External trade policy and the Sustainable Development Goals: implementing the SDGs will meet justified criticisms of globalisation

Schmieg, Evita

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Implementing the SDGs Will Meet Justified Criticisms of Globalisation

Evita Schmieg

In 2015 the international community adopted the 2030 Agenda for Sustainable Development to "end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind". Trade can contribute to meeting those goals, but only if the policies are adapted accordingly. Given that they largely build on existing international commitments, the Sustainable Development Goals (SDGs) are not demanding revolutionary change. But it is an important step forward that the Agenda lays out a comprehensive programme for all policy areas, indicating what would be required to achieve sustainability at all levels. Especially in developed countries, there is widespread criticism that trade policy and globalisation worsen inequalities within and between states, endanger ecological stability and social security, and perpetuate unsustainable patterns of consumption. Implementing the SDGs would also represent a constructive response to these justified criticisms of globalisation.

According to the SDGs, trade is not an end in itself, but must promote sustainable development and prosperity for all. While not named as one of the Agenda's seventeen goals, trade is mentioned in many of the 169 targets. For example, Goal 17 (Partnerships) names trade as an instrument for implementing the SDGs, and calls for

- "a universal, rules-based, open, non-discriminatory and equitable multilateral trading system";
- a significant increase in the exports of developing countries;
- "timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions".

Under the principle of shared partnership, *all* institutions, decision-makers, institutions, countries and stakeholders are responsible for sustainability in the context of the SDGs. Each country is responsible for its own development path. SDG Goal 1 requires states to "create sound policy frameworks … to support accelerated investment in poverty eradication actions". Under Goal 10, reducing inequality within and between countries is a shared responsibility. Developed countries must be prepared to give

Dr. Evita Schmieg is Associate in the EU/Europe Division at SWP.
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the developing countries a greater say, to enable them to advocate their own interests in the international system and anchor these in the rules. Target 10.6 requires "enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions". Although the WTO operates under the principle of "one country, one vote", it too has a track record of developing countries failing to adequately assert their interests.

Ownership and Special Treatment

The emphasis on shared responsibility of *all* represents a departure from a paternalistic position that treated inequitable world trade structures as the sole reason for individual countries' lack of success and argued that inequalities can only be eliminated through exemptions and "special treatment" for developing countries. The experience of recent decades has shown that the countries granted the most generous trade preferences – the states of sub-Saharan Africa – are precisely those that have been least successful in diversifying and increasing their exports. WTO waivers have had negative side-effects: one reason why the least developed countries have been so disengaged from the WTO is their faith that exemptions from multilateral trade liberalisation processes will spare them from having to introduce painful tariff reductions. Poorer countries already find participation in WTO discussions and negotiations difficult on account of their overstretched personnel and financial capacities. The end result of the process, however, is that the world trade system now assumes a structure at odds with their interests. This applies to the bulk of the rules, from the Agreement on Trade-Related Aspects of Intellectual Property that led to a transfer of resources for patents and licences from South to North, to the trade in services negotiations. The latter have to date focussed largely on opening up investment in the services sector, which accounts for about 60 percent of liberalisation concessions. Market access for individual service providers (personal mobility), on the other hand, is marginal with about 5 percent. Yet that is one aspect that would especially benefit poorer countries. The current multilateral tariffs also reflect the interests of those who were most invested in the WTO rounds: the developed countries. The highest tariffs apply to products made and exported by the world's poorest countries, such as textiles and agricultural products.

According to the SDGs, the developing countries should continue to receive "special and differential treatment" to account for their special situation. But in the SDG context this still means that poorer countries will still have to participate actively in the processes of shaping the multilateral trade system and formulating new rules if these are to correspond to their interests and capacities. Where necessary, they should therefore be supported in applying these (fairer) rules rather than exempted from them. The Trade Facilitation Agreement concluded in 2013 in Bali represents one example of this principle.

Avoid Negative Effects of Free Trade

Target 17.14 calls for greater policy coherence. What that means in practice can be usefully illustrated in relation to Goal 2 (Zero Hunger):

In the SDGs, states agree to "double the agricultural productivity and incomes of small-scale food producers" by 2030 (Target 2.3). It is up to the governments of developing countries – where agriculture has frequently been neglected – to formulate the necessary policies in areas such as land, inputs, banking etc. For their part, the developed countries are required to "correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies". The situation in the fisheries sector is similar: here particular forms of subsidy that encourage overcapacity and overfishing are to be abolished (14.6). The SDGs thus emphasise the different responsibilities of developing and developed countries and name necessary policy changes. While the abolition of agricultural export subsidies was agreed in December 2015 at the WTO Ministerial Conference, that is not the end of the matter. Domestic agricultural subsidies – in the European Union, the United States and India for instance – also distort global markets. The WTO criteria for permissible subsidies therefore need to be further tightened.

More coherent policies can only be formulated if the conflicts of goals between different areas are revealed. This requires better instruments, especially for ex-ante sustainability impact assessments (SIAs) and ex-post impact measurement. While the EU conducts SIAs for all its free trade agreements, their quality varies and their political significance tends towards zero. If SIAs are actually to contribute to enhancing policy coherence, they must be of sound quality and their findings must be discussed and taken seriously (in the case of the EU by its Parliament and Council). While the European Commission's updating of its SIA handbook is a welcome development, the instrument's political weight in decision-making must be expanded across the board.

When it comes to impact measurement, work is still in progress. The EU's Trade Strategy of October 2015 is the first to include a chapter on implementing free trade agreements. Both in the EU and in the partner countries, the ways in which the effects of trade liberalisation unfold must be closely observed: which sectors are displaced and which groups become unemployed? Only then will it be possible to respond quickly to problems as they arise. Impact monitoring plays an important role in the implementation of economic partnership agreements with regions in Africa, the Caribbean and the Pacific (ACP). But the instruments first have to be defined and tested. Only then can it be ensured that trade policy achieves its stated objectives: to promote sustainable growth, reduce poverty and narrow the gap between rich and poor countries.

Negative effects of trade liberalisation need to be avoided within the European Union too. The neglect of this aspect has been a major factor engendering public discontent with globalisation. But greater coherence between the EU's external trade policy and internal policies is hampered by its division of powers. While the European Commission is in charge of trade policy, the member states are responsible for the education, labour market and distribution policies that must accompany trade liberalisation. Germany should therefore initiate a discussion about improving the mechanisms for coordinating EU trade policy with national policies and press for the establishment of effective structures. The EU's Globalisation Fund is no more than a sop to workers who lose their jobs to offshoring. The crux of the matter is to pursue an active and coherent policy that averts the negative effects of liberalisation from the outset. Such a course could also improve the political acceptance of trade policy within the member states.

The Road to Lasting Change in World Trade

Genuine sustainability of production and consumption would be associated with radical changes in cost, production and consumption structures, especially in the richer countries.

The SDGs are ambitious, but too vague. Their concrete provisions largely reflect the international consensus of 2015, and fall short of what would be required to make the global economy truly sustainable. That would require – to put it in economic terms – the internalisation of all external costs. In other words, pricing must fully reflect the harm to people and the environment caused by production and consumption processes. The SDGs' call to reduce subsidies for fossil fuels is at best a first step in the right direction. What would really make an impact would be a CO_2 tax, whose pricing mechanisms would create real incentives to improve sustainability, both in production (including transport) and in consumption.

The SDGs do, however, contain indications of the direction in which (trade) policy needs to move. For example Goal 8 contains a reference to the core labour standards of the International Labour Organisation. It must be hoped that this will encourage inclusion of the issue in trade agreements and ultimately in the multilateral trading system. Not until these norms are observed worldwide will we see, for example, any lasting improvement in the situation of garment workers in Bangladesh – despite ongoing voluntary initiatives by businesses and politicians that have thus far failed to resolve the problem.

The scope for incentivising businesses is far from exhausted. For example, the SDGs call on governments to encourage businesses to take better account of sustainability. The EU must also create corresponding incentives in its (trade) policy instruments. The European Parliament has put forward one constructive proposal, calling for the 2018 overhaul of the Generalised System of Preferences for developing countries to grant additional preferences for certified sustainably produced textiles. There would be every reason to extend such incentives to other sustainably produced products.

Unilateralism and Protectionism

As far as trade is concerned, the SDGs rightly underline the great importance of the multilateral system. But the perspectives for improving it are currently anything but rosy, in an environment of rising unilateralism (for example in the United States and United Kingdom) and growing protectionism. This also darkens the prospects for the WTO Ministerial Conference in December 2017. The EU would therefore be well advised to step up its efforts to identify suitable cooperation partners – as the Commission proposes in its September 2017 Trade Package. The objective is to cooperate with these partners on refining the rules for a sustainable trade policy, in the scope of bilateral and plurilateral agreements. One special challenge consists in ensuring that the poorest countries are included in this process. In order to promote sustainability through trade policy during a period where multilateral formats are blocked, the EU should make use of all opportunities for dialogue and exchange including those outside and beyond the WTO. Obvious options here include ILO, UNCTAD, G20 and the OECD (including outreach events). The EU should not hesitate to play a leading role against unilateralism and protectionism, and should continue to work towards an equitable trading system.

One important take-away from the SDGs is that one cannot expect to resolve complex international problems within a single policy area or with a single instrument. Trade policy is no exception. Only in concert with other policy areas can it contribute to sustainable development.

SWP
Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4
10719 Berlin
Telephone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

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