GUEST EDITORIAL

Making the Case for Trade in the XXI Century

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In the 1940s, Nobel Prize winner Milton Friedman argued that free market forces would work together to serve and safeguard the public interest. Today, this consensus no longer holds. Recent financial and economic crises, accompanied by unemployment and widening wage and inequality gaps, have lowered public confidence in global trade and its ability to support growth, development and poverty reduction.

Advocates of open trade are now playing defence. They explain that trade is part of a much bigger context – not least including technological change – and that trade alone cannot deliver on the full range of socio-economic benefits to which frustrated voters aspire. The argument continues with the impact of trade being positive or negative depending on many factors, many of which have little to do with trade. These include effective domestic policies in the areas of active labour market policies, skills, R&D and innovation, infrastructure, a conducive business environment, education, health and safety nets. Trade advocates also highlight that however unpopular trade may be today, trade has a track record of, inter alia, accounting for a significant share of GDP, energizing poverty reduction, as well as for delivering better and more affordable choice to consumers.

Despite the validity of these arguments, concerns over job losses, unequal income distribution, taxation and social justice within countries have intensified in recent years and currently dominate the public discourse on trade in many advanced economies. The benefits of the growth of trade are perceived to be concentrated at societies' top 1% at the expense of the remaining 99%. In the current global climate of 'winners versus losers', the legitimacy of trade hinges on firmly demonstrating how trade and open markets can help to narrow gaping global and within-country inequalities. The new narrative on trade must make the necessary linkages to show how it can work for the benefit of all including those that today do not profit from the market opportunities created by trade agreements.

Building a case for inclusive trade, which speaks to wider economic gains for the largest number of people, must put a spotlight on small and medium-sized enterprises (SMEs). SMEs are the world's largest source of jobs, including for millions of economically marginalized women and youth. They account for over 95% of all global firms and for approximately 50% of global GDP. When SMEs thrive, economic benefits reach a larger section of the population. By helping them to build their productive capacity and connect to value chains we will increasingly help rebalance the 99:1 divide. When SMEs operate outside national borders and connect to regional and international markets, whether directly or by selling to locally based multinational corporations, the prospects for inclusive growth and better income distribution are particularly high.

However, when compared to large companies, SMEs tend to be less productive, pay lower wages, fold more easily and are less likely to engage in higher value cross-border trade. Narrowing the competitiveness gap between small and large firms will actually help reduce income inequality. Effective trade agreements have an important role to play in levelling the playing field so that small businesses can succeed in the ecosystem of trade.

First, trade agreements must help level the playing field and create economic opportunities for the integration of SMEs into value chains. Improving the productivity and competitiveness of firms to trade through an open trading system is now less related to tariffs and more so to non-tariff barriers; and the traditional negotiating method of 'exchanging concessions' is probably no longer fit for purpose. The answer will have to be better management of regulatory divergence as well as adoption of domestic and international means to foster regulatory compliance, especially by SMEs.

Facilitating economic diversification, an important part of better retailing the benefits of trade, will require

Notes

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greater focus on services trade and on the digital economy. Trade agreements should reflect this.

And a growing number of trade agreements are incorporating provisions that expressly mention SMEs. In the past fifteen years, the number of preferential trade agreements that include a dedicated chapter on SMEs increased substantially, reaching forty-two agreements, or one-sixth of the agreements covered by the WTO database of such accords. This trend should continue.

Second, trade agreements must also respond to the inequalities that exist between women and men in international trade. There are striking disparities between men and women's participation in trade. With only one in five exporting SMEs being women-led, there is both scope and cause for deeper engagement of women in trade. Barriers to economic opportunities for women translates to incredible losses – in Africa alone, economic and social discrimination against women equates to losses of up to USD 105 billion a year or 6% of the continent's gross domestic product.

A new generation of policy instruments are now calling for the integration of gender dimensions in trade policy as part of a wider framework of sustainable and inclusive development. There has been an increase in provisions covering gender equality in trade agreements. In 1995–1999, 14% of trade agreements referenced gender equality; compared to 47% in 2010–2016. Countries like Canada, Chile and Uruguay have even gone as far as to include specific gender chapters in their free trade agreements. In fact the gender dimension should feature in the analysis of offensive and defensive interests at the start of a trade negotiation and should inform the negotiating positions through the use of gender-disaggregated data. Areas of particular interest are non-tariff measures, including rules of origin, as well as services commitments and government procurement. Not that these areas require specific 'gender rules' but rather that the rules and commitments should be crafted through a specific gender lens. In addition, the impact of these agreements on advancing women's economic empowerment should be regularly examined, included in WTO Trade Policy Review Mechanisms. Finally, the conclusion of bilateral trade agreements or unilateral trade preferences could be made conditional on the removal of legal discriminations to women's economic empowerment.

Third, the future of trade is one of 'deep integration' deals. According to the International Trade Centre's 2017 SME Competitiveness Outlook, for each additional policy area included in a country's trade agreement – such as investment, dispute settlement, competition policy, intellectual property or environmental provisions – there is an additional 2.5% increase in the country's integration into value-chain trade. More significantly, this leads to a 1.25% reduction in the competitiveness gap between small and large firms. The same research finds that agreements that combine trade provisions with those on foreign investment are associated with greater domestic value added for exports as compared with stand-alone bilateral investment treaties. More comprehensive trade agreements can lead to better SME competitiveness and therefore to more inclusive trade.

But creating trade opportunities will not be enough. Better synergies with other relevant domestic policies such as education and skills building, innovation, infrastructure, social safety nets, all of which are in reality ingredients of economic competitiveness and social progress, would give a big boost to the case for trade. And abroad, supporting the economic development of poorer countries would help anchor progress made in education, access to healthcare, elimination of hunger, and respect for human rights. This is where trade and development policies meet. But also because when developing countries grow and advance, they become markets with greater purchasing power. This is why it matters to keep investing in Aid for Trade.

Finally, in the era of the Fourth Industrial Revolution, expanding digital trade connectivity and cross border e-commerce must be on the agenda. Cross-border e-commerce already accounts for 12% of merchandise traded globally. Estimates project e-commerce growth at twice the rate of domestic e-commerce, with the fastest growth in the business-to-consumer segment, which is particularly adapted for micro enterprises. SMEs need to leverage this opportunity to expand their exports in the global market. E-commerce is especially relevant for women in trade. Overall, only a quarter of firms doing traditional offline trade are women-owned; but the share of women-owned firms doubles when moving from traditional offline trade to cross-border e-commerce. Facilitating e-commerce through trade agreements as well as through better policy coherence will go a long way towards ensuring tomorrow's trade is more inclusive.

It is imperative that all actors work together to level the playing field for the 99%. Using trade agreements as a tool to lift the barriers that prevent mom and pop shops and women-run businesses from fully participating in and benefitting from trade is something for which we should all be making the case.