



Whither (not Wither) Multilateralism: Priorities for G7 Trade Ministers

Institute for International Trade

The Trade Policy Context

Is the high point in multilateral trade relations already 30 years in the past? Are notions of international cooperation and mutual benefit relics of an earlier time?

Hopefully not, there is still much more to play for. Amidst the visible geopolitical tensions, and what often looks like a blurring of trade, economic, climate, and security interests, there are some encouraging signs recently.

This brief considers prior developments that helped shape the nature of the trade policy debate today, offers an admittedly optimistic assessment of a renewed interest by G7 members in international cooperation, and highlights immediate priorities for action by G7 Trade Ministers.

The Trade Policy Challenge: Looking Beyond Trade and the Economy

The Uruguay Round of multilateral trade negotiations (1986-1994) was the eighth trade round since 1947. It successfully

reduced trade barriers, established enforceable trade rules, and created the World Trade Organization (WTO).¹ Its importance to a well-functioning multilateral trading system, global income and job growth, and global poverty reduction would be hard to over-state.

Yet, less than five years later the planned launch of the ninth trade round stalled in Seattle, and while it was revived in late-2001 in Doha, twenty-two years have since passed, and WTO members have still not delivered a much-needed comprehensive modernization of global trade rules.

The 2007-08 financial crisis quickly became a global economic crisis, leading to a virtual collapse of trade flows and a sharp rise in global unemployment. Worldwide, millions of people lost their jobs and their homes - as well as their trust in public institutions.

While inequalities across countries were reduced significantly, subsequently lower global growth added to increasing inequalities of household wealth, income, and opportunity within many countries. Regional productivity levels within countries

were also diverging, with lagging regions unable to offer good jobs, wages, and community well-being. More people were growing frustrated with globalization - driven at least as much by technological progress as by trade flows - and with an overall economic system that was not working for them and their families.²

This provided fertile ground for populist responses and many countries began to look inward. WTO data, for example, indicate that while G20 members introduced new restrictions on less than 1% of their imports in 2009, this rose to 4% in 2015 and over 11% in 2022.³ Other trade-related concerns were becoming widespread, from the market power of global tech companies and the non-market practices of state enterprises to the use of national security as a rationale to restrict trade.

The COVID-19 pandemic and health measures to mitigate its impact disrupted supply chains and exposed vulnerabilities from a geographic concentration of supply and reliance on too few suppliers for critical

¹The views expressed here are the author's alone and not those of the Institute for International Trade.

goods and services. Both the risks (e.g., export restrictions on medical supplies) and the rewards (e.g., rapid development of effective vaccines) of international cooperation became more evident.

Russia's invasion of Ukraine created a global humanitarian and security crisis, hitting vulnerable populations in Ukraine and beyond the hardest. This aggression has brought into stark view the enormous cost of economic dependency on unreliable authoritarian regimes. Heightened awareness of these risks and their consequences has arguably spilled over to wider geo-economic relations.

The role of technology has become a particular focus of attention, not just as a driver of economic opportunity but as an imperative for national security. Longstanding geopolitical tensions between the US, China, and other countries have now moved from multilateral and bilateral negotiation to often unilateral and aggressive trade actions, even coercion.

Interest in industrial policy has also re-emerged along with massive new subsidies, most famously the US Inflation Reduction Act and the EU Green Deal Industrial Plan, but many other countries are also engaging in this subsidy competition. And of course, China's system of state capitalism has expended vast sums of public monies in support of its industrial ambitions for at least the past two decades and continues to do so.

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As more countries explore more ambitious - and much needed - responses to climate change, many are also assigning a newfound importance to trade and climate linkages. A range of regulatory measures are being explored, the most advanced of which is the EU Carbon Border Adjustment Mechanism, while the G7 has initiated an inclusive Climate Club, the Organization for Economic Cooperation

and Development (OECD) an Inclusive Forum on Carbon Mitigation Approaches, and some WTO members Trade and Environmental Sustainability Structured Discussions. In brief, trade policy today is not just about trade and the economy.

The myriad of still evolving responses to trade, economic, climate, and security interests is contributing to a highly uncertain operating environment for businesses. Unpacking national and international interests and aligning policy actions to mutually beneficial outcomes is not a simple matter, but it is both possible and necessary. It is a way forward that is built on explicit recognition that more - not less - international cooperation can benefit all countries and societies.

The Still Evolving Trade Policy Narrative: Confrontation or Cooperation

When G7 Leaders met in Japan in May 2023, did they take the first tentative steps back from international confrontation and towards reinvigorated international cooperation? The G7 Hiroshima Leaders' Communiqué⁴ is a remarkable document - full credit to the G7 Presidency of Japan. The Communiqué is comprehensive and substantive in its treatment of a wide range of global issues; it emphasizes throughout the unity of G7 members and their commitment both to work together and to engage with international partners.

National security is a central theme of the Communiqué, and support for Ukraine

is emphasized. Leaders also prioritize accelerating progress on the Sustainable Development Goals (SDGs) and the transition to a clean energy economy, noting that poverty reduction and climate mitigation go hand in hand; cooperating to build economic resilience and economic security across supply chains, and to enable a strong global economic recovery; investing in global health and pandemic preparedness; cooperating on migration and human trafficking; ensuring good governance of artificial intelligence and digital technologies; and strengthening the rules-based multilateral trading system with the WTO at its core.

G7 Leaders emphasize that they are interested in "de-risking" and not in decoupling. This is a significant, deliberate, and welcome change in message and tone. Earlier discourse often implied a much more extensive stepping back from international trade, investment, and overall cooperation. Given the interconnectedness of economies today, decoupling is neither feasible nor desirable and re-discovering this reality would be extremely costly for all countries. An open and inclusive approach for mitigating risks to economic, climate, and security interests based on collaboration across countries, and with the private sector, is both feasible and desirable.

Whether this new G7 narrative is followed by substantive shifts in action remains to be seen of course, but it certainly signals interest in an alternative to international confrontation and market fragmentation.



The Immediate Priorities for G7 Trade Ministers

Here are some initial steps that G7 Trade Ministers could take to contribute to building a fairer rules-based multilateral trading system for all countries when they meet in Osaka, Japan, on 28-29 October.

The trade policy agenda they discussed last April is vast; while the issues all warrant attention, not all are amenable to immediate progress in the context of the limited membership of the G7. Two priorities stand-out: **government subsidies** and the absence of a global level playing field for businesses, as well as **trade and climate** and the imperative to transition to net zero emissions (NZE) globally.

These two priorities are closely linked. As noted by the International Energy Agency (IEA),⁵ amongst others, massive levels of private investment are required to make the transition to a clean energy economy. But unfair trade and competition that results from discriminatory subsidies and poorly designed regulations imposes a very high cost on un-subsidized firms, increases the uncertainty of longer-term returns, and actively discourages the needed private investment. **Building a global level playing field may be the most important contribution that G7 Trade Ministers can make to a clean energy economy and NZE globally, as well as to a well-functioning rules-based multilateral trading system.**

An immediate and practical step for G7 Trade Ministers is to request the relevant international organizations to work together to distinguish much more clearly between good and bad subsidies. Valuable data and analytical work have already been undertaken by the OECD and the WTO and, along with the International Monetary Fund (IMF) and the World Bank Group (WBG), they have committed to further individual and joint efforts addressing subsidies and related policies.⁶

But more needs to happen, more quickly. The four international organizations - along with others willing and able to contribute - should be mandated to step up their efforts, urgently and substantially, to define the characteristics of good subsidies, i.e., those most likely to achieve their aims at reasonable cost and without unintended negative impacts, in contrast to bad subsidies, i.e., those least likely to perform as intended.

There is a strong economic and environmental case for public support to accelerate the transition to a low carbon circular economy. But policy design matters. To be effective, efficient, and equitable, support provided must be transparent, targeted to explicit beneficiaries, proportionate to achieving the desired outcome, time-limited, and non-discriminatory. To ensure that support works as intended, it is essential that close attention is paid to the actual impacts of support policies as they are implemented. Explicit policy objectives describe what governments want to achieve, but the actual impacts of support, domestically and internationally, often differ from what is intended.

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International organizations, the academic community, and private sector stakeholders should be invited to contribute their objective analysis and advice to inform public policy choices. This is essential, both ex-ante and ex-post, as poor policy design carries an enormous risk of creating wasteful and off-setting subsidies, divergent regulatory frameworks, fragmented regional and global markets - all while failing to achieve the stated policy goals.

Early action can already be taken based on what is already known about the characteristics of existing subsidies and related regulatory policies. Many are unlikely to achieve their stated aims, are production and trade distorting, can damage the environment and increase GHG emissions, are costly and crowd-out public investment on other priorities such as health care and education. G7 members have committed to phasing out inefficient fossil fuel subsidies; they should make the same commitment with respect to ineffective agriculture, fisheries, and industrial subsidies. And while G7 membership includes countries that are major subsidizers, the BRICS membership⁷ includes countries that are major providers of fossil fuel, agriculture, fisheries, and industrial subsidies and should begin to phase them out as well.

It is less costly and more equitable to level the playing field globally by reducing subsidies than by increasing public spending that essentially serves to offset the subsidies of other governments.

The benefits of subsidy removal would accrue both to the relatively few countries that account for most subsidies today and to the many more less developed countries that simply do not have the fiscal capacity to join the subsidy race.

A second practical step that G7 Trade Ministers should take immediately is to **clarify how, in addition to subsidy reform, trade policy can contribute to NZE globally.** Later this year at COP28, G7-plus



countries are expected to agree a work plan for an inclusive climate club, originally announced in 2022 under Germany's G7 Presidency. As outlined in an independent report to the G7⁸, the associated modalities are critical. The inclusive climate club should support increased ambition, action, and collaboration to achieve NZE; be open to countries sharing this commitment while respecting preferences for different policy mixes; engage early and fully with all countries, not just G7 members; support implementation of the Paris Agreement; and respect international law and the multilateral rules-based trading system embedded in the WTO.

The inclusive climate club should also draw on relevant work undertaken elsewhere, including progress made in WTO Trade and Environmental Sustainability Structured Discussions, the findings of the OECD Inclusive Forum on Carbon Mitigation Approaches, and on-going work on the clean energy economy at the IEA.

As a practical matter, international cooperation, including via an inclusive climate club, that strives to align climate ambition and action will take time and outcomes will remain uncertain. Commitments to higher ambition climate action are urgently needed now. Consequently, some countries are already exploring how trade policy can drive decarbonization. This option warrants close attention by Trade Ministers, as well as Climate and Environment Ministers, as it is fraught with risks both to a well-functioning rules-based trading system and to the transition to NZE globally.⁹

Importantly, **effective trade measures require a highly granular accounting of the carbon content of domestic production, consumption, and international trade flows. Generating robust and internationally comparable carbon accounting data should be prioritized by G7 Trade Ministers**, along with other members of the inclusive

climate club. Sector-wide averages, for example, are grossly inadequate. Here again, international organizations, the academic community, and private sector stakeholders should be invited to contribute their data and objective analysis.

Concluding comment

Setting aside the specific ideas put forward above, the essential message is that the transition to a clean energy economy and NZE globally, which requires massive new private investments, is contingent on global markets that are fair, open to competition, and free of discriminatory subsidies and regulatory policies. Securing a global level playing field for all businesses is the only sustainable pathway to economic resilience, economic security, and a low carbon circular economy. No country should be excluded nor exclude itself – all countries must be ready to renew, modernize, and respect their commitments to a rules-based multilateral system.

In October, G7 Trade Ministers have an opportunity to take important initial steps in this direction, in keeping with the expressed interests of G7 Leaders. International organizations, the academic community, and private sector stakeholders have an opportunity to contribute more to consideration of these issues, at G7 but also well beyond G7 in other plurilateral and multilateral venues – not least at the WTO. There are enormous benefits for people and planet from doing so.

About the author

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Image: Markus Spiske, Unsplash

Endnotes

1. The Uruguay Round Agreement on Agriculture also brought this highly protected sector into the multilateral trading system for the first time – but that is a subject for another time.
2. For a concise discussion of the issues and suggested policy responses, see OECD (2017), Julia Nielson, Making Trade Work for All, www.oecd.org/trade
3. See WTO Trade Monitoring Reports, https://www.wto.org/english/news_e/news23_e/trdev_04jul23_e.htm
4. See https://www.g7hiroshima.go.jp/documents/pdf/Leaders_Communique_01_en.pdf
5. IEA (2023), Energy Technology Perspectives 2023, IEA, Paris <https://www.iea.org/reports/energy-technology-perspectives-2023>
6. IMF, OECD, WBG, WTO (2022), Subsidies, Trade, and International Cooperation, <https://www.imf.org/external/error.htm?URL=https://www.imf.org/en/Publications/analytical-notes/Issues/2022/04/22/Subsidies-Trade-and-International->
7. Brazil, Russia, India, China, South Africa; note as well that at its recent Johannesburg Summit the BRICS leaders invited Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates to join.
8. Stern N and Lankes HP et al. (2022) Collaborating and Delivering on Climate Action through a Climate Club: An independent report to the G7. London: London School of Economics and Political Science <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/Collaborating-and-delivering-on-climate-action-through-a-Climax-Club.pdf>
9. See, for example, OECD (2020), *Climate Policy Leadership in an Interconnected World*, <https://doi.org/10.1787/8008e7f4-en>

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