

MAKING TRADE WORK FOR ALL

An overview of preliminary findings from on-going OECD analysis of trade-related measures

Even as the pace of global trade growth has been slowing, public scepticism about the benefits of trade, and of globalisation more generally, has been growing. While the causes of this scepticism are diverse, and its intensity uneven across countries, the consequences are clear: governments and their societies risk forgoing the benefits of open markets if current inequalities, in particular within countries, are not addressed, and if trust in international economic co-operation is not restored.

In this context, it is important to define the full range of policy responses that can make the economic and trade system work better for more people while at the same time continuing to assess the impacts of trade-related measures that open or restrict markets, so as to identify unnecessary costs that can be targeted for reform.

Integrated policies to make trade work for all

Trade is often a victim of simplistic rhetoric both by anti-globalisation and by free trade proponents; the reality is that trade can contribute importantly to more inclusive and sustainable growth for more people, but also that trade cannot deliver this outcome on its own. A more integrated approach to formulating trade, investment, and domestic policies would better reflect the reality that the impact of *international* trade on people depends very much on the *domestic* policy settings of the countries in which they live. A more progressive, more inclusive, more coherent policy package would incorporate at least the following three elements.

Creating environments where expected benefits can materialise

Policies can help to create the conditions at home that would allow the potential benefits of open markets and technological progress to materialise. This can mean strategic investments in education, skills, innovation, and physical infrastructure, along with supportive labour market policies, well-functioning financial systems, effective public institutions and predictable rule of law. Effective domestic policies can equip more people to benefit from evolving economic opportunities.

Governments can also act individually and collectively to reduce unnecessary costs that policies can unintentionally impose on individuals and firms. Improving inefficient customs procedures and addressing regulatory inefficiencies, including restrictions on services suppliers that underpin efficient manufacturing sectors, can be particularly beneficial.

Bringing everyone along

Policies also need to recognize that jobs and livelihoods will be disrupted, whether due to new trade and investment flows, new technologies, or for other reasons, and that some people will need help to adjust. Targeted social safety mechanisms can assist families through this transition. Inclusion is also about having a voice, and trade and investment policy-making can be made more open, allowing more people to inform and to be informed by the debate, and to feel a greater sense of confidence that the decisions made will benefit them.

Harnessing international cooperation tools

How countries manage their trade and investment relations is part of the larger web of economic interactions among countries. Building a more inclusive global trade and investment system requires integrating existing international cooperation, whether this is reflected in legally-binding multilateral agreements, voluntary guidelines and codes of conduct, 'best endeavour' measures, or simply shared commitments to improve policy transparency and dialogue.

A more progressive and more comprehensive approach to increased economic co-operation would help ensure that international trade and investment are governed by fair rules and that all businesses adhere to high standards of conduct, that internationally agreed labour and environmental standards are respected, that cross-border tax arrangements are transparent and fair, that corruption is combatted, and that financial markets function effectively.

Potential impacts of measures that open markets

A significant body of OECD research and analysis, often in collaboration with other international organisations, has focused on identifying actions that governments could take to create new opportunities for more businesses and families to benefit from trade (see references).

Trade, growth and jobs

At a global level, the available evidence is clear. Open economies grow faster than closed ones. Salaries and working conditions are almost always better in companies that trade than those that do not. Over decades, trade has helped to pull hundreds of millions of people out of poverty – by providing better employment opportunities and by helping household budgets go further with reduced prices and increased choice. But trade alone will not automatically benefit everyone: countries need the investments – in infrastructure, human capital, and institutions – and the policy frameworks that position them to take advantage of new opportunities, at home and abroad. And they need some system of social safety net to support adjustment by those negatively impacted by economic change and to ensure that economic and employment growth is widely inclusive.

Trade policy implications of global value chains

Three-quarters of international trade today is about firms buying intermediate inputs and capital goods that contribute to the production process. In a world of GVCs, to be a successful exporter, you also need to be an importer. And a country's trade barriers harm not only their consumers, but also their producers and exporters. Even small policy restrictions, from tariffs to inefficient border procedures to regulatory impediments, can accumulate as goods and services cross borders multiple times and can impose significant costs on firms wishing to trade.

Trade in services

Services generate more than two-thirds of global GDP, employ the most workers in major economies, and create most new jobs. Services trade restrictions can impair services exports and inward investment, undermine trade in manufactured goods and disadvantage SMEs. Services sector reforms and regulatory cooperation can reduce trade costs and drive manufacturing competitiveness and employment. The OECD Services Trade Restrictiveness Index (STRI) covers over 80% of global services trade across 44 countries and 22 sectors. It allows governments to benchmark their regulatory performance against global best practise, trade negotiators to target major impediments to services trade, and businesses to identify requirements to enter foreign markets.

Trade facilitation

Implementation of the WTO Trade Facilitation Agreement (TFA) could reduce worldwide trade costs by between 12% and 17%, with the biggest cost reductions available to low and lower middle income countries. The OECD Trade Facilitation Indicators (TFIs) describe border procedures in over 160 countries and correspond generally to the provisions of the TFA. The TFIs identify priorities for reform and allow estimation of the benefits of doing so.

Trade, environment, and natural resources

As restrictions on exports of raw materials have become more prevalent, OECD has explored alternative ways for governments to achieve their domestic goals without distorting international markets. In addition to transparency measures, there are successful examples of alternative tax and public investment schemes to stabilize public spending and diversify growth opportunities beyond mineral extraction. Other work is examining options to reform a range of potentially environmentally harmful subsidies, including by contributing to G20 peer reviews of fossil-fuel subsidies and identifying fisheries subsidies that can contribute to overfishing and overcapacity.

Trade in food and agriculture

Agricultural markets remain heavily distorted, with implications not just for trade, but for the ability to ensure a sustainable, productive, and resilient global food supply. There is considerable scope to achieve legitimate domestic policy goals through domestic reforms that are non-production and non-trade distorting, and which would permit market opening to the benefit of all countries and the global food system. The OECD monitors agricultural policies, markets and trade, annually, with a view to identifying current levels of support and protection in agriculture and 'good policy practises' for countries at various stages of development.

Export credits

A level playing field for official export credit support encourages competition among exporters based on the quality and price of the goods and services exported rather than on the most favourable officially supported financial terms and conditions. OECD work seeks to foster a level playing field for official export credit support, as well as to establish and monitor due diligence processes addressing environmental and social performance of export credit agency projects.

Emerging trade policy issues

Emerging trade policy considerations include the need to better understand practical actions to enhance international regulatory cooperation (while maintaining "the right to regulate"), the changing interdependencies between trade and investment, and the trade-related opportunities and challenges of digitalisation. These issues are also increasingly reflected in regional trade agreements and OECD work has sought to identify deepened provisions in some of these areas that might be amenable to multilateralization.

Potential impacts of measures that restrict markets

Since 2009 the WTO-OECD-UNCTAD Reports on G20 Trade and Investment Measures have helped to ensure transparency and to enable informed policy dialogue on recent policy developments. Over this period G20 countries have largely avoided actions that would greatly damage global economic prospects, but virtually all countries have succumbed to the protectionist temptation from time to time. The number of trade-related measures continues to accumulate as new actions are introduced and relatively few are rolled back.

Since 2010 OECD has undertaken a number of activities aimed at improving our understanding of the *impact* of trade-related measures (see references), separate from but complementary to the WTO G20 Trade Monitoring Report (G20 Report). Periodically these results have been reported, in summary form, in the G20 Report.

In 2009-2010 particular attention was paid to national stimulus measures taken to rescue sectors of systemic importance, to preserve jobs, and to stimulate growth. Given their sheer size, these extraordinary stimulus measures were viewed as having a more significant impact on trade than direct trade policy measures. However, dollar for dollar, trade policy measures were estimated to have the most strongly negative impacts on both trade and growth. Since that time many stimulus measures have been rolled-back, while resort to trade-related policies has continued to grow, albeit slowly.

In May 2012 the G20 Report focused attention on the fact that trade protection was increasing most significantly in sectors that were already the most highly protected. The specific case of agriculture was illustrated drawing on the annual OECD Agricultural Policy Monitoring and Evaluation reports.

In 2012-2013, in response to a growing interest in better understanding the potential impact of new forms of “murky protectionism” that were accumulating, OECD began to develop a new trade model (OECD METRO) imbedded with the latest available policy data, including estimates of trade in value added terms (TIVA).

In 2014, OECD METRO was used to examine the effects of local content requirement policies (LCRs) and the results highlighted in the 2014 G20 Reports. The LCRs examined unambiguously reduce trade, decreasing import and export flows even in those economies not engaging in such actions, and dampen global growth.

In 2015, OECD METRO examined the overall impact of a range of trade-related measures introduced since 2008 and identified in the G20 Report. Of the total measures introduced, 962 remained in-force at the end of 2014. The analysis covered approximately 40% of these, including as many of the tariffs, export taxes, quotas, and bans for which enough information was available to allow a quantitative assessment of impact. Overall, these measures harmed the global economy, with trade, production and GDP all falling and unemployment rising slightly at the world level. For some countries, GDP losses were up to 0.5% and export reductions up to 2.3%.

During 2016, OECD analysis has focused on assessing the impact of a range of data localisation measures, collecting and categorising the range of measures introduced by countries; seeking the views of business on the importance of data and data restrictions; and exploring the impacts of different kinds of measures, from local storage requirements to restrictions on data flows. Work is on-going and results are pending.

Looking ahead

Future trade-related work at OECD will build on these efforts and seek to provide evidence-based advice on how governments, acting individually or collectively, can pursue more progressive, more inclusive, more coherent packages of trade, investment, domestic and international policies to drive higher and more inclusive growth and better employment opportunities for more people.

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