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Trade Policy Priorities for a COVID-19 Era and Beyond

Barbara C. Matthews


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Introduction

Transatlantic trade policy stands at a crossroads as 2020 draws to a close. Challenged by populists across the political spectrum, disrupted by COVID-19, and potentially rendered irrelevant by the distributed digital economy, it is fair to question whether the multilateral trading framework crafted at the tail end of World War II is fit for the twenty-first century.

The twentieth-century institutional infrastructure supporting the global economy was showing its age before the pandemic hit. Policy differences between nations regarding regulatory issues, state subsidies, and the appropriate role of government in the economy occurred in parallel with significant economic evolution, rendering many traditional trade policy paradigms difficult to implement globally.

COVID-19 contributes additional complexity by: shattering supply chains; increasing awareness of the need to diversify trading relationships; and substantially increasing the amount of government support for the corporate sector.

Nonetheless, the Bretton Woods system has shown remarkable resilience. The worst fears associated with trade wars in 2019 and supply shortages in early 2020 have, so far, failed to materialize. Instead, the pandemic seems to have generated some underappreciated benefits for an ailing and aging multilateral trading system. These include:

- a renewed commitment to cross-border trade by many advanced economies;
- supply-chain diversification seems set to increase trade volumes for some goods, although the dispersion of trade routes and trading partners seems likely to shift away from high concentrations at key nodes in China;
- ideas crossing borders and people interacting at higher frequency through information and communications technology (ICT); and
- a deeper transatlantic relationship, supported by a formalized process. The newly established geo-strategic partnership between the United States and the European Union (EU) regarding China creates considerable opportunity to craft the next generation of trade policy structures that can position the global economy for growth when the pandemic subsides, in 2021 and beyond.

The initial response to pandemic-era stresses provide the transatlantic community with a unique opportunity to place the global trade policy framework on firmer footing. The incoming Biden administration additionally bolsters hopes for more harmonious trade relations. However, any new government in Washington, DC, faces familiar challenges from populists and World Trade Organization (WTO) politics that could stymie success.

Transatlantic leadership in reimagining global supply chains and regulatory non-tariff barriers today can help address the splintering structure that, in fairness, was not built to support a digital economy. Working together, the United States and Europe can help the WTO transition toward a more flexible framework better suited to the challenges of the twenty-first century. To maximize the opportunity for success, and to avoid the failures of the recent past, transatlantic policymakers would be wise to set achievable, pragmatic goals starting in 2021 aimed at creating new trading patterns and new cross-border trading modalities.

The stakes could not be higher.

The full economic consequences of the pandemic have not yet been felt. The world at present is enduring a second wave of infections in the United States and Europe. Historically large economic-support packages in advanced economies, creative monetary policy, and generous aid packages through the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the lending arm of the World Bank) have cushioned the immediate economic impact. Reimagined supply-chain relationships and interoperable regulatory standards could increase export opportunities for firms, delivering much-needed economic growth as more companies enter the global trading system.
Executive Summary

The global trading system marks a major milestone at an inopportune moment. At seventy-five years, the system was showing its age before the pandemic hit.

- Fears of trade wars dominated policy and media cycles during 2019 as the three largest trading blocs (the United States, European Union, and China) levied tariffs against each other in retaliation for various trade-distorting measures.
- Deepening trade disputes concerning the role of state subsidies, national security considerations, and intellectual-property rights solidified views among many that non-market economies should not be part of the formal multilateral trading system without implementing domestic reforms.
- Expanding advanced economy trade in services—particularly digital services—shone a spotlight on the growing importance of non-tariff barriers, such as regulatory standards, as the next frontier for trade liberalization.
- Unable to reach consensus, advanced economies accelerated their efforts to conclude bilateral and regional trade agreements that create a patchwork of potentially conflicting standards.
- Deepening grassroots opposition to global trade across a range of issues (especially climate change, labor standards, and dispute resolution) created additional incentives for governments to focus on local or regional priorities, raising fears of economic fragmentation.

And then the pandemic hit, shattering supply chains and triggering major trade-restrictive measures, such as export bans on personal protective equipment and medicines.

The transatlantic community should seize the opportunity to lead by accelerating the evolution of the multilateral trading system in four ways.

1. **Accelerate Supply-Chain Digitization**: Cross-border services and the digital economy are quickly replacing goods as the largest component of trade among advanced economies, particularly the transatlantic economy. Often, digital services generate downstream needs for physical services (e.g., online orders require physical goods delivery). Companies moving quickly to the innovation frontier require more effective and efficient mechanisms to support their cross-border businesses. The trading system must keep pace with innovation to continue delivering value.

2. **Accelerate Supply-Chain Diversification**: Increasing the number of suppliers accomplishes more than geopolitical insulation. It distributes business relationships, revenue, and economic growth among a broader range of companies and countries. With more entities participating constructively in the global supply chain, the number of stakeholders in the system increases and counterbalances critics seeking more radical approaches to address distributional effects.

3. **Standards Interoperability**: Increasingly, conflicting regulatory standards compromise cross-border trade. Even when different regulatory standards exist for good reasons in one jurisdiction, their impact can have a chilling effect on cross-border business. For the last few decades, policymakers have struggled to address this issue. Efforts to spark harmonization based on best practices have given way to equivalence determinations, which are prone to political influence. A more constructive and effective approach is possible by focusing on interoperability as a priority.

4. **Constructive Engagement with China**: Europe and the United States share strategic interests with respect to China. In the trade policy context, the highest priority issues involve key 21st century economic issues (e.g., data privacy and intellectual property protection) as well as policies regarding state-owned companies and government subsidies. Neither direct conflict (the most recent U.S. strategy) nor endless diplomatic engagements (the European preference) have incentivized policy shifts in Beijing. Transatlantic teamwork concerning discrete issues could generate more traction than the current independent efforts.

These recommendations work with the grain of existing macro trends. By amplifying initiatives that are already working well and concretely addressing underperforming elements, these recommendations can increase support for the multilateral trading system by unlocking economic growth. They do not require WTO reform to be implemented. But, they can help build support structures for a reimagined WTO when policymakers have completed their reform initiatives.
II. Background: Bretton Woods, COVID-19, and the Digital Economy

If the global trading system is to survive the twin challenges presented by technology and COVID-19, it must evolve. The original multilateral trading framework was built to serve a twentieth-century economy dominated by physical goods. In the closing days of World War II, economic leaders from economies around the world mostly represented command-and-control wartime economies whose commitment to free markets was, at best, aspirational. Their commitment to free-trade concepts centered on creating interdependent cross-border economies with incentive structures that would constrain public policy choices aimed at warfare.

In twenty-first-century lingo, they created an interoperable global economy to deliver growth from individuals in businesses that serve customers around the world.

Transatlantic leaders today face a different historical moment. However, their challenge is no less daunting.

Policymakers across Europe and the United States must identify mechanisms to foster cross-border free trade in a twenty-first-century economy increasingly dominated by intangible intellectual property communicated across borders at the speed of light, without undermining the considerable amount of value crossing borders daily through physical goods transported by a range of carriers.

A. Bretton Woods: History and Concepts

Policymakers assembled at Mount Washington, New Hampshire, believed that the political extremism that drove World War II at its core represented a reaction to extreme economic deprivation following the harsh terms that the Treaty of Versailles extracted from Germany after World War I. They were not idealists. They had no illusion that elected governments could remain impartial as economic swings distributed gains and losses unevenly. They knew elected politicians would be pressured domestically to protect local workers and industries from international competition.

Rather than prohibit political pressures, the Bretton Woods structure sought merely to constrain specific national policies that excessively distorted trade.

- **Tariffs:** Tariffs were not prohibited, but would be subject to negotiation. Multilateral tariff negotiations were designed to share the benefit of decreased tariffs evenly across the full membership.
- **Subsidies:** Subsidies were not prohibited. Only those subsidies that distort cross-border trade were prohibited.
- **Currency Manipulation:** Currency manipulation was not prohibited. Only currency manipulation for the purpose of creating a trade benefit was prohibited (in order to avoid distortions in purchasing and pricing-power dynamics).

Bretton Woods architects created institutional frameworks to support the evolution of an interdependent economy² based on three mutually reinforcing pillars.

1. **Reconstruction:** Post-war reconstruction was funded by the victors. The World Bank’s International Bank for Reconstruction and Development (IBRD) ultimately set the standard for development finance globally.

2. **Emergency Liquidity Assistance:** The International Monetary Fund (IMF) was established to pool government resources at the global level to alleviate short-term liquidity and financial stability stresses due to balance-of-payments difficulties. The IMF itself was structured to promote cross-border trade by expressly prohibiting currency manipulation for the purpose of achieving a trade advantage. (Other forms of currency manipulation and capital controls are permitted.)

3. **Trade:** At the risk of oversimplification, the multilateral trade framework over the last seventy-five years has sought to eliminate restrictions on imports, notably by constraining state subsidies and providing market access to all other members on an equiva-
lent basis through national treatment (governments must treat foreign and domestic suppliers equivalently under the law), most-favored-nation status (all trading partners benefit from trade liberalization granted under the WTO umbrella), and restrictions on state subsidies. The 1947 Agreement on Tariffs and Trade (GATT) focused on decreasing tariff rates on physical goods. The 1986 General Agreement on Trade in Services (GATS) translated the main trade policy standards into a framework meaningful for trade in services. These informal arrangements were formalized into an international organization (the WTO) through the Marrakesh Agreement after the Cold War in 1994 with parallel negotiations, and ultimately standards, concerning non-tariff barriers, as well as an adjudication mechanism.

These foundational elements help explain why the WTO could not be created during the Cold War. To be global in reach, participating governments were required to commit to limits on state-sponsored economic activity and western liberal democratic principles, which would be inconsistent with the communist ideology upon which the Soviet Union and its Comecon ecosystem relied. In addition, some scholars note that the United States Congress in 1950 refused to ratify the Havana Charter outline for an International Trade Organization on the grounds that it would interfere excessively with the domestic American economy. Informal multilateral trade negotiations whose agreements were subject to Congressional ratification became the norm until after the Cold War ended.

China’s accession to the WTO at the turn of the 21st century was, thus, controversial from the beginning. Its efforts to create “a market economy with Chinese characteristics” delivered deep economic interdependence with advanced economies, without completely adopting market-based economic models internally. The failure to implement market reforms regarding the role of state subsidies in state-owned enterprises and the country’s views on intellectual-property protections—not to mention domestic labor market reforms regarding the role of state subsidies in state-owned enterprises and the country’s views on intellectual-property protections—not to mention domestic labor standards—have generated increasingly strong political protests outside China, as well as tariffs.

The twenty-first century has so far delivered mixed results for the Bretton Woods structure. Growth in world trade volumes has outpaced gross domestic product (GDP) growth over the last seventy-five years, delivering significant economic growth globally. And yet, the consensus supporting the global trading system has frayed for multiple reasons.

- The benefits of globalization have been distributed unevenly. The dispersion increases significantly within the services context, since effective delivery and competitiveness gains in most services sectors require levels of education and infrastructure often lacking outside advanced economies.
- Permitting the largest non-market economy (China) to enter the WTO system has failed to deliver the kind of economic and political liberalization many had hoped at the start of this century. In fact, as the Center for Strategic and International Studies recently noted, “China has altered its policy mix in ways that inimical to market economies and the liberal international order they have built.”
- Deeper cuts in agriculture subsidies, and identifying how best to address state-owned companies, have been difficult to achieve this century, even without China’s engagement. Many market economies currently provide substantial price and production supports across multiple sectors for a range of historical, cultural, and strategic reasons. As noted below, official sector-support programs are growing exponentially in the COVID-19 era.
- Without a geopolitical imperative like the Cold War to buttress its structure and incentivize compromise, and with a non-market economy reaping many lopsided benefits, a significant backlash has been building for more than twenty years since the 1999 riots in Seattle.

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5 “Based on derestricted US internal communications from that time, Prof. Thomas W. Zeiler concluded that it was national security officials, and not trade experts, who made the ultimate call. According to him, Robert Lovett successfully convinced President Truman that a “thin agreement” that would preserve international trade co-operation was instrumental to US foreign economic and security policy. As weak as it was, a General Agreement was “better than none.”


B. The Services and Digital Economy Challenge

At the same time, rapid technological innovation has transformed developed economies. The majority of trade (in terms of value) among developed economies now occurs through services, rather than through goods crossing borders. The 2019 World Trade Report indicated that trade in services grew 5.4 percent annually from 2005 to 2017, consistently exceeding the growth rate for trade in goods, which measured only 4.6 percent. By 2017, total trade in services constituted $13.3 trillion spread across multiple sectors. As Figure B.2 from the 2019 World Trade Report (reproduced below) indicates, three of the top five services sector involve people or goods crossing borders (distribution, transport, and tourism). Financial services and telecommunications constitute the remaining segments of the top five cross-border services:

Cross-border trade in certain services (e.g., financial services, distribution, research, education) seems likely to increase substantially, due to broader pandemic-era shifts in working methods. Because most services are intangible, the principal means by which governments restrict trade involve non-tariff barriers (NTBs) in the form of government regulations designed to protect the health, safety, and welfare of a nation. Restrictions on international trade may not even be the principal target. But, when

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Figure B.2: Distribution and financial services are the most traded services

World trade in commercial services by sector, 2005 and 2017

Source: WTO estimates (2019).
Note: World trade is calculated as the average of world exports and world imports.
national standards inhibit the ability of foreign suppliers to meet domestic demand, exporters will be quick to characterize national standards as impermissible (or, at least, undesirable) NTBs or as geopolitical power plays. For example, China’s food-safety standards are increasingly viewed by a growing number of governments as impermissible NTBs used by Beijing to exert economic pressure on trading partners.\textsuperscript{12}

NTBs represent a more challenging target for trade liberalization than tariffs, because regulatory standards reflect national normative standards responsive to priorities important to domestic constituencies. In nations where leadership is chosen through open election, regulatory choices can play a material role in determining election outcomes.

Liberalization initiatives targeting NTBs require policymakers to compromise preferred national standards in order to facilitate the cross-border provision of services. Few sovereigns will willingly adopt foreign standards domestically. Consequently, the trade-negotiation process requires policymakers to identify minimum common, harmonized, or mutually recognized standards. When enshrined in a free-trade agreement, those standards require that national laws and regulations change in order to meet international treaty obligations.

National-level suppliers faced with increased international competition can quickly become very unhappy voters. Populists across the political spectrum have raised concerns regarding such cross-border harmonization alongside parallel challenges to WTO adjudication of trade disputes. In both situations, their fundamental complaint is that new standards are being created without deference to national democratic processes.\textsuperscript{13}

Adding electronic-commerce and digital-economy issues to the discussion only intensifies the potential conflict between national rules and treaty


\textsuperscript{13} “This suggestion that the Constitution of the United States affords interchangeable procedures for effecting international agreements meets, it must be admitted, with a resistance that is difficult to understand in view of the historical record and of this nation’s traditional preference for democracy...The chief resistance comes, however, from those who explicitly favor minority control of foreign affairs because they fear what majority control may be able to achieve in an integrated, responsible foreign policy...At other times, the theme is, more bluntly, that there are special minority interests in the country that must be given a delusive protection however much the interests of the whole nation, including the long-term interests of all its minorities, may suffer.” Myres S. McDougal and Asher Lans, Treaties and Congressional-Executive or Presidential Agreements: Interchangeable Instruments of National Policy (1945) reprinted in Jackson et. al., “Legal Problems of International Economic Relations.”
commitments for two reasons. First, the digital economy and next-generation computing mechanisms, such as machine learning and artificial intelligence, critically depend on access to large amounts of data. Without the ability to aggregate data from multiple sources across borders, the effectiveness of predictive-analytics tools may degrade. Second, and relatedly, the boundary between data privacy and corporate large-scale data aggregation remains contentious. The patchwork of incomplete treaty obligations does not provide an easy way forward.

International treaty obligations concerning trade in services currently apply pursuant to the General Agreement on Trade in Services (GATS). Its basic principles mirror those first established under the General Agreement on Tariffs and Trade (GATT). However, the GATS agreement has not been updated since it was first promulgated. Consequently, it fails to address a variety of issues raised by the digital economy. For example, the GATS fails to address data localization, mobile payments, and privacy protections.

Trade officials are aware of the gaps regarding the digital economy. Since 2013, WTO members have been negotiating a broad Trade in Services Agreement (TiSA) which seeks to set liberalization commitments for the services sector. Early economic estimates from the European Commission indicated that low- and middle-income countries would receive a material benefit from the Trade in Services Agreement (TiSA) in the form of a 5.8-percent decrease in services trade costs. By contrast, Organisation for Economic Co-operation and Development (OECD) countries would only receive a 3.4-percent decrease. National regulatory differences continue to hamper efforts to reach agreement on TiSA, despite its potential growth benefits. Over twenty rounds of negotiation yielded a cumbersome structure (4 parts, seven sectoral annexes). The last formal round of negotiations concluded in 2013 with no agreement.

The result has been a proliferation of bilateral and sector-specific plurilateral agreements as the three largest negotiating parties (China, the European Union, and the United States) race to create trade agreements that reflect their individual policy priorities regarding issues on which no international consensus yet exists (e.g., data flows, data localization, privacy policy, access to source codes, tax liabilities, Internet access, and censorship). For example:

- Over the last twenty years, the United States has concluded twelve bilateral free-trade agreements that insulate digital trade from customs duties and apply non-discrimination principles directly to digital products.
- The European Union, in contrast, made clear during the 2016 Trade in Services Agreement negotiations that treaty provisions regarding the free flow of data would need to accommodate—and apply—European regulatory standards regarding data protection and data privacy.
- More recently, the United Kingdom’s bilateral trade agreement with Japan expressly incorporates provisions that facilitate free data flows and combat data localization while endorsing net neutrality, source-code protections, and mutual recognition of professional certifications. The trade agreement is buttressed by a parallel commitment to conduct a regulatory dialogue for the purpose of minimizing regulatory conflicts and maximizing opportunities for regulatory alignment.

A separate set of WTO negotiations in 2019 (the “Osaka Track”) sought to craft standalone standards regarding e-commerce. These talks have also founedered due to lack of agreement regarding regulatory standards applicable to the digital economy. The most recent negotiating session (on November 18, 2020) failed to generate a consolidated text, despite progress concerning online consumer protection, electronic signatures, and spam.

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18 “Trade in Services Agreement (TiSA) Factsheet.”
Policymakers no longer have the luxury of time to reach a way forward. As a recent Atlantic Council report noted, breakthrough technologies are re-shaping global value chains: “emerging digital technologies, such as artificial intelligence and the Internet of Things, make manufacturing processes more service intensive. In some cases, these same technologies are already blurring the distinction between goods and services altogether, as the services component of traditionally tangible goods grows in importance.”

C. COVID-19

The pandemic thus arrived at a most inopportune moment for the global trading system. Export bans regarding personal protective equipment and medicines in China and India quickly escalated to encompass more than sixty countries before the first quarter of 2020 had closed. All advanced economies instituted lockdown procedures, sending trade flows down dramatically. National enforcement of phytosanitary standards (SPS) further slowed trade. Initial reports indicated that crews on ocean shipping vessels would not be permitted to leave their ships at ports.

The export bans shone a spotlight on the success—and failure—of the Bretton Woods system. It is true that the global economy had become deeply interdependent…but it had also become highly concentrated. A handful of countries manufacture and deliver the majority of significant goods that previously had not been considered strategically significant from a national security perspective: personal protective equipment and pharmaceuticals. Economic sectors supporting cross-border trade such as aviation and logistics experienced dramatic drops in business volume as national lockdowns triggered simultaneous supply and demand shocks.

Extensive and necessary government fiscal and monetary policy actions to combat the economic consequences of the pandemic create additional, more subtle challenges for

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the multilateral trading system. Fiscal and monetary policy actions designed to cushion the blow of pandemic-related lockdowns create unprecedented levels of subsidy support for all companies across the globe.\(^23\) The initiatives include

- direct grants, loans, and tax credits;
- payroll subsidies;
- tax deferrals;
- direct purchases of corporate bonds;
- state aid rules that have been relaxed or suspended in Europe through 2021; and
- significant relaxations of regulatory capital rules applicable to banks.

These initiatives in Europe have applied at both the member-state and EU levels.\(^24\) Most are expected to continue through at least 2021; the EU support programs will last through 2022–2023. The scale of fiscal policy support for the economy across the Group of Twenty (G20) during the first half of 2020 alone is staggering, as noted in the chart published by the Atlantic Council earlier this year.\(^25\)

Monetary policy support by the United States, the European Union, Japan, the United Kingdom, and Canada, in many ways, dwarf the fiscal spending.\(^26\) Recent data illustrates the magnitude of central-bank support for the economy globally, which far exceeds support provided during the Great Financial Crisis of 2008-2012 as shown in Graph 5.1 from the Financial Stability Board’s most recent review of the pandemic-response landscape.\(^27\)

The scale of central-bank support becomes clearer when the data are disaggregated by type of policy measure. Central-bank asset purchases (tradeable securities, including private and sovereign bonds) constitute the majority of the expenditures so far as illustrated in the Financial


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Stability Board’s Graph 5.3 below. Under ordinary circumstances, these measures could be expected to generate trade litigation. These are not ordinary circumstances.

Many policy moves were made nearly simultaneously over a period of ten weeks, from March to May 2020. Most were designed to last a few months; nearly all have been renewed. None seem to have been coordinated across borders in advance, but the initiatives were broadly consistent with each other. Few would have recommended waiting for international consensus given the urgency of the situation. Incentives were aligned at the start of the crisis, increasing the cross-border comity concerning competition and trade implications of the economic-support packages.

Shared interests may not remain so aligned as the pandemic stretches into 2021, when many of the economic support systems are scheduled to expire. Profound differences in economic structure will pair with differences in infection rates and the scope of pandemic-related healthcare policies to generate different kinds of competitive advantages. Not all sovereigns will renew pandemic fiscal and monetary support structures, potentially deepening economic divergences regarding state aid disciplines. Preferences for pandemic spending may also generate spillovers into trade policy beyond the obvious subsidies issues. For example, European policymakers increasingly articulate pandemic-era industrial policy frameworks favoring investments and grants that accelerate transition to a zero-carbon economy, while cutting back (and ultimately eliminating) support for carbon-based companies. The European Commission has also recently made it easier for stakeholders to file complaints alleging that sustainable-development commitments within EU free-trade agreements have been abrogated.

D. The 2020 Trade Policy Landscape

When policymakers begin to withdraw pandemic-related economic-support structures, competitiveness concerns will create incentives to file trade litigation against economies still clinging to generous subsidies regimes. It is unclear when the pandemic might wane, which means it remains unclear when economic normalization might begin. But, policymakers at the Financial Stability Board are sufficiently concerned about the potential for different rates of exit that they have already initiated cross-border
discussions “to prepare for an orderly unwinding of support measures, once appropriate, to seek to avoid any unintended effects across sectors and jurisdictions.”

As 2020 draws to close, however, the Bretton Woods system has shown remarkable resilience. The worst fears associated with trade wars and supply shortages have failed to materialize. Consider the time-series data regarding policymaker references to trade wars in the chart below.

The number of references to the term “trade war” plummeted with the negotiation of the Phase One US/China trade deal during autumn 2019. Action levels—which were low in terms of volume during 2019—effectively ceased after the pandemic took hold in early 2020. This outcome is intuitive: policymakers on the whole care more about addressing the pandemic, rendering aggressive trade policy action undesirable and counterproductive in the near term.

Not only have policymakers stopped threatening trade-war activity, but many have decreased tariffs and other trade barriers for the purpose of keeping essential goods flowing across borders. Key initiatives include the following.

- A joint statement by seven trade ministers (Australia, Brunei, Canada, Chile, Myanmar, New Zealand, Singapore) affirmed “the importance of refraining from the imposition of export controls or tariffs and non-tariff barriers and of removing any existing trade restrictive measures on essential goods, especially medical supplies, at this time.”

- The European Union retroactively waived import tariffs as well as value-added taxes regarding medical equipment and personal protective equipment for six months, covering the first half of 2020. It indicated that the waivers would likely be extended at mid-year.

- The United Kingdom similarly waived import tariffs for six months.

- The United States exempted key healthcare equipment (e.g., ventilators, nebulizers, MRI devices, digital clinical thermometers) from Section 301 tariffs directed at China.

- Media reports following the recently concluded Group of Twenty summit indicate that the Ottawa Group may submit a formal proposal in December 2020 to the WTO to eliminate pandemic-era export bans entirely.

Dropping tariffs to zero is not merely a pandemic-era policy effort to stimulate economic growth. Prior to the pandemic, the United Kingdom in early 2019 was preparing for a no-deal Brexit outcome, in part, by planning to implement a
0-percent tariff on 87 percent of its imports in order to cushion the economic blow associated with departure from the European Union.36

Trade data provide additional grounds for optimism, despite a stunning one-year drop in trade flows due to the pandemic. Supply chains may be shattered in general, but trade has not stopped completely.

The WTO’s World Trade Monitor noted in August 2020 that while overall merchandise trade has plummeted during the 2020 pandemic, export orders, electronic components, and agricultural raw materials “have held up relatively well” so far.37 Services have fared better, with container shipping, construction, global services, and financial services demonstrating resilience while transportation and tourism have borne the brunt of the pandemic.38 The WTO’s Trade Monitor in November 2020 indicates that, in the end, the majority (63 percent) of all COVID-related trade measures were actually trade facilitating in nature; the minority (37 percent) restricted trade mostly through export bans.39

The pandemic may even generate some underappreciated benefits for an ailing and aging multilateral trading system.

Four specific developments generate benefits for the global trading system.

1. **New Support For Trade:** In 2019, Canada led an effort to create the “Ottawa Group” for the purpose of providing pragmatic recommendations on how to reform the WTO.40 In response to the pandemic, the group pivoted in June 2020 to focus on concrete measures for supporting world trade.41

The initiative seems to have succeeded. By the July ministerial meeting of the G20 Finance Ministers and Central Bank Governors, detailed statistics—as well as some progress—were already available. Specifically, 36 percent of all trade-restrictive measures imposed in response to COVID-19 (mostly export bans) had been repealed by mid-May. Moreover, the majority of trade-related measures reported to the WTO by mid-May sought to facilitate trade by, for example, temporarily creating zero tariffs for medical equipment.42

By September 2020, the WTO’s deputy director general indicated that “global trade in products such as personal protective equipment, hand sanitizers and ventilators grew by close to 30% in the first half of the year compared to 2019.”43

2. **Supply-Chain Diversification = Increased Trade Volumes:**

The abrupt standstill in cross-border trade in goods during the first half of 2020 underscored to importers, as well as sovereigns, the importance of diversifying their supply-chain sourcing relationships. The WTO deputy director general has acknowledged that “being unable to rely on international markets, has injected new urgency into the debate over on-shoring and near-shoring supply chains.”44 This is an understatement.

Advanced economies globally—and their citizens—have expressed deep concern about the level of dependence on single-source foreign suppliers who can supply as much as 80 percent or 90 percent of domestic needs. The pressure to find alternative suppliers is large and growing, feeding a deepening political commitment to deliver diversification.

Traditional trade policy multilateralists view this development as generating centrifugal forces that undermine the WTO and the Bretton Woods system. It is true that political rhetoric promoting a “Make America Great Again” slogan or the momentum building behind “an ambitious European industrial policy” pose risks of...
counterproductive sovereign competition. But, they also create the prospect for trade diversification to increase trade flows by involving a larger number of exporters in the supply chain.

The resulting increase in revenues for smaller companies not traditional involved in cross-border trade can, at scale, begin to offset pandemic-related economic downturns and generate organic growth. Politically, a larger number of companies seeing revenue growth from export earnings potentially creates a deeper support base for international trade.

3. Connectivity: People and ideas are crossing borders and interacting at high frequency through ICT. The COVID-19 pandemic has famously turned videoconferencing into an essential productivity tool. An underappreciated consequence of this development is that the need for time and financial cost to travel abroad for a business meeting has decreased to the point of being almost negligible.

A growing volume of cross-border connectivity creates expectations about the ease with which services, in particular, should be able to cross borders. Easy connectivity today makes traditional trade frictions that much harder to accept.

4. A deeper transatlantic relationship supported by a formalized process. Finally, the pandemic has galvanized the transatlantic relationship. The United States in June 2020 finally accepted the 2011 European Union offer to create a US–EU Strategic Dialogue on China. By October 1, 2020, the United States and the EU were issuing a joint statement regarding shared commitments concerning fifth-generation (5G) technology and standards.

These developments, taken together, provide the components for a strategic shift in the global trading system. Policymakers working together pragmatically to address shared challenges can serve as catalysts for the evolution of the Bretton Woods system, in parallel with longer-term WTO reform initiatives.

The path toward normalization will not be linear amid the COVID-19 pandemic. While certain portions of the services sector globally are certain to experience crushing blows (e.g., personal services, travel and tourism, taxis/ride sharing), individuals and companies involved in the knowledge economy are poised to reap significant revenue gains. The potential for growth-enhancing innovation also exists as an increasingly distributed workforce demands expanded productivity tools.

Insight and innovation do not respect national boundaries. The knowledge economy is necessarily an international one at every level. The cross-border provision of services is not merely a retail app-economy phenomenon. New value chains are being created from distributed workforces that see professionals collaborating on projects across time zones (and geographic boundaries). The scientific collaboration necessary to develop a vaccine and more effective ways to test, track, and contain virus outbreaks is also a deeply cross-border collaborative activity, which implies, in parallel, a vast amount of data crossing borders at the speed of light.

Delivering expanded access to economic opportunity in this context requires transatlantic policymakers to advance the ball quickly on a new approach to trade policy.

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45 “The EU must pursue an ambitious European industrial policy to make its industry more sustainable, more green, more competitive globally and more resilient. The European Council invites the Commission to identify strategic dependencies, particularly in the most sensitive industrial ecosystems such as for health, and to propose measures to reduce these dependencies, including by diversifying production and supply chains, ensuring strategic stockpiling, as well as fostering production and investment in Europe.” “European Council Conclusions 1-2 October 2020.” European Council, October 2, 2020, https://www.consilium.europa.eu/en/press/press-releases/2020/10/02/european-council-conclusions-1-2-october-2020/.

46 “This does not mean, however, that we want to produce everything in Europe. Our resources are large and diversified, but they are not sufficient to cover all our needs. That is why we want to forge major partnerships with third countries, such as Canada and Australia, and better integrate interested African countries into European value chains and to develop their economies.” “Speech by Commissioner Breton at the Launch of the European Raw Materials Alliance,” European Commission, September 29, 2020, https://ec.europa.eu/commission/presscorner/detail/en/speech_20_1776.

47 “…the United States has accepted High Representative Borrell’s proposal to create a U.S.-EU Dialogue on China—I’m excited about this—a new mechanism for discussing the concerns we have about the threat China poses to the West and our shared democratic ideals.” Mike Pompeo, “A New Transatlantic Dialogue,” US Department of State, June 20, 2020, https://www.state.gov/a-new-transatlantic-dialogue/.

III. Near-Term Policy Priorities

Leadership from the transatlantic community can serve the next generation well by providing a foundation for free trade in the services that matter to the twenty-first-century economy. However, rebuilding and expanding support for global trade will not be easy. Recent experiences, from the aircraft-subsidies dispute to the failed Transatlantic Trade and Investment Partnership (TTIP) talks, deliver cautionary tales about the risks of excessively large strategic vision and massive trade agreements.

A constructive approach during the pandemic era requires policymakers to choose achievable goals that can deliver immediate results to pandemic-hit economies. Policymakers in Europe and Washington may be tempted to craft creative agreements quickly, in order to maximize forward momentum. However, the lesson of the last twelve years in the United States indicates that pushing agendas without domestic compromise is polarizing and counterproductive.

European leaders must recognize that the politics of trade have changed deeply in the United States. The US electorate remains deeply divided. Congressional results have been retrograde for the Democratic Party, implying that more progressive trade policy priorities may face stiff challenges. Support for free trade within the Democratic Party has decreased significantly over the last ten years. Populist support for President Trump’s pugnacious managed trade agenda is likely to continue making it difficult for even free-trade Republican Members of Congress to support significant new trade liberalization efforts with transatlantic allies.

If the Republicans hold the Senate following the Georgia run-off election, a Biden White House will face the same challenge President Obama faced: difficulty moving forward with binding treaty commitments, particularly if those treaties include commitments concerning a top European policy agenda: climate change. Efforts to move quickly regarding a trade agreement could backfire and intensify antipathy toward multilateral solutions within the US Congress.

An incoming Biden administration, for its part, must recognize that the pandemic and Brexit simultaneously have galvanized support for industrial policy and the European project across the EU. This means that European leaders will be less willing to compromise on high-profile regulatory policy issues than they were during the TTIP discussions. In addition, EU leaders have identified strategic priorities to be
Choose Achievable Goals

It is crucial at this juncture that policymakers focus on identifying achievable goals. As former Assistant United States Trade Representative Mark Linscott noted with respect to South Asia, “With so much attention focused on large-scale strategic interests, such as confrontation with China, the small-scale matters that can actually both bolster strategic partnerships and advance US commercial interests may be sidelined.”

Solid incremental progress on individual issues can provide a framework for further agreement in the future. Ironically, the fractured appellate process at the WTO may provide transatlantic leaders with an opportunity to forge a new direction on trade policy.

Trade policy experience in the last twelve years makes this objective difficult to achieve.

Case Study: Subsidies Litigation

Throughout 2020, jurists at the WTO delivered a string of rulings regarding aircraft-manufacturing subsidies. The WTO has authorized both the EU and the United States to impose tariffs against each other for state subsidies benefiting major aircraft manufacturers. This subsides saga was decades in the making.

The situation creates multiple ironies and contradictions.

- A US administration that has railed publicly against multilateral institutions will now be enforcing a multilateral judicial decision.
- The European Union, which has long railed publicly in support of multilateral institutions, now calls for the judgment to be set aside in favor of a negotiated bilateral solution.
- A WTO ruling (which is supposed to safeguard level playing fields and free trade) is likely to trigger increased tariffs in the transatlantic economy.
- The European Union, which won its most recent adjudication regarding Boeing subsidies, must now reluctantly impose tariffs just as a new government forms in the United States, with which it hopes to create a more productive relationship.

Continuing the dynamic into a new era will only exacerbate trade tensions at a point in time when policymakers must build bridges to minimize the economic fallout from the pandemic.

Rather than cling to outmoded processes that prioritize grand bargains (“nothing is agreed until everything is agreed”) or implement WTO-legal tariffs that exacerbate trade tensions while imposing costs on COVID-compromised economies, trade negotiators should instead seek out individual issues where agreement is possible and real economic gains can be delivered quickly.

It has never been more important for trade policy to provide a framework for economic growth that benefits individual workers and small companies, in addition to large companies. The gains and losses from the pandemic are not evenly distributed. They create a barbell economy in which some companies (particularly technology-powered companies, including enterprises that can sell goods over the Internet, home-improvement companies, and transportation companies that deliver those goods to individuals with the ability to stay home) thrive while other companies (hospitality, tourism, restaurants, personal services, shopping malls, sports arenas, and the arts) suffer.

Well-crafted trade policies can increase growth prospects for a larger number of firms by making it easier to export services as well as goods. The pandemic increases the speed with which the economy as a whole pivots toward digitization. On the demand side, companies and consumers are responding to the shifting geopolitical and pandemic environment by reconsidering their reliance on far-flung supply networks that turn out to be far more concentrated than anticipated. Risk-management priorities, as well as political pressure, create concrete incentives for survival strategies that include contracting with a larger number of suppliers.
Not all of those suppliers will be closer to home. For many companies, supply chain diversification delivers a survival strategy that increases their reliance on transportation and other logistics services.

The global trading system can demonstrate concrete value right now by making it easier for companies to reach customers and suppliers around the world. Nimble, pragmatic initiatives today will ease the economic strain of the pandemic while potentially building a new base of support for cross-border economic activity.

**Case Study: Transatlantic Trade and Investment Partnership**

Transatlantic trade policy has, for decades, repeated the same mantra: that shared interests and values create the foundation for economic cooperation. The challenge, however, is that European and US interests are increasingly diverging.

The twenty-first century is ushering in an increasingly polarized “Distributed Age.”\(^{52}\) Technological advances make it possible for individuals to challenge centralized structures, from banking (through blockchain-powered self-executing contracts and privately issued currency) to government to international development. Funded by investors or donors rather than tax revenue, often focused on individual issues, and organized at scale across borders through social media, modern individual-issue groups are far more effective than their predecessors in placing real political constraints on the official sector.

It is no longer sufficient for transatlantic trade officials to believe that shared commitments concerning Western liberal values will be sufficient to incentivize compromise concerning key regulatory policy issues important to local voters. Consider the recent failure of the TTIP, which provides an object lesson regarding how hard it can be for even close allies to compromise on regulatory policy.

During the TTIP negotiations, hopes in Europe ran high that the Barack Obama administration would agree to a long list of regulatory and legal items in the TTIP, merely for the purpose of creating binding treaty commitments concerning environmental, social, and labor policies. Trade policy officials in Washington also miscalculated. They believed that the EuroArea sovereign debt crisis and the growing threat from Russia would compel EU officials to make concessions concerning other regulatory standards, such as those applicable to genetically modified organisms.

Those optimistic about the potential resurgence of multilateralism under a Biden administration should review carefully the rise and fall of the TTIP talks during the Obama administration. The reality is that high-level shared support for multilateralism and climate-change priorities is neither

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necessary nor sufficient to support tangible progress on trade policy among advanced economy sovereigns seeking to set global standards for the digital age. Divergence need not be the “new normal” if policymakers instead seek to set achievable goals.

**How to Choose Achievable Goals**

A mature transatlantic relationship should instead start with the understanding that interests and priorities will likely diverge. 53 Deeply divided and polarized electorates in Europe and the United States, in the near term, seem likely to constrain policy choices even when individual policymakers may personally agree on a preferred way forward. When ratification is required, pragmatic solutions must be found. Policymakers may agree on a high-level principle, but their ability to craft a detailed standard or agreement could be constrained by local regulatory processes.

Trade negotiators seeking to compel compromise often assert that “nothing is agreed until everything is agreed.” The large role played by national regulatory processes makes it difficult, if not impossible, for trade negotiators to strike binding agreements that implicate regulatory changes. Positioning transatlantic trade discussions for success thus requires choosing achievable goals, in which both high-level policy priorities converge with the opportunity to create immediate gains in economic growth.

Policymakers should pursue achievable goals in the following areas.

- **Rebuilding and Reimagining Global Supply Chains:** An accelerating digital economy will not eliminate the need for physical goods to cross borders. Amid the pandemic, transatlantic policymakers can, and should, increase efforts to sanitize and digitize supply-chain processes. Initial efforts under way at present need to be accelerated, in order to decrease inefficiencies and enhance value creation for all participants in the trading system in the near term. Progress regarding these regulatory issues can illustrate the value of regulatory policy convergence within the trade context.

- **Interoperability/Regulatory Cooperation:** A services-based economy requires, at a minimum, mechanisms to increase cross-border regulatory cooperation beyond supply-chain sanitation.

Delivering a workable framework to begin discussions concerning regulatory cooperation within the trade policy context would provide a lasting foundation for WTO evolution.

- **Constructive Engagement with China:** Europe and the United States share strategic interests with respect to China. In the trade policy context, the highest priority issues involve key 21st century economic issues (e.g., data privacy and intellectual property protection) as well as policies regarding state-owned companies and government subsidies. Neither direct conflict (the most recent U.S. strategy) nor endless diplomatic engagements (the European preference) have incentivized policy shifts in Beijing. Transatlantic teamwork concerning discrete issues could generate more traction than the current independent efforts.

Many of these initiatives have been under way for years, with limited effect and limited commitment. The pandemic requires policymakers to keep pace with the pivots under way in the economy if officials want trade to be part of the recovery narrative. Specific initiatives to intensify and accelerate constructive engagement in 2021 include:

- **Supply-Chain Digitization:** The first efforts to increase supply-chain digitalization occurred after the Great Financial Crisis. Trade ministers meeting in Bali in December 2013 agreed a Trade Facilitation Agreement to reduce a range of administrative hurdles to trade. The WTO Treaty was amended the following year; the terms went into effect on February 22, 2017. 54

The most recent WTO progress report (February 2020) indicates that 100 percent of advanced economies and 64 percent of developing economies have implemented the trade-facilitation measures. While the decreased costs associated with implementing the agreement (14.3 percent) are notable, in the current context the potentially more valuable components refer to the amount of time saved when importing goods (47 percent) and exporting goods (91 percent). Accelerated implementation in developing economies requires increased investment in technology and training to use the technology. For this reason, eleven nations so far this year have donated or allocated at least 8m Swiss Francs CHF8m to support various trade-facilitation and capacity-building initiatives to increase emerging-market access to global trade. 55

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55 Data compiled from WTO press releases. The nations (in reverse chronological order) are Taiwan, Estonia, Germany, Liechtenstein, the European Union, Canada, Japan, South Korea, the United States, Lithuania, and Austria.
Engagement must go beyond donations for capacity building. Indeed, policymakers in 2020 are increasing their efforts to implement trade-facilitation initiatives, as denoted by the green (action) line in the momentum chart below.

During the second half of 2020, policymakers in major advanced economies have increased the scale of their engagement. Four specific developments stand out.

- **G20 Action Plan**: Released on May 14, at the time of the G20 Trade Ministerial Meeting, the Action Plan in the appendix presents as completed or ongoing actions a laundry list of trade-facilitation initiatives that include implementing the Trade Facilitation Agreement alongside streamlined customs procedures using “electronic documentation and processes, where possible and practical…(and) encourage G20 Digital Ministers to promote the application of online services and e-commerce, in accordance with national laws and regulations, to facilitate the flow of essential goods and services during the pandemic.”

- **ASEAN Strategic Relationships with Japan and UK**: The eleven nations of Southeast Asia have brokered significant engagements with two Group of Seven (G7) nations (Japan and the United Kingdom) to increase trade-facilitation initiatives. In July, Association of Southeast Asian Nations (ASEAN) economy ministers agreed on an Action Plan with Japan’s Ministry of Economy, Trade and Industry (METI) across multiple issues. In the trade-facilitation context, ministers evidenced a laser-like focus on digitizing key components of the trade-facilitation process, particularly certificates of origin. One month later, ASEAN ministers agreed on an economic dialogue with the United Kingdom, which includes plans to launch “a private sector-led regional digital trade connectivity roadmap, complementing the ASEAN Single Window programme and other ASEAN trade facilitation programmes.”

- **United States/Brazil**: Policymakers have spent 2020 negotiating the terms of a bilateral trade-facilitation initiative. The most recent joint statement from the US secretary of commerce and Brazil’s minister of economy (in October 2020) indicates continued progress toward implementing, at a high level, the WTO Trade Facilitation Agreement, as well as bilateral work regarding the “Authorized Economic Operator Joint Workplan” that seeks to ultimately deliver a bilateral mutual-recognition agreement.
OECD to the G20: The OECD recently reported to the G20 in September that its members are exploring “digital tools to streamline border processes, working with the private sector on information sharing on bottleneck, or possible stress tests for supply chains; upstream agreements with firms to reconfigure supply chains; and exploring the creation of stockpiles for certain goods.”60

These are good developments, but they require significant expansion to operate at scale.

B Regulatory Interoperability: National regulatory standards express legitimate sovereign will. Highly integrated economies, connected at the speed of light by technology, raise challenging and legitimate questions about the web of economic relationships that the Bretton Woods Agreements sought to create.

Deep economic integration since the end of the Cold War heightens cross-border spillover effects from national regulatory standards. More people are potentially subject to concrete restrictions from rules articulated by a sovereign half a planet away, and for which they did not vote. Frictions are inevitable.

Standards issues can be difficult to address because they hit at the crucial question of who is authorized to make the rules. In a representative democracy, the answer to this question is easy. We elect leaders to make decisions. They appoint technical experts to sort out the regulatory details on our behalf.

However, the international system is not a democracy. In addition, the international system includes sovereigns that do not share commitments to representative democracy so their path towards rules may cut corners other electorates will find objectionable. Even among democracies, the standards debate is fraught with challenges. High level shared commitments to science-based rules can backfire and create cross-border frictions when science and data do not generate clear-cut answers.

Finally, the balance between normative authority among legislative, regulatory, and executive bodies in a democracy creates deep tensions when executive bodies attempt to forge standards through binding treaty arrangements that by law supersede domestic processes.

Regardless of their motivation, regulatory differences can create NTBs. Policymakers keen to foster economic growth through the trade channel pursue a range of processes to address regulatory differences. These processes have had mixed results.

Policymakers have three options.

- Mutual Recognition: First, they can craft a “mutual-recognition agreement” in order to accept certifications, test results, or professional qualifications issued by the other government. This solution works best in areas where science can deliver a clear answer, and where normative or moral judgments about the outcomes are not involved. Examples include technical specifications for car parts or aviation-safety standards.

- Harmonization/Common Standards: Second, policymakers can craft new standards together to ensure that the same rules apply to all economic actors in the same manner. International policy harmonization can take years to achieve. Implementation is far from assured, particularly if local democratic processes or political polarization prevent national authorities from transposing informal international agreements into binding domestic regulatory requirements.

- Equivalence Determinations: Finally, policymakers can create a gatekeeping function by reviewing foreign laws and rules and only permitting firms access to the local market if the foreign rules are deemed sufficiently similar to the local rules.

Too often, equivalence determinations provide a pretext for geopolitical bargaining. Prioritizing the “right” solution for a specific domestic constituency often comes at the expense of efficiency gains that would improve growth prospects across borders. Emphasizing science-based determinations does little to minimize the sovereign competition when data can be used to support multiple approaches. Most importantly, equivalence determinations can place national policy priorities in conflict with cross-border trade, accentuating grassroots perceptions that economic interdependence is at odds with democracy.

In order to increase economic opportunity for individuals and achieve cross-border interdependence as envisioned by the Bretton Woods Agreements, policymakers should pivot toward interoperability as the foundation for a twenty-first-century trade paradigm.

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In the technology context, “interoperability” refers to the ability to use different devices and software in conjunction with each other. While each device must include capabilities to interact with other systems, complete uniformity is not required. A comparable paradigm should apply in the trade context.

Interoperability is different from regulatory harmonization, because it does not require that the same rules apply. It is also different from equivalence determinations, because it eliminates the need to pass judgement on foreign regulatory processes.

Policymakers seeking achievable goals that can generate solid economic growth amid a pandemic should seriously consider interoperability approaches with respect to cargo and food-safety standards. Legitimate concerns exist regarding how long the COVID-19 virus can survive on hard surfaces during the transportation process. Some research from the Centers for Disease Control and Prevention earlier this year indicated that the virus could survive for up to seventeen days under the right conditions. As a consequence, some port authorities impose two-week quarantines on freight arrivals.

Extending quarantines for shipments, while understandable, is not a sustainable solution. Limited storage space exists on docks and at airports. Agricultural goods can degrade quickly. Airlines will incur additional costs to sanitize their transportation equipment; when passenger activity returns to normal, additional sanitation protocols may be necessary given that aircraft carry both cargo and people. The potential impact on global trade potentially goes far beyond a one-time supply shock.

Policymakers have begun to take action.

- **Group of Seven**: During summer 2020, G7 heads of state and governments announced a set of high-level principles designed to intensify support for intermodal transportation used within international trade. G7 nations specifically expressed an interest in working together to develop “compatible requirements imposed on transportation in response to COVID-19 in order to avoid a global patchwork of health safety measures and to minimize market access barriers and burdens on transportation operators.”

- **European Union**: At a midsummer WTO meeting to discuss phytosanitary standards, the EU’s formal statement underscored the importance of finding common standards for food sanitation: “If individual members insist on additional, unnecessary verification measures, the situation could easily lead to a global spiral toward imposing unjustified import controls in the agri-food chain. This would do nothing to control the current pandemic but will be very harmful to food security, food prices and global trade relations and it will also undermine the trust of the public.”

- **United States**: At the same WTO meeting, the United States raised comparable concerns regarding phytosanitary standards implemented in China, India, Vietnam, and Thailand.

Failure to generate regulatory alignment generates more than just economic inefficiencies and transportation bottlenecks. It also creates a space for reliance on non-tariff barriers for the purpose of exerting geopolitical pressure. For example, during 2020, China has used phytosanitary standards to block agriculture shipments from Australia, Canada, and the United States—coincidentally, at the same time those sovereigns were publicly voicing opposition to Chinese policies regarding state-owned enterprises, Hong Kong security policy, and the treatment of domestic ethnic minorities.

Exporters and transportation providers are caught in the middle. Facing a second wave of the pandemic, they will needlessly incur costs for each week that policymakers fail to find pragmatic compromise. The global economy cannot currently afford for policymakers to press aggressive agendas that have no real prospect of finding consensus.

Implementing interoperability as a priority will require concerted, coordinated action. Progress will take time.

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64 Ibid.

to achieve. Current access to global markets for merchandise trade is the result of persistent efforts since the end of World War II to reduce not just tariffs, but nontariff and behind-the-border barriers. If access to global markets for services trade is to follow the same path, then continuous adaptation of provisions that facilitate services trade, such as intellectual property-rights instruments, must follow.

C Constructive Engagement with China: As noted throughout this paper, European and American interests are more aligned than ever regarding the strategic challenges China presents for the rules-based multilateral order premised on free markets and civil liberties. The issues are not new. But pandemic-related economic stress and supply chain diversification create an inflection point for the global trading system.

As WTO Deputy Director-General Wolff underscored at the end of November 2020, constructive engagement with and by China is needed if the WTO is to evolve to meet the needs of the twenty-first century. While China has arguably benefited the most from its WTO membership, China’s trade-fueled economic growth has generated geo-strategic pressures and centrifugal forces incentivizing efforts for sovereigns to execute a “Pacific Pivot.” That pivot increasingly has taken the form of elaborate plurilateral trade pacts outside the WTO umbrella. The main three pacts are (in chronological order):

- Trans-Pacific Partnership (TPP): President George W. Bush, in his last year in office, initiated the US Pacific Pivot by joining pre-existing TPP talks in 2008. President Barak Obama intensified the pivot, concluding a deal designed to counterbalance Chinese economic influence in Asia. Strong union opposition ensured that the TPP was never ratified. President Donald Trump withdrew from the agreement when he took office.

- Regional Comprehensive Economic Partnership (RCEP): This trade structure represented China’s response to the TPP. While the TPP was actively under negotiation in the United States, the real prospect existed that two massive dueling trade structures would potentially be in conflict in Asia. The TPP’s failure created an opening for RCEP evolution and expansion as an ASEAN-led initiative although most accept that Chinese leadership and engagement are the driving forces behind the agreement.

- Comprehensive and Progressive Trans Pacific Partnership (CPTPP): This agreement constitutes Asia’s trade policy response to the U.S. withdrawal. Provisions and concessions made to the United States between 2008-2016 regarding intellectual property and pharmaceuticals issues were stripped out of the agreement while liberalizing trade in services terms beyond existing WTO standards.

A transatlantic trade relationship that fails to address the important economic and trade policy trends in Asia—and China’s growing influence in the region through both trade and development channels—risks creating counterproductive region-based economic competition. Economic compartmentalization was precisely the kind of dynamic the Bretton Woods architects sought to avoid.

The United States cannot square this circle alone. The recent history from 2008 to the present mean few countries in Asia would welcome efforts by the United States to join their trade pacts since none will want to make significant concessions. Domestically, the Biden administration will not likely look to revive U.S. participation in the CPTPP much less join the RCEP for a different reason. The politics of trade have only become more difficult since the TPP failed to receive Senate ratification during the Obama administration.

More achievable trade policy goals can be found by working together with European allies at the WTO in Geneva. For example, transatlantic leadership that delivers concrete progress on crucial COVID-19 trade policy initiatives will generate immediate economic and health benefits globally while demonstrating the value of cross-border cooperation. American and European interests regarding WTO reform already share alignment.

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66 “President Xi is pledged to multilateralism, as are all the G20 Leaders. They have repeatedly cited the need for WTO reform, as recently as two days ago, but the response has not met expectations...UN Secretary General Guterres has pointed to what he sees as the danger of a ‘great fracture.’ One of the faults lines that he cites is the result of geostrategic tensions. It is said by some trade policy experts that this fault line runs through the WTO.” DDG Wolff: WTO Reform is Both Necessary and Feasible, World Trade Organization, November 24, 2020, https://www.wto.org/english/news_e/news20_e/ddgaw_24nov20_e.htm.


regarding transparency priorities and investment rules, particularly with respect to critical infrastructure.

Two concrete initiatives ideal for transatlantic cooperation may soon present itself. Trade negotiators may soon release a draft e-commerce text. Advancing common standards for this key economic sector based on shared values could create a new foundation for multilateral engagement globally. Separately, the Ottawa Group reportedly will propose to the WTO in September specific trade liberalizations designed to ease the adverse economic impact of the pandemic.70

A series of quick successes concerning discrete issue areas could do more than revitalize confidence in the multilateral trading system. Progress on the initiatives identified above could bolster economic growth for economies hit hard by the pandemic without requiring additional fiscal expenditures. It would also position the WTO to evolve towards standards better suited to addressing the twenty-first-century digital economy. By creating a new pattern of success and cooperation concerning these immediate issues, policymakers could build on a foundation of newly built trust to start tackling more challenging issues, like appellate body reform.

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A woman gets her phone’s QR code of the digital payment services scanned at a food shop, following the coronavirus disease (COVID-19) outbreak, in Shanghai, China October 10, 2020. REUTERS/Aly Song
Conclusion

Transatlantic policymakers have a real opportunity to rebuild and push forward a new trade policy agenda that can deliver economic growth in response to the pandemic. Choosing achievable goals can lay the foundation for a multilateral trading system that is fit to serve the needs of the twenty-first-century digital economy. Transatlantic leadership to find solutions can simultaneously rebuild fractured relationships and provide the foundation for the next generation of cooperation that promotes real and responsible economic growth.
About the Author

Barbara C. Matthews is a nonresident senior fellow with the Atlantic Council’s GeoEconomics Center. Barbara is currently the Founder and CEO of BCMstrategy, Inc., a data company using patented technology to measure public policy risks. She is an accomplished global and transatlantic regulatory policy expert with significant experience in the public and private sectors. Barbara was the first banking adviser and regulatory counsel to the Institute of International Finance (IIF) during the 1990s, until 2004. From 2004 to 2008, Barbara served in senior US government positions both in Washington and in Brussels. In Brussels, Barbara was the first US Treasury Department attaché to the European Union with the US Senate-confirmed diplomatic rank of minister-counselor within the Department of State. From 2008 to 2016, Barbara ran a boutique consultancy providing geopolitical and regulatory policy analysis to a broad range of financial market participants in the United States and Europe and rejoined the firm in 2017.

Barbara holds a JD and an LLM in comparative and international law from Duke Law School. She holds a BSFS, from Georgetown University's School of Foreign Service. She is a member of the New York Bar, the Council on Foreign Relations, the Bretton Woods Committee, and the Cosmos Club. She has been listed in multiple Who’s Who publications for over a decade.

Barbara and her husband live in Virginia with their teenage daughter.