Global Economic Governance Through the Lens of Inequality and Sustainable Development

MEETING REPORT FROM IISD WORKSHOP
GENEVA, SWITZERLAND, SEPTEMBER 13, 2019

International Institute for Sustainable Development (IISD)
Economic Law and Policy Program
September 30, 2019

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International Institute for Sustainable Development

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IISD would like to thank the German Ministry for Economic Cooperation and Development for sponsoring this event. The German Ministry for Economic Cooperation and Development does not take any responsibility for the views reflected in this meeting report.

Introduction

IISD organized a one-day workshop on Friday September 13, 2019, in Geneva, Switzerland, on the subject of global economic governance, inequality and sustainability. More specifically, the event was designed to take a "deep dive" into four specific areas within the international trade and investment regimes: market access, electronic commerce, competition policy and industrial policy. The objective was to look at how each area, within the context of the trade and investment regimes, affected income inequality, and to identify governance gaps and opportunities that would need to be addressed if these regimes were reimagined around the objective of achieving the Sustainable Development Goals (SDGs). It was also designed to help identify research gaps, question past assumptions and help lay the groundwork for long-term engagement within this community on these issues—and potentially many more.

The event brought together experts from intergovernmental organizations, non-governmental organizations and academia. Participants joined in their personal capacities, and the meeting was held under Chatham House Rule in order to facilitate an open discussion. The event was dedicated specifically to the aspects of SDG 10 that relate to income inequality, with the acknowledgement that other types of inequality, such as wealth or gender, would need to be addressed in subsequent discussions. The workshop was also couched within the following parameters: while trade and investment regimes may not be the main drivers of income inequality, they do have an influence, which can be positive, negative or a combination of both. Participants were looking to understand what contribution these regimes make to that problem and what can be done in that context to ensure a positive contribution. The results of the meeting are meant to feed into a longer-term program of work, both for IISD and for any other interested participants.

Inequality in Focus: Trends, questions, history

The meeting began with an overarching analysis of the current landscape, both in terms of inequality and in terms of trade rule-making, while also looking to place the latest developments within their historical contexts. The opening session was guided by the following set of questions: Have trade and investment law and policy led to worsened income inequality in the context of issue X?; Have those regimes contributed to reducing that inequality?; and Is there unexploited potential for these regimes to contribute in a more positive way?

Research by the International Monetary Fund (IMF) has documented the harmful effects of income inequality on economic growth (Dabla-Norris et. al., 2015). Looking beyond national-level data, it is important to consider how income inequality ultimately manifests its impacts at the household level, such as how that inequality affects people's abilities to purchase basic foodstuffs and manufactured goods.

When analyzing the landscape of trade rule-making, participants revisited the original purpose of the post-war institutions, and what issues have emerged in the wake of their establishment. The Bretton Woods institutions and the World Trade Organization that underpin the multilateral trading system were both created to address a particular challenge: the need for international cooperation in economic affairs to stave off even the possibility of another world war. The discussion in the introductory session referred back to that history, and whether in the following 75 years the rules and norms that underpin the multilateral system have improved regularly over time. For example, participants asked whether the initial hope that the Bretton Woods institutions would be able to stem the rise of "footloose capital" had been fulfilled, given some of the developments seen in rule-making since 1979, and raised other concerns such as the growing financialization of the global economy and the politics of power structures within and among nations (United Nations Conference on Trade and Development [UNCTAD], 2015).

The high-profile public debate over whether trade or technology has a greater impact on income inequality was also unpacked during the opening session. Participants examined, for example, whether too much blame has been placed on the rapid emergence of new technologies, and whether the evidence actually supports the assumption that technological advances exacerbate inequalities within and among nations. They also examined whether an income-based measure was sufficient, or if instead other indicators should also be considered, such as wages, profits and rents to provide a measure of functional inequality.

Beyond looking solely at how to measure inequality and what its root causes are, participants also examined whether income inequality was the problem at hand, or if instead they should be examining poverty. They asked, for instance, whether poverty and SDG1 can be addressed fully without also taking into account inequality. This led to a brief discussion on the Organisation for Economic Co-operation and Development's (OECD's) approach via the "inclusiveness" metric for growth, which it defines as "economic growth that is distributed fairly across society and creates opportunities for all" (OECD, n.d.). Some raised the possibility of a two-tier process of maximizing the pie, i.e., through trade and investment, and then redistributing it, with the latter building on the former. Others noted that even when the pie may grow, only a subset of countries are able to benefit, and that there is also an unbalanced representation of organized interests that ultimately influence decision making. Participants also considered whether a distinction is needed between income inequality as an outcome or as a structural feature.

Along with examining the concept of income inequality and whether it is an appropriate measure, participants asked whether trade and investment regimes can be viewed in isolation, or if instead they should be considered alongside domestic policies and frameworks. These domestic policies may not fall within the remit of these international regimes, but they are important for ensuring that the design and implementation of those regimes ultimately maximizes their potential to reduce income inequality. Taking into account different countries' respective circumstances is also crucial in crafting these same regimes.

Market Access

Historically, trade negotiations at the multilateral and regional levels have often been devoted to improving market access for agricultural and manufactured goods, as well as services, with the assumption that this will lead naturally to greater exports of those same products and services. This has included, for example, efforts at negotiating tariff cuts, removing non-tariff barriers and adopting services liberalization commitments, often in exchange for concessions in other areas, such as agreeing on limitations on the levels of domestic support that governments can provide their producers. This linkage between market access in non-agricultural goods and domestic support in agriculture was a core component of the WTO's Doha Round negotiations, which have failed to achieve multilaterally negotiated outcomes in these issue areas, among various others.

Aside from the dynamic seen under Doha, several well-known initiatives have emerged in recent years that seek to resolve the market access challenges facing least developed countries (LDCs) and their producers. These include the WTO ministerial decisions approving a "services waiver" allowing other members to provide preferential access to LDC services and services suppliers, and setting out guidelines on non-reciprocal, preferential rules of origin meant to help LDCs take better advantage of market access opportunities. Both efforts have shown significant limitations in practice, prompting greater scrutiny as to whether improved market access alone is sufficient to allow LDC and developing country exports to eventually capture a greater share of the world total as outlined in SDG target 17.11. The inclusion of duty-free, quota-free (DFQF) market access as a target under SDG 10 also raises the question of what limitations DFQF faces, and how to improve or reconsider its use.

Meanwhile, regional trade agreements have continued to proliferate. They have evolved in both their content and their membership, which has implications for market access gains and has raised questions over whether these agreements will lead to preference erosion for those countries that are beneficiaries of trade preference schemes. The discussion over market access, however, often obscures an important point: the implications go beyond just looking at export shares and export levels, extending to what access means for producer and exporter incomes, with disparities in incomes often being most apparent at the level of households.

The current rulebook: The first subject-specific session of the workshop was thus devoted to market access in agriculture, non-agricultural goods, and services, with the goal of unpacking these various issues further. At the global level, participants asked whether the current multilateral rules on market access are entirely equitable, even if they were negotiated as part of a larger multilateral deal that involved trade-offs between sectors and issue areas.

They also asked whether the focus on market access may be too limited on multiple levels: it would also need to be considered in relation to other policies, including domestic ones, that may help or hinder producers seeking to benefit from market access improvements. For example, participants noted that some countries have better institutional capabilities to support their own firms and ensure these can take advantage of the same sets of rules, including those that involve sanitary and phytosanitary measures (SPS measures) and technical barriers to trade (TBT). The interaction of these domestic-level dynamics with market access ultimately affects countries' abilities to "catch up."

This same interaction needs to be viewed in relation to the SDGs, including the SDG target devoted to the doubling of LDCs' export share of the global total. There is also the question of whether it is more beneficial to have limited access to a growing market, as opposed to full access to a stagnant market. Other issues, such as major surpluses in large advanced economies, along with shortages in global demand, also need to be unpacked further.

Cotton: Various participants raised the issue of cotton, where Benin, Burkina Faso, Chad, and Mali (the Cotton-4 countries) have suffered long-standing limitations on their export income as a result of the massive levels of domestic support that rich countries are able to provide their producers, rather than as a result of market access limitations. This problem is not limited to the traditional advanced economies, but also extends to emerging economies such as China. This product-specific example came up repeatedly in the discussions, partly but not solely because it showed how market access is not a sufficient measure of a country's or producers' abilities to engage in those markets.

Manufacturing, DFQF, and dynamics across domestic and international polices: The dynamic between domestic support, market access, and non-tariff measures was named repeatedly in this session, and participants said that this dynamic is worth unpacking in far greater depth.

Looking at the history of multilateral trade negotiations, LDCs would have been exempt from market access liberalization commitments under the draft non-agricultural market access (NAMA) and agriculture texts from 2008, participants said, while noting that this would have had little practical impact given that such countries tend to have low applied tariffs in practice. (WTO, 2008)

When discussing non-agricultural products, participants noted that tariff barriers are lower in manufacturing than previously, and LDCs already enjoy nearly total duty-free, quota-free market access (DFQF) from many advanced economies. The share of manufactured products within LDCs' exports has also grown, due largely to the production of clothing, though this raises the question of how to help LDCs diversify their export basket. There is also the long-standing concern of preference erosion for LDCs due to the growing number of regional trade agreements, whose members are of varying levels of economic development, meaning that LDCs are increasingly facing intense levels of competition.

The concept of DFQF market access for LDCs, and the focus on the percentage of tariff lines covered by DFQF, also obscures an important point: the minuscule proportion of tariff lines not covered by DFQF can be those goods that countries would otherwise be well-positioned to export, and which may also face high tariff peaks. For the goods that are covered under DFQF, the question is whether countries are then able to seize that opportunity. Do they have the quality infrastructure, for example, for their agricultural goods to comply with SPS requirements? There is also the issue of whether and how the larger developing economies are providing DFQF to LDCs. To better understand the state of play regarding market access, it is also important to look at unilateral trade liberalization, including the issues of tariff escalation and tariff peaks, along with the developments being seen in regional trade agreements.

There are also some issues where the current multilateral framework allows for a decent amount of latitude for countries to develop their own national policies as they deem appropriate, so long as they fit within that framework. This is the case with the WTO's Agreement on Trade-Related Intellectual Property Rights (TRIPs). There are also cases where, regardless of what is attempted at the multilateral level, the blockages are ultimately domestic in nature, such as the pull of major lobby groups when it comes to domestic agricultural subsidies.

Services: The level of market access provided to services and services suppliers, as seen in other areas, is not the only story. This can be seen clearly through the preferences notified under the LDC services waiver following the collective request submitted by the LDC Group. The countries which have notified preferences, some participants noted, seem to have instead provided artificial preferences to LDCs and frozen that level of access, without taking the complementary and vital steps of ensuring that LDCs can properly take advantage of those artificial preferences. Participants also flagged the concentration in specific services sectors, such as tourism, with the argument here being that LDCs need to strengthen their services profile beyond tourism. Even with major importers of services, such as China, there are still many restrictions on importing services, including in Mode 4, that require further examination.

Policy certainty and coherence: The role of the multilateral trading system in relation to market access deserves more attention, both in terms of the policy certainty it provides, but also the inequalities that the current rules may enable or even exacerbate and perpetuate. What also needs to be understood is whether we are talking about a singular multilateral trading system, or are instead seeing a shift to different sub-systems, some under the WTO umbrella, some otherwise? With the current hype around "plurilaterals," do we have a good understanding of what constitutes—or can constitute—an open or closed plurilateral, and how they relate to the main system? Participants also raised the need for consolidated, coherent policies across institutions and across levels of government. Inequalities within a country may fall more within the realm of domestic policy areas, which also merits further exploration.

E-Commerce

The fulfillment of the SDGs, as well as countries' national development strategies, will hinge in no small part on how the digital economy is structured, and whether and how new rules in this area will either ameliorate or worsen power and income disparities between and within countries. The types of products and services that countries manufacture and trade increasingly have digital components, and this trade often takes place online. Data has also become a hot commodity—and highlighted the potential for its misuse, with harmful implications for consumer privacy, the ability of governments to regulate in the public interest, and the ability of developing countries' and smaller producers' ability to remain competitive in the age of tech giants and the concentration of data ownership in the hands of the few.

The rapid growth of the digital economy, and the role that electronic commerce has to play, has been well-documented, though its implications remain hard to grasp, partly due to the sheer pace of this change. E-commerce alone is already a USD 29 trillion industry, with an estimated 1.3 billion people engaging in online shopping, according to the latest statistics from UNCTAD (UNCTAD, 2019). While participants noted this dynamic, they also flagged the importance of differentiating between the digital economy and digital trade, which are often conflated, and the need for a better understanding of the digital economy's impact on jobs, and whether this analysis should look instead at tasks and how these are designed.

Amid this evolving climate, there are also many new laws, regulations and international agreements emerging that include some elements involving electronic commerce and the digital economy. More rule-making initiatives are on the horizon, including the new "joint initiative" on electronic commerce currently involving nearly 80 WTO Members, and which has the stated objective of eventually leading to new trade rules. Participants discussed the potential "lock-in" effects for developing countries if they agree to the current types of policies being considered in regional trade agreement negotiations and in the "joint initiative" on electronic commerce, which proved to be the primary focus of this session. Participants looked at a few examples in depth, while noting that there are myriad other issues and rules also worthy of consideration.

Cross-border data flows: Among the issues that participants said were critical for developing and LDCs were cross-border data flows. While the flow of data, including personal data, is essential for online transactions, there are also associated risks, not least of which involves privacy, such as when it comes to health records. While participants noted that trade agreements often provide exceptions for legitimate public policy objectives, the design of the exceptions often makes it difficult for governments to prove that these objectives qualify. These included the need to prove that the regulation is not arbitrary, and that the measure meets the "necessity test" proving that the measure does not exceed what is "necessary" to achieve a legitimate public policy objective, and that the public policy objective is indeed legitimate.

Exceptions for legitimate public policy objectives: The issue of exceptions, such as the above-mentioned exception for legitimate policy objectives, was raised frequently in the workshop discussions, given that the design of these exceptions has traditionally been so narrow in trade agreement negotiations. For example, participants discussed the example of expanded public–private partnerships, where the inability of public sector actors to require a partner company to store data locally could mean that the jurisdiction where that data originated no longer has access to it for other purposes, including for designing future policies more effectively. There is a need for a closer understanding of how the word "necessary" has been interpreted in existing agreements and to develop a better definition for the future.

Local storage of data: Another regulation discussed involved bans on local storage of data, given the need to keep some records locally for the achievement of legitimate policy objectives, even though the measure may appear to be trade-restrictive. Local storage of data can be important not just for achieving these policy objectives but also for innovation. Some large emerging economies have data localization policies in place, including through national legislation, with the stated objective of being able to monitor the behaviour of foreign companies within their borders and limit potential abuses in using that data. Restricting the local storage of data, some participants noted, can lead to significant limitations on policy space, including for developing countries (Economic Times, 2019).

Source code: Another issue raised involved bans on transfers of source code. This provision has already been included in some regional trade agreements, and in the U.S.-Mexico-Canada Agreement would be extended to cover algorithms. Regulators may need to see source code and algorithms from foreign companies operating within their borders, even if they lack a physical presence there, and understand how these codes and algorithms function. For example, they may need to see whether these codes and algorithms are exacerbating inequalities, such as in deciding who receives a bank loan or which products are highlighted in web searches.

Commercial data: Understanding the distinction between personal data and commercial data is key. While all countries produce data, those that collect and then use that data often benefit the most, meaning that the ownership of that data is key. Among the possibilities that could be considered are having a sovereign right of data, as opposed to a common pool of data. There is another facet of data that needs to be better understood, particularly given what it means for the economic competitiveness of different actors in an industry: when getting data from small and medium-sized enterprises, that data also includes customer data, such as preferences, locations and other factors. Possession of this information can have major impacts on a company's ability to dominate a particular market. Participants examined, however, whether the limitation of data flows for reasons such as privacy and the integrity of financial regulatory processes could also be used as a means to foster a national competitor, given that there is a first-mover advantage in this field. The lessons from industrial policy are valuable here, given that it is important to avoid picking sectors that are likely to remain uncompetitive, regardless of government intervention.

Electronic transmissions: Participants discussed at length the subject of electronic transmissions and how the definition of these transmissions has evolved over time. This was credited partly to the growing use of 3D printers, which use electronically transmitted files as part of their production process. Tariffs negotiated when these products were fully physical products can be essentially nullified if that good is reclassified as an electronic transmission, constituting losses in government revenue, among other effects. Participants discussed whether this changing nature of production would mean that there would be lost customs revenue as a result of this production information being transmitted electronically, even as it leads to the development of a manufacturing sector in the country that would otherwise be importing the physical version of that product and having to pay tariffs on it. Yet given that there are only a few countries exporting the type of material that can be used in 3D printing, it may not mean that manufacturing capacity improves as a result of 3D printing, but rather that those countries that produce 3D printers and their associated materials can then make that product and export it. Participants also asked what the rise of 3D printing may mean for countries looking to diversify their economies, including through products that may be printed for either domestic consumption or export.

A 2019 paper from the United Nations Conference on Trade and Development found that the existing moratorium on electronic transmissions, if continued, could mean a potential USD 5.1 billion loss in government revenue for developing economies, not counting the millions that advanced economies also lose from the same moratorium, when looking at average most-favoured nation (MFN) applied rates, a figure that is billions higher when using bound tariff rates (Banga, 2019; UNCTAD, 2018).

Governance: The subject of plurilaterals and the "joint initiatives" being advanced by some WTO Members was also raised in the e-commerce session. Participants questioned the systemic implications of the proliferation of these plurilateral endeavours, particularly those without a multilaterally agreed mandate; the growing number and complexity of regional trade agreements (RTAs); and what alternative spaces could be developed or chosen that may be more productive and may be better in ensuring that developing country interests are incorporated. Among the examples raised as possible alternative spaces or approaches were UNCTAD's regional digital cooperation framework, which can be implemented at the sub-regional level, and the model used by the International Telecommunications Union. Is there a need for more formal cooperation between international institutions, such as the WTO and the other Bretton Woods institutions, making use of the provision in the Marrakesh Agreement (WTO, 1994c) that relates to international economic governance? Participants also said that there needs to be a greater understanding of the differing views among developing countries over whether and how to engage in negotiations on new binding rules on electronic commerce. Another question raised was whether there a need for flanking measures in other, non-trade, policy areas.

Market concentration and network effects: Participants also explored the issue of network effects, and how the tech industry is bound to get to a very high level of concentration. The rise of major players such as Apple and Google with such wide international reach has prompted questions/concerns about the potential abuse of their dominant position. What cooperation is needed at the international level or regional level to deal with that? National-level action will not suffice given the very nature of the digital economy and electronic commerce, some participants said.

Industrial Policy

Industrial policy has traditionally been used as a means for developing countries to "catch up" with developed economies, and for developed economies trying to get further ahead. It has often been defended as an important set of policy tools to help some industries mature, which would otherwise not grow at the necessary pace to become and/or remain competitive on the world stage. In sum, it involves government actors trying to provide what markets cannot. However, the use of industrial policy has also engendered intense controversy, partly due to some of the well-documented failings involving its use. Some examples include governments continuing to support industries that are unable to become competitive, effectively using up resources that could be used for other areas. There is also the potential for many of these industrial policy measures to run afoul of global trade rules, given that they are essentially supporting a domestic industry so that it can become artificially competitive relative to its foreign counterparts.

Yet even if these measures may be WTO-inconsistent, proponents note that these policies can sometimes yield important benefits for that domestic industry as it matures, as well as for the wider domestic economy. Another issue to consider, when looking at inequality between countries, is whether smaller, less developed economies can even afford to implement such policies at the level of advanced economies, or even large emerging ones, regardless of these measures' consistency with WTO rules. Moreover, the industries that fall within the remit of industrial policy is actually a far bigger category than potentially imagined: this goes beyond manufacturing to include sectors such as agriculture, fisheries, and services, to name but a few. Taken together, these issues suggest that this policy area could afford to be reimagined, given the potential for the disparities between countries to grow further.

Defining industrial policy: The workshop session on industrial policy started with an overview of "vertical industrial policy" and "horizontal industrial policy." The former has traditionally referred to policies such as those involving science and innovation, which are meant to facilitate industry growth and are relatively uncontroversial. The latter can involve tariffs on specific inputs, subsidies to particular sectors and concessional loans. To date, the application of industrial policy has shown that such measures must address a specific market failure to be successful. They also work better when dealing with sectors that already have a degree of competitiveness, and when they have a built-in review mechanism to determine when to cut off support when it is not having the necessary impact.

Participants questioned this initial distinction made between horizontal and vertical industrial policy. They asked whether horizontal policies can be so cleanly differentiated, since choices such as where to build a road still involve choosing where that road goes and who benefits from it. There are ways for horizontal policies to also, effectively, be vertical policies, which is a dynamic that requires further exploration. The distinction between vertical and horizontal policy is often very blurred. It requires looking at the various mix of policies in place, and how the absence (or presence) of some policies can affect how other policies work. There are also issues involving governance and institutional capabilities that may affect investment decisions.

Along with exploring this overlap between horizontal and vertical industrial policy, participants also discussed the need to distinguish between the various measures or issues that could fall within the umbrella of industrial policy, such as rules of origin or intellectual property rights. Another core issue is the need for countries to improve their institutional capability at the domestic level in order for industrial policy to be effective, though participants also raised the issue of what should and could be done at the international level.

There is a need for a better understanding of what industrial policy entails, and what is the appropriate role of the market and the appropriate role of government, participants said. With any government that has industrialized rapidly, the state has ultimately played a major role, whether discussing the so-called East Asian "Tigers" or China or others, which needs to be examined in greater depth. Participants said that there needs to be a clearer distinction made between the services industry, manufacturing industry and agriculture, and thus being very precise in what we mean when we talk about industry. The development of industrial policy should also be a more inclusive and transparent process, and the actors involved need a better understanding of the role of taxation, including differential taxes and tax incentives. In this context, it would be useful to better understand the role of tax treaties and the relationship to investment treaties.

Other issues that emerged included the need for "smart" carve-outs and sectoral non-compliant measures. Participants also considered the merits and potential challenges of developing guidelines for appropriate industrial policy, and whether the 1996 Telecommunications Services Reference Paper can provide a good model. Some participants noted that there is a massive rethink underway on what industrial policy means, and that developing guidelines would be difficult in this context.

Looking at examples of industrial policy at work, participants examined whether industrial policy would be as effective in LDCs as it was for China, which has managed to implement industrial policy in such a way as to become a global leader in solar photovoltaic cells and modules, despite having had very little industry to speak of previously. Moreover, there are also the questions of how much vertical versus how much horizontal, what qualifies under each umbrella, and whether we should instead be talking about complementarity—how, for instance, the loss of revenue/income from providing fiscal incentives can yield other benefits, including moving up the value chain.

Trends in rule-making, lessons learned: Current WTO rules under various agreements deem some of these industrial policy measures to be WTO non-compliant. These agreements include the Agreement on Trade-Related Investment Measures (TRIMs), the Agreement on Trade-Related Intellectual Property Rights (TRIPs), the General Agreement on Tariffs and Trade (GATT), the Agreement on Subsidies and Countervailing Measures (SCM) (WTO, 1994b) and the General Agreement on Trade in Services (GATS). Meanwhile, RTAs are taking some of these restrictions even further, such as by banning joint venture requirements and technology transfer requirements. There is a clear trend for allowing less policy space for certain types of industrial development policies. Participants also asked whether it is possible to design trade law in a way to force "smart" industrial policy, such as by including a type of sunset clause, review provisions, etc. They also asked whether the language in SCM Article 8.2 might serve as a useful model for this "smart" policy, and said that there is a need for taking a far closer look at the SCM Agreement: what lessons can be learned from it, for example, and whether it could or should be modified, including to apply to services trade, given GATS Article XV, which refers to the need for negotiating rules that address trade-distorting subsidies in services.

Fisheries, agriculture lessons: Along with reviewing the WTO agreements described above, participants also considered what lessons could come out of the ongoing fisheries subsidy negotiations at the WTO. The subject of how and whether these subsidies can and should be used has been a long-standing area of debate in that forum: while WTO Members are looking to prohibit subsidies that contribute to overfishing, overfished stocks, overcapacity, and illegal, unreported, and unregulated (IUU) fishing, they have also been discussing how to craft special and differential treatment provisions (S&DT) that would not weaken the import of these rules, but would account for the varying situations of countries and their respective fisheries sectors. For example, WTO Members in the fisheries subsidy negotiations have been looking at whether and how to carve out from disciplines those subsidies that support small-scale and artisanal fishers, which otherwise may struggle to remain competitive. They have also been discussing how to ensure governments can still help their fishing industries mature in those developing countries and LDCs that have not historically provided major subsidies to that sector, along with possible transition times for curtailing some types of support.

In that forum, WTO Members are considering whether to have a subsidy cap similar to what is in the Agreement on Agriculture, or instead have bilaterally negotiated caps, with these caps designed to limit the subsidization of a mature fleet that could otherwise lead to the exploitation of the resource. There are various other proposals also under consideration, including on possible exceptions to disciplines and how to deal with "minor" infringements. Workshop participants, returning back to the subject of industrial subsidies outside the fisheries sector, also reviewed the suggestion of whether there should be a "green box" of industrial subsidies that are considered beneficial for achieving sustainability objectives, given the ongoing discussion on whether there should be a possible "green box" for fisheries subsidies and the history and debate over how the "green box" classification has been used under the WTO's Agreement on Agriculture.

In the case of the latter, for example, green box subsidies are meant to be those that are not trade-distorting (or are only minimally trade-distorting) and which can involve support to extension services and environmental protection, to name a few types that can be provided within this category. Often they are used to provide public goods that would otherwise by under-provided due to market failures. However, there is an ongoing debate over whether some WTO Members have been putting subsidies into the "green box" that actually do not fall within the intended definition of that category, and which could be trade-distorting. There is also another article in the Agreement on Agriculture that is worth noting: Article 6.2. That provision allows for developing country members to provide input and investment subsidies for low-income, resource-poor producers, aiming to support agriculture and rural development, with these subsidies being exempt from that member's domestic support reduction commitments. (WTO, 1994a)

There is an ongoing debate in policy circles over whether subsidies—such as those permitted under the WTO's agricultural rules—that are targeted at providing sector-specific support to the poor could instead be replaced by measures that are not contingent on sectors, with the rationale being that people could move from sectors that are less remunerative to those that provide better income opportunities. Moreover, there is also the issue of whether subsidies are used as a stop-gap solution, given the difficulty in setting up effective social safety nets.

"Smart" or effective industrial policy: One of the recurring items in the workshop discussions was whether a given industrial policy is "smart" or not, effective or not and how this issue is dealt with at the WTO. It was noted that the WTO deals with whether a particular policy adopted by one country is causing economic harm to another, as seen under the SCM, where governments are, in principle, allowed to grant subsidies so long as such subsidies do not cause serious injury to the producers in another country, according to the concept of actionable subsidies. This differs from determining whether a policy is effective or not: it could mean, for example, determining whether to use the Chinese model of national champions, or instead on whether to focus on selected sectors or a particular sector's labour-intensity.

Reframing the conversation: Participants raised the need for finding terminology that is less problematic than industrial policy, such as economic or structural transformation policy, and to also find a way to create a stakeholder group that can rally interest, engagement and support around this issue of inequality. That sort of constituency, some participants noted, is harder to achieve on the subject of inequality than it has been in other policy areas, such as health. They also discussed briefly the possibility of establishing regional hubs for trade, where regional export strategies and industrial policies could be more relevant, as well as the need for industrial policy to go beyond focusing on industrialization and instead be designed in a way that is environmentally and socially conscious, while keeping certain tools in the government's hands to make sure those sustainability objectives can be achieved.

Competition Policy

The linkage between competition policy and inequality can be clearer than in other policy areas, given that it ultimately involves the accumulation of market power, with those who benefit typically being the wealthy, and often gaining at the worker's expense. There is growing evidence of increasing market power in some sectors, with the rise of tech giants being the most public example in recent years. How to address this linkage in policy-making is a challenging question: while competition chapters are becoming an increasing feature of RTAs, their nature differs widely. Some of them are focused more on cooperation on competition issues, while others involve the requirement that trading partners establish competition laws and institutions for administering that law. How to make that cooperation effective is difficult, however, given that there are varying definitions of what constitutes anti-competitive behaviour, and existing competition law may not suffice for the competition challenges that are emerging. One example is the inability of consumers to pick effective substitutes for products that technology companies provide at no cost, and that benefit instead from having access to user data.

Institutional, political support for competition authorities: While efforts have been underway, including in developing countries, to develop stronger competition laws, institutions and frameworks, these often suffer from a lack of sufficient resources and political support. This is itself a signal of the political nature of these types of issues, where those companies with market power are best positioned to lobby national governments.

Policy area linkages: Competition policy has many inherent interlinkages with other policy areas, including trade and industrial policies, along with sectoral policies such as telecommunications or transport. There is also a crowded international agenda, so building a constituency for this issue is challenging, though also important given how it affects other policy areas. Striking a balance between governments' interest in fostering national champions while also clamping down on anti-competitive practices is difficult, and again brings to the fore the linkages between industrial and competition policy. Another issue worth considering is the relationship with intellectual property rights, given that the top tech companies primarily hold intangible assets, not tangible ones.

Cooperation: Competition issues are increasingly involving multiple countries and country groups, transcending national borders, in large part because of the growing reach of the digital economy and electronic commerce. One idea that has been raised is the need for a World Competition Forum of sorts that would be able to facilitate cross-border cooperation, as opposed to setting hard rules in this arena the way it is being done in RTAs and given that some actors have advocated for the WTO to take on this issue again. There is also the question of how this international cooperation would look, what would be needed, how international authorities would interact with each other on investigations and other matters, and which rules they would assess violations against. Participants also considered the push for a World Competition Day on December 5, in light of the UN international guidelines on restrictive business practices.

Not just a developed-developing country issue: Historically, the competition issue has not been one that can easily be split across North-South or developed-developing country lines. The EU, U.S., and Japan have varied views on how to address antitrust laws, for example, which emerged in the discussions under the WTO working group that dealt with trade and competition for several years after the 1996 Singapore Ministerial. It remains an area of public divergence, the dynamics of which should be better understood and more closely explored.

Beyond digital: While the discussion on competition policy hinged largely on its relationship to the digital economy, participants also noted that the use of anti-competitive practices has a long history that spans across economic sectors. Other examples include agribusiness or the pharmaceutical industry.

Closing

As the workshop drew to a close, participants found a series of commonalities had emerged across the sessions, along with noting some issue-specific questions or dynamics that would benefit from further attention.

One of the big recurring points was that none of these policy areas operate in a vacuum: the issues raised during the workshop not only have linkages between them, but also to other policy areas and levels of policy-making. These dynamics need to be better understood, and policy solutions should be crafted that are not limited to isolated concerns, but instead consider the systemic implications of these solutions. For example, domestic circumstances can help or hinder the implementation of internationally agreed rules and frameworks, to the benefit or detriment of efforts to tackle inequality. Countries may have limited institutional capacity at the domestic level to effectively implement trade and investment rules, or to take full advantage of improved market access. They may not be able to take advantage of preferential access provided to their services and services suppliers, for example, due to domestic licensing and qualification requirements in the importing country, which effectively act as a market access barrier.

Other challenges include tariff peaks. These have significant effects on trade, including but not limited to the benefits that LDCs experience from DFQF market access in practice, should those tariff peaks affect goods that are not included under DFQF market access. The domestic subsidies that major economies grant their producers can also hinder developing and LDC exporters that are trying to be competitive in those products. These countries may also lack the negotiating capacity and training to engage fully in the creation of new rules and understand the potential implications.

Given this context, it is vital for policy-makers and policy influencers alike to be more aware of what is happening across the full range of economic governance forums. This is important from a coherence perspective, but also because developments in many of these forums can eventually inspire bigger changes on a larger stage. One example of this was the development within the Asia-Pacific Economic Cooperation (APEC) forum of a list of environmental goods where those countries agreed to slash tariffs, inspiring later negotiations on an Environmental Goods Agreement (EGA) among various WTO Members, even if the EGA did not come to fruition. In the same way, discussions relating to inequality in one forum need to be understood in others.

The range of governance forums that exist begs for a deeper analysis of whether the multilateral trading system is one system, or a combination of systems and sub-systems, and how these relate to each other. It means considering whether we should be speaking of a multilateral trading system at all, or instead of a multilateral rules-based system that allows for a consideration of issues beyond trade. Doing so requires bringing into the conversation a broader range of economic actors and stakeholders, as well as experts from other fields whose input is vital for developing trade and investment regimes that are better suited to the ambition of the SDGs—and the issue of inequality. It also requires greater collaboration with other institutions, including but not limited to other UN agencies and the Bretton Woods organizations, as well as those that deal with labour rights and environmental issues.

Given the rapid pace of change in some fields, including the emergence of new negotiating initiatives, it is vital to consider the lock-in effects of potential rules and regulations. Analysis is needed now, even for issues that have not yet matured into formal policy decisions. This is also an opportunity to look not just at new issues, but those that are cross-cutting, with impacts that span across borders. Indeed, future analysis with an inequality lens should not be limited to international forums: the topics raised during the workshop could benefit from concrete case studies of best practices, looking at domestic policies and regulatory frameworks on the ground, and how these interact with international and regional systems and sub-systems.

IISD would like to serve as an incubator of ideas and create a forum for interested stakeholders across policy areas to discuss these linkages. It could do so in partnership and collaboration with other organizations, meeting regularly to advance joint research and engagement, with the ultimate goal of developing solutions that advance cooperation and provide ways forward to reduce inequalities.

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**The vast majority of this meeting summary is the result of the insights gained from the September 13, 2019, workshop organized by IISD on global economic governance, sustainable development and income inequality, as well as the related background papers prepared for this event. The background papers, as well as supplementary research used for the purpose of this meeting report, are cited below.*

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Published by the International Institute for Sustainable Development

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