depressed[2]. However, the relative failure, after twelve years of effort, of the series of international trade negotiations, known as the *"Doha Round"* and launched in 2001, is worrying experts in terms of the extent that regional, bilateral, or plurilateral sectoral agreements are being substituted for the international negotiations led by the WTO; in these settings, the ability of countries in positions of strength to apply pressure to weaker ones is clearly greater than in a broad multilateral setting.

2. Negotiations on the **major agreements, the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP or TAFTA)**, were launched to reopen the prospect of developing international trade. They encompass, in addition to tariff reductions, the complex but essential questions of services, market access and standards, including health, social, and environmental standards. However, the benefits expected from these negotiations - launched too late, from the point of view of some commentators - are, according to economic

[1] Source: Cepii, letter of September 2015: during the period 1995-2008, the average annual rate of growth in the volume of global trade in goods and services was 6.9%.

[2] During this period, the annual rate of growth of global GDP was 3.1%, which represents an elasticity of 2.2 (the ratio between the rate of growth in trade and that in GDP). During the period 2012-2014, this elasticity was only 1.

modelling, fewer and less certain than previously thought[3]. Above all, public opinion, sometimes as a result of prejudices, including in traditionally pro-free-trade countries, is increasingly vocal and alarmist on the subject of the TTIP/TAFTA. People are seeing it as calling into question safeguards that they consider essential to their way of life and to the environment; for example, there is heavy doubt over its compatibility with the progress envisaged in the climate-change announcements made at the COP21 talks, even though some argue that the TTIP could help solve certain environmental problems. The search for a satisfactory system to resolve conflicts between investors and states has been the subject of intense debate in terms of public opinion, as well as in the European Parliament, something that has led the European Commission to propose a new court system (a court of arbitration). Finally, the opacity of the methods of negotiation has been called into question; this criticism has recently led the commission to publish, on its website, the mandate given to it by member states and provide information at every step in the negotiations.

3. In this context, **the distortion of competition, real or supposed**, is an issue of major importance. The non-tariff obstacles to trade, a traditional topic of debate, are exacerbated by the increasing number of standards and regulations. The manipulation of exchange rates by countries trying to recover their competitiveness or simply protect themselves against deflation has caused some to go as far as calling it a trade war. In the debate, the question of recognising China as a fully fledged market economy, planned for the end of this year by the WTO, is causing problems. State-owned companies, in fact play a crucial role in an economy largely governed by the power of the state; moreover, the slowing of growth in China is leading to a surplus of exportables which has resulted in China being accused of systematic dumping in sectors such as steel and cement.

4. Beyond these purely economic aspects, the **social consequences of globalisation** are subject to ever-greater challenge, on both sides of the Atlantic. Development in trade is being accompanied by worrying increases in inequality and unemployment in most developed countries, which, in themselves, seem to be a factor in the slowing of global growth. Living standards have increased greatly for a small proportion of the population, but have stagnated for the majority in industrialised countries, and the problems of the *"working poor"* and exclusion have been reinforced. Moreover, it appears to be difficult today, in some countries, to address the unemployment caused by competition from low-cost labour and the failure to comply with social and environmental standards in emerging or developing countries. Efforts on skills and training in our countries do not seem sufficient - or sufficiently well-designed - to remedy this, or to better address the effects of technological progress.

5. According to economic theory, an **increase in foreign direct investment** (FDI) to southern hemisphere countries should support the development of international trade and the catching-up of developing countries. In reality, the levels seen in developed countries (in North America, Europe, and Japan) were largely dominant until quite recently, and this type of investment was less important to some developing countries than purely financial flows or those being returned by migrant workers. Very recently, there has been a trend towards reversing these flows, with more and more investments flowing from some major southern players, like China, towards other countries in the south (in Africa), and no longer towards the United States or Europe. The takeover of companies by foreign investors may be causing undue concern, but those concerns also need to be addressed - without forgetting that FDI can be an effective substitute for foreign trade, allowing production to take place as close as possible to markets.

[3] The countries within the scope of the TTIP are responsible for only 30% of global trade. However, the European Commission itself estimates the expected gain in growth from a possible conclusion of the TTIP as being only 0.5%.

II. Our commission calls on the European Commission to vigorously defend the interests of its members in international negotiations. With the aim of contributing to the development of policies that enable Europe to play its full role in the new global economy, we make the following recommendations:

1. We cannot resign ourselves to the *de facto* abandonment of a multilateral approach at a global level. **An initiative to relaunch trade negotiations**, using the multilateral approach employed by the WTO, should be pursued by the G20 on a modified basis (possibly narrower in its scope, such as the pursuit of plurilateral sectoral agreements on energy and/or the environment) and taking into account the causes of failure in the *"Doha Round"*. This initiative should, in our view, offer a methodology for negotiation and decisions that is no longer exclusively based on unanimity ("consensus"), but on qualified majority rules, or, at least, "consensus minus"[4], ensuring representation for both developing and developed countries.

2. **With regard to the TTIP, we see four points as essential** for the desired agreement to constitute progress - as CETA (the Comprehensive Economic Trade Agreement), the regional agreement reached in 2013 with Canada, was seen to be - and for it to be accepted in terms of public opinion.
   a. A more transparent negotiation procedure - in spite of the efforts already made in this sense by the European Commission - which have allowed both the public and economic actors to better understand the issues and remain up-to-date on progress;
   b. Balanced reciprocal concessions, something that seems a long way from a reality at present, especially on the question of the opening up of government procurement in the United States and that of technical standards; it will also be necessary to develop the discipline that will enable the realisation of climate policy goals, including the traceability and costing of carbon emissions;
   c. Procedures for the resolution of conflicts which allow for a public court of arbitration that is recognised in international law, in order to rule on disputes between investors and states;
   d. The preservation of European and national regulatory safeguards on health and the environment, especially the option to impose quota restrictions on CO_2 emissions from fossil fuels. A "lowest common denominator" approach to these regulations would simply not be accepted by the citizens of our countries. Conversely, all players should seek harmonisation of standards on a "best-practice" basis, with the aim of broadening the application of such principles for the common good.

   Besides, it would be desirable, in the case of an agreement, to open these up to third countries.

3. It is **not possible, given the current state of affairs, to simply grant China the status of a full market economy from the end of 2016**, something that does not correspond to reality; in particular, severe restrictions on the freedom of information seem incompatible with the status of a market economy. Rigorous negotiations must be held with the Chinese authorities to place strict limits on dumping in key sectors, such as steel and cement, and to ensure that they progressively improve their social policies (especially with regard to child labour and prisoners) and environmental standards - though we should recognise that China has made real efforts on the latter in recent years. Whatever the cause, the anti-dumping armoury of the European Union must be reinforced while modernising the instruments of trade defence,

[4] That is, unanimity minus one. This rule already operates satisfactorily for the resolution of disputes within the WTO.

through the use of more efficient calculation methods[5], reducing the procedural burden and broadening the scope of methods to submit complaints.

4. **Work to counter competitive distortions caused by social inequalities** must be a central task, not only in every country but also at global level. The agreements of the ILO and its recommendations on "decent work" must be taken into account from the start, both in WTO-led negotiations and those on regional agreements. Moreover, there is a need for progressive introduction of minimum social standards in terms of income, social protection and working conditions, not only in China but across developing countries, while at the same time, taking account of the situation in the LDCs.

5. **European programmes on education, training, and the encouragement of mobility should be reinforced** in order to encourage restructuring in sectors affected by globalisation; it is particularly important to markedly increase efforts, as required, on professional training programmes and continuing professional development, in decentralised forms or tailored to individual needs.

6. It is imperative to carry on, and see through to a successful conclusion, **campaigns against tax havens, and more broadly, against tax evasion**, and against base erosion and profit shifting (the OECD's BEPS programme). The work already completed with the general application (but from 2018 only, for certain countries) of the automatic exchange of financial account information leaves too many loopholes open. In particular, there is still a need to improve the transparency of the system for foundations (trusts), and force countries that still allow "free riders" to play by the common rules.

7. With regard to **foreign direct investments**, there are four key priorities:

   - The definition, at European Union level, of a list of strategic sectors exempt from the principle of freedom of investment; this should be more ambitious than the OECD's list[6];

   - The development of the network of bilateral agreements on investment guarantees, which will encourage investments, while providing security to investors; this network of bilateral agreements should be, as far as possible, consistent with agreement-types established under the aegis of the Bretton Woods institutions (the IMF and the World Bank);

   - A proposal for an international agreement by which the countries would commit, in the case of disputes concerning FDI, to be subject to a public court of arbitration, based on the model used in CETA (the Comprehensive Economic Trade Agreement) between the EU and Canada;

   - The substantial strengthening, to encourage FDI flows from the north to the south, of the MIGA (Multilateral Investment Guarantee Agency) system, through the setting up of an international organisation of the type used in development banks; the organisation would have special responsibility to cover a part of investors' risks when they establish themselves in a developing country.

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[5] See the European Parliament resolution of May 2016, advocating the use of "non-standard calculation methods". The traditional methods of the WTO do not really allow consideration, by taking into account the distortions created by state intervention, of the reality of situations created by dumping, especially those emanating from China.

[6] The US is an exemplar in this respect, and a much more robust one than the OECD.