

Open Trade is Essential to Meet COVID-19 Challenges

Interview with Dr. Karl Brauner, Deputy Director-General of the WTO

AmCham Germany spoke with Dr. Karl Brauner, Deputy Director-General of the WTO about the impetus the transatlantic alliance can give in order to stimulate the economy and international trade, the WTO Secretariat trade forecasts and the significance of a reformed WTO dispute settlement mechanism.

Mr. Brauner, the economies of all countries are integrated into global value chains and supply networks, which account for two thirds of world trade. These have been and continue to be severely affected by the effects of the COVID-19 pandemic, as well as by the measures that have been and are being taken to contain it. Global structures have generated many wealth-creating and job-creating effects. This now seems to fade into the background, as a return to national production and value chains for risk avoidance is the order of the day. What impetus can the transatlantic alliance give in order to stimulate the economy?

The best impetus the transatlantic alliance can give is to work together to maintain open markets and ensure that trade flows freely and smoothly. We saw during the initial stages of the COVID-19 pandemic outbreak a move by some countries to close their markets and restrict exports of protective gear and medical supplies. Fortunately, this trend was quickly reversed, with the G20 and other countries jointly committing to keep their markets open. Some 40 WTO members have removed or deferred import duties and taxes on COVID-19-critical medical goods and essential supplies. We have seen a sharp expansion of production and trade to meet unparalleled demand spike, with trade in medical goods growing by nearly 40% in the first half of 2020.

Open trade is essential to meet this challenge, no country is self-sufficient. It is understandable that authorities in some countries are questioning their reliance on a single foreign supplier for essential medical goods and supplies, and we are likely to see global value chains reconfigured in the coming years. This is not necessarily a bad thing. But the idea of reshoring all this production domestically is not only inefficient but would also be very expensive.

The WTO Secretariat forecasts that global trade in goods could fall by 13% to 32% in 2020, depending on assumptions about the length and severity of the pandemic. What plans is the WTO pursuing to overcome this crisis?

Keeping markets open and predictable, and fostering a more favorable business environment, is key. When our economists issued that forecast, there was a large degree of uncertainty around the pandemic's severity and economic impact, and how governments would respond. Fortunately, rapid government responses helped temper the contraction; fiscal and monetary policies were rolled out more quickly and on a larger scale than they were in the 2008-09 financial crisis. And, as mentioned, the initial wave of export restrictions on medical supplies, as well as food commodities, was rolled back. The result is that while trade will fall sharply this year, it will not be near the 32% drop off the cliff scenario we initially feared.

Why is the WTO an essential institution to support the success of the transatlantic economic partnership?

The WTO has been working hard during the crisis to facilitate the exchange of information and improve transparency on measures taken, and outlining the case for keeping trade flowing. This has made it easier for our members to respond and plan accordingly. And the WTO will remain essential for this and other issues because it is the only forum for addressing trade matters that cannot be effectively addressed bilaterally or regionally. Take electronic commerce, it's hard to see how US and European companies can offer their services globally in a world increasingly divided by different rules and regulations on data privacy, data localization and consumer protection.

Trade relations with the United States have been heavily burdened by new tariffs in recent years. The aftermath of the pandemic is putting an additional strain on trade flows. What impetus can Germany, as the so called "Exportweltmeister", give to frame international trade in the future more robust and more resilient?

In the WTO the European Union speaks for the 27 EU members, so Germany's channel for influencing the discussions in Geneva is through Brussels. At a time of increasing trade tensions, we need the EU, with Germany's firm backing, to make the case for a strong and vibrant WTO that can ensure stability and predictability in trade— the two ingredients necessary for a healthy trading system – and that can address current trade challenges such as electronic commerce. This means driving the discussions on WTO reform, which most members agree is now a priority. These talks are likely to cover important issues like fixing the WTO's dispute settlement system, reinvigorating the WTO's negotiating function, and possibly updating rules in areas such as subsidy disciplines. Up until now we've heard a lot of talk about the need to engage on reform but little action; if we're going to have a WTO that is relevant to trade in the 21st Century, not the 20th, we are going to have to get moving on these reform talks.

US-EU tensions on issues such as subsidies for Airbus and Boeing and duties on steel and aluminum imports are irritants in bilateral trade relationship worth more than 600 billion euros a year, but these irritants are being addressed through WTO dispute settlement.

In your opinion, what is the significance of a reformed WTO dispute settlement mechanism at a time when not all international players are committed to multilateralism and trade conflicts pose major challenges for states and what could a reformed WTO look like?

Dispute settlement is a key pillar of the organization, and it is fair to say that many members might feel less motivated to negotiate new or updated trade rules if they have no guarantee these rules can be enforced. Binding dispute settlement was one of the major achievements of the agreement which led to the creation of the WTO. The United States has been the leading critic of the Appellate Body and has blocked the appointment of new "judges" which has rendered it inoperative. This means that, pending a solution, rulings by dispute panels can be appealed "into the void" and dispute cases remain open.

Many members, while recognizing the need for reform, want to maintain a binding, two-tiered system with a functioning Appellate Body. The United States has recently expressed a different view, arguing in favor of a single-stage process without the automatic right of appeal. This is obviously a big change from how we have handled disputes in the past. Nobody knows today what kind of new dispute system, if any, may emerge from the reform discussions, but whatever emerges, it has to secure the confidence and backing of all WTO members, the United States included.

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