

THE TRADE HANDBOOK

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with Yanis Bourgeois

THE TRADE HANDBOOK

Making trade work for
prosperity, people and planet



FEPS
Handbook



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Foreword

Disruption, upheaval and disorder are words commonly used to describe the times we are living in. The multitude of international conflicts, the weaknesses of multilateral institutions and the failure of global policy coordination keep the world economy functioning well below potential. And with the breakdowns of the economic system, our societies can achieve much less prosperity and equality than what would be first of all desired but most likely also possible. How much, under what conditions and what exactly is traded between nations and regions are critical factors that influence not only the conditions of material wealth but also whether people can live with each other in conflict or harmony. At the same time, the development of international trade rests on peace. Nations need to create an ecosystem supportive of production and mutually beneficial exchanges.

However, developing international trade is not simply about bringing down barriers but also establishing and maintaining a necessary infrastructure. Finance, for example, is an important system that serves as infrastructure for trade, and readers find fresh knowledge about this crucial connection in the book, together with issues that would not have popped up in books on trade just a few decades ago, like the impact on gender equality, or the efforts of European Union (EU) to protect its citizens and businesses from undesirable foreign investments.

Organising trade is also about setting, maintaining and developing standards. Not understanding this has resulted in vast misunderstandings about the single market of the EU, particularly in England which after the great financial crisis escalated anti-Brussels sentiments and eventually took Scotland, Wales and Northern Ireland also out of the EU. This is, however, just one recent example of trade disintegration leading to further grave consequences in economics and politics. One hundred years before, World War One marked the

end of the golden age of free trade, when deglobalisation brought with itself the end of the classical form of liberal civilisation as well.

Globalisation and integration through trade in goods and services is supposed to bring more opportunities than a world full of hard borders and various trade barriers. For a long time after the end of the Cold War, countries of the world were converging on a shared platform of open cooperation. China became member of the World Trade Organisation (WTO) in 2001, and Russia became a WTO member in 2012. The first one happened thanks to the policy of Bill Clinton, and the second one thanks to Barack Obama. And in the years following the Great Recession of 2009, the EU and the United States were endeavouring in the establishment of a Transatlantic Trade and Investment Partnership (TTIP), which was a genuine exercise in interdependence, even if it ran into the sand after two rounds of negotiations.

The economic system of the European Union is extroverted. Importantly, it is much more outward looking than our main transatlantic partner, the US. Furthermore, the EU responded to the 2010-3 crisis of the Economic and Monetary Union (EMU) with a further push for more openness and outward orientation. Thus the subsequent experience of a polycrisis has particularly hurt Europe, since it can also be seen through the lense of trade and thus as a series of breakdowns in international economic relations.

Brexit represented a break-up of our Single Market and the four years of Donald Trump in the White House was an experiment with trade wars. The 2020-2 Covid-19 pandemic disrupted trade relations for completely different reasons but with a lasting effect, followed by the Russia—Ukraine war which launched a new era of economic warfare. Multilateral organisations like the WTO, but also the IMF, are facing an identity crisis.

Should this therefore be the time to give up on global cooperation? Should one give in to escalating economic warfare, friendshoring, and hidden and overt protectionism? Definitely not! This can also be the time for bold visions based on sound analysis of economic opportunities and attention to human needs. As Pedro Sanchez, Spanish prime minister and President of the Socialist International

remarked when visiting China in 2023: “free, balanced and fair trade is essential if we want stability and prosperity for all”.

This book written by Arancha Gonzalez and published by the Foundation for European Progressive Studies (FEPS) combines the approach of an introduction to the profession of international trade with the philosophy of progressive policy making. It serves the reader with not only up to date catalogue of trade relations and trends, but also insight regarding how institutions function and strategies are developed. It presents an historic background and when necessary, and refers back to outstanding theoreticians of international trade, from Ricardo and Bastiat to Samuelson and Krugman, to refresh with some sharp observations.

Readers will find it fascinating how the author outlines what she considers to be the future of trade, but not in the sense that this future would unfold irrespective of decisions. The future of the international economy will be shaped by policies chosen and requires an adaptation of the existing institutional infrastructure. The explanation of these institutions and policies rests on the unrivalled experience of the author gained during her public service at the European Commission, the World Trade Organisation, the United Nations, as well as the International Trade Centre, topped up by being a Minister of Foreign Affairs, European Union and Cooperation in the Spanish government, and the Dean of the Paris School of International Affairs at Sciences Po (Paris).

19th century progressives pursued the policy of free trade. 21st century progressives must be committed to fair trade, and develop international economic relations simultaneously with the pursuit of social rights and environmental sustainability. Making trade work for social gains, decent work, and for a sustainable environment is possible, as long as it comes with the right incentives but also broader economic policies that stimulate and support investment with the right orientation.

This is indeed a time to think seriously about the multiple benefits of international trade. If the EU is striving for “open strategic autonomy”, it must be able to reconcile the keen interest in global economic cooperation with resilience and risk mitigation, especial-

ly what concerns avoiding excessive imbalances and dependencies. This book will help readers not only in developing an understanding of such strategic and practical dilemmas but also with arguments for policy debates of the years to come.

Dr László Andor
FEPS Secretary General

Preamble

A path toward making trade work for prosperity, people and planet

We are living in turbulent times: the devastating impact of climate change, the multiplication of conflicts in many parts of the world including the return of war in the European continent, a global pandemic that has worsened the situation for millions around the world, rising geopolitical tensions, persistent gaps relating to income, investments, infrastructure, gender and technology. A new international order is in the making and trade is one of the faultlines.

A vehicle for the reduction of poverty which may lead to rising inequalities. An effective tool for development which creates challenges for the environment. A process which may be used to thrive collectively, or which may be weaponised to weaken others. Acclaimed by some as a source of resilience, rebuffed by others as a root cause for major shocks. Trade has many faces.

Trade, as globalisation, is subject to major economic and societal shifts: the rise of global value chains, the servicification and digitalisation of the economy, regionalisation of trade relations, growing domestic precautionist policies to protect consumers, workers and the environment. Today and tomorrow's trade is far from the tariffs-and-goods-focused topic it once was.

A growing sino-american rivalry is also severely impacting international trade. Concerns around national security, dependencies and technology are redrawing trade maps and could lead to a costly fragmentation of the global trade framework. Navigating the choppy waters of trade is not an easy task, and it is unlikely to become one any time soon.

This easy-to read *Trade Handbook* will help readers break through the complex barriers surrounding trade and help address essential questions of this day and age: Why does open trade still matter? Why is its performance so different across countries? Where is trade headed? How can trade multilateralism be safeguarded? And, most importantly, how can it work for common prosperity, people and planet?

If in the past the focus has been on **making trade possible**, i.e. negotiating trade agreements, it is time governments pay the same attention to **making trade happen**, and most importantly, to **ensure trade works for all**, including for the planet. This is not just the task of Ministries or Departments responsible for trade. It is a whole-of-government and whole-of-society task. It is ultimately about coherence and alignment of domestic and international policies. This is the purpose of the *Trade Handbook*: offer policy-makers concrete proposals towards more coherent policies on and around trade. It places a particular focus on the European Union which is where the coherence agenda has been pushed quite far.

Trade has a clear record of raising living standards and increasing prosperity in advanced and developing economies alike. Comparative advantage, specialisation, economies of scale and economic efficiency allow trading partners to benefit from one another's respective strengths in the production of certain goods and services. The Multilateral Trading System – operated by the World Trade Organization – has been crucial in making trade possible on a global scale. It is the prerequisite for a global trade environment that is more open, transparent, stable and predictable.

Today the WTO is more needed than ever before. But its objective will most probably not be so much to foster convergence of the trade policies of its members, but rather to help manage their coexistence. Avoid trade conflicts from turning into trade wars and ultimately prevent a large-scale fragmentation of the global trading system. For it to happen four areas will require a rethink: the use of state subsidies, rebuilding a binding dispute settlement, the definition of a new framework for “national security” and measures to support the inclusion of the smaller and weaker members in international trade.

The WTO would also need to develop a framework to support the protection of global public goods such as the fight against climate change and the protection of biodiversity, to limit the negative spill-over effects of purely national measures.

But trade relations are neither self-regulating nor self-sustaining. The global trade framework makes it possible for trade to thrive. Making trade actually happen, however, requires local policies and stimuli which must provide a healthy environment for inclusive and green trade to prosper. This means trade intelligence and forward-looking strategies, accessible trade finance and aid for trade, a conducive infrastructure environment, and effective enforcement mechanisms.

Notwithstanding the key contribution of open trade to greater development and poverty reduction worldwide, there have also been many 'losers' from globalisation, trade, technology and economic integration. These are people, sometimes entire regions, who have found themselves on the wrong side of gaping economic inequality, having endured some of the worst effects of import competition and technological evolutions, without benefitting from the opportunities that ensued. Making trade work for all requires concrete policies and investments both at home and internationally to transition toward wider social gains and advancing the environmental agenda. Fair tax policies and greater fiscal integration, skills policies for decent and better jobs, strong social safety nets and advancing green goals in agriculture, energy, transport and competition. In a nutshell, trade requires a robust coherence agenda.

Making trade possible, making it happen and making it work for all within a reformed WTO and a strong domestic and international coherence agenda. A clear agenda. A tall order.