



Wilfried

Martens Centre
for European Studies

IN BRIEF

Thinking Europe, our Common House

#StaySafeStayInformed

EU Trade Policy as an Economic Recovery Tool

Aljoscha Nau

Rules-based trade is under attack, and the World Trade Organisation (WTO) is at risk of marginalisation. The COVID-19 pandemic and its detrimental effects on public health, value chains, and industrial production have brought back national export restrictions and stopped the free flow of goods and people. Buzz words such as 'decoupling', 'sovereignty' and 'autarky' have quickly returned to the global stage.

However, COVID-19 is not the first shock to global trade. The WTO is already facing an existential crisis due to a deadlock in negotiations, blockage of institutional reforms, and paralysis of the dispute settlement mechanism (DSM). Nevertheless, there is hope that countries experiencing the effects of disrupted trade means the EU can take the lead in global reform efforts.

Trade policy as a COVID-19 crisis reaction & economic recovery tool

The International Monetary Fund [estimates](#) that the global health crisis could result in a 3 per cent decrease of global GDP this year, and the EU Commission [predicts](#) a drop in EU GDP by -7.5 per cent in 2020. This recession will have severe effects on global trade. In Europe alone, it might result in a decline of 9.2 per cent in EU exports and 8.8 per cent in EU imports from third countries in 2020, [according](#) to the EU Commission's DG Trade Chief Economist.

Simultaneously, the COVID-19 pandemic will lead to a major re-thinking of global supply and value chains. Countries and companies will try to decrease dependency and seek to increase their resilience through geographical diversification. Prices and 'just-in-time' production will no longer be the

only criteria, while critics of globalisation might gain more traction. Thus, the Corona-crisis and its effects on global trade could reinforce three trends:

1. **State vs. market:** First, the role of the state has increased in trade policy during the COVID-19 epidemic. Export restrictions, national production plans, and nationalisations lead to state-managed trade. Even within the EU's Single Market, national trade action overshadowed a common approach and, temporarily, led to export restrictions for medical devices and uncoordinated border closures. For example, by 27th April 2020, [17](#) Schengen countries had reintroduced controls at internal borders to stop the spread of COVID-19.
2. **Decoupling:** Second, Recent research has [shown](#) that the trend towards decoupling had already begun during the Sino-American trade dispute in 2019. This tendency will now intensify with states trying to become more self-sufficient and less dependent on one country or region.
3. **Marginalisation of multilateral (trade) action:** Global trade is at risk of becoming nationalised and international institutions could lose influence. With more and more countries turning inwards, i.e., by implementing export restrictions (for personal protective equipment (PPE), medical devices, medicines and even food supplies) or unilaterally closing borders for goods and (foreign) workers, the danger rises that genuine COVID-19 measures to protect public health and security could become a fig leaf for protectionist policies.

We are at crossroads: Either the Corona pandemic could lead to more state interference, decoupling, and marginalisation of global trade action, or it calls for an unprecedented level of multilateral cooperation. There is hope for the latter because trade can serve as a powerful, low-cost, and immediate crisis response by securing the free flow of medical goods and coordinating logistics. Besides, trade will be essential for a speedy recovery of the global economy. Geographical diversification of supply and value chains must not mean decoupling.

Immediate crisis response

The different COVID-19 lockdowns have made it evident that global trade is vital to our survival. The free flow of goods and services, functioning supply chains, and frictionless transport are all essential for the global economy. While national trade restrictions aimed at tackling COVID-19 challenges and securing public health are legally in line with WTO rules, the pandemic calls for collective trade action and a global crisis response, with the WTO as the main negotiating and coordinating forum. What steps should be taken next?

First, global solidarity in times of COVID-19 means removing trade restrictions (on medicines/ medical devices, PPE, food supplies) and lowering technical barriers to trade as soon as possible. National stockpiling is the wrong approach! Fortunately, countries like Germany have begun gradually scaling back export restrictions, and EU Trade Commissioner Phil Hogan emphasised in the European Parliament on 21st April that these restrictive measures must be only temporary. Soon after, the EU Commission [adjusted](#) its Export Authorisation Scheme.

Second, transport and logistics are crucial. After more and more EU member states closed their borders, leading to bottleneck border crossings in Po-land or Hungary, the European Commission [implemented](#) so-called “green lanes” on 23rd March for the free flow of essential products. Going through these “green lanes” border crossings, including any checks and health screenings, should not exceed 15 minutes. On 24th April, the EU and 21 other WTO members took further [steps](#) by pledging to ensure the smooth functioning of global food supply chains.

Third, and most importantly, the WTO should lower tariffs and non-tariff barriers on pharmaceuticals, PPEs, medical devices, and other health-related products. The starting point could be the WTO Trade in pharmaceutical products (GATT, 1994)

[initiative](#). Recent research [advocates](#) for medical services trade reform and trade facilitation for e-health services. The EU already has low tariffs, and the Directorate General Trade allowed EU member states to suspend import tariffs and Value Added Tax (VAT) on medical products. Furthermore, on 28th May, the European Parliament’s Trade Committee (INTA) will discuss with Commissioner Hogan how to make supply chains more resilient and will vote on EU action to ensure the global provision of medical equipment and medicines in the future.

Trade action aimed at economic recovery

Trade will be essential for a speedy recovery of the global economy. The WTO can profit from the momentum for collective action, and governments [should](#) “collectively promote greater global alignment between public health and trade policies to save lives” by using the WTO as the coordinating body. However, to make trade the post-COVID19 engine of economic recovery, there is no alternative to WTO reform, given that the economic balance in the world has changed – while the WTO has not.

Since the end of the Uruguay Round (1994), no major breakthrough in trade policy has been achieved, and the WTO has lost relevance due to its failure to deal with structural challenges – such as Chinese state capitalism – and most importantly, to uphold a well-functioning monitoring and dispute settlement system.

After Washington froze the 25-year-old dispute settlement system last December by blocking appointments of new judges to the Appellate Body, the WTO was set to become a paper tiger. Fortunately, the EU and Canada [established](#) an interim appeal arbitration mechanism in early 2020, which became effective on 30th April and now counts 17 WTO members, including China, Brazil, and Mexico.

While the interim mechanism did not replace the Appellate Body, it ensures a two-step dispute settlement system and is an important part of securing fair and rules-based trade. Besides, by accumulating a critical mass of countries, the EU has signalled its intention to lead a like-minded coalition of progress and reform.

Moving forward, the EU should act as an ‘honest broker’ between the USA and China. As witnessed during last year’s trade war, the EU is the only player capable of bridging the gap between liberal market economies and China. While the EU cannot on its own reinstate the WTO’s credibility, the EU can mediate between conflicting parties and lead like-minded coalitions. This is crucial, given that

Washington's freeze of the dispute settlement mechanism was an open protest against Chinese state capitalism, which is [challenging](#) the liberal "understandings" of international trade.

The USA's cost-benefit-analysis of WTO membership has shifted, and institutional reforms at the WTO will take time and political will. However, over-all, the WTO remains a valuable public good worth preserving and WTO membership has contributed to welfare gains in most member states, causing a total [increase in prosperity](#) of around \$ 855 billion between 1980 and 2016. WTO membership pays off by generating income gains, especially for export-oriented countries like Germany, and the big three trading blocs that are the USA, China, and the EU.

Meanwhile, WTO members now have the chance to make the institution fit for the future by updating its rulebook, by advancing future trade policy in digital trade/e-commerce and services, and by implementing sustainability rules.

A like-minded [coalition](#), led by the EU, can develop trade rules for the fourth industrial revolution. To guarantee the free-flow of data and uphold digital standards, which are vital for the future of global value chains, key players in China and the USA with its GAFA-companies, need to be integrated. Furthermore, by incorporating the General Data Protection Regulation (GDPR), as well as the recent European Digital and Data Strategy, the EU can become a global standard-setter of its own.

Successful and pragmatic cooperation on these 'side shows', paired with a functional dispute settlement mechanism, could function as a catalyst for WTO modernisation and restore trade as an engine of economic recovery post-COVID-19.

Now more than ever, the WTO needs to adapt to internal and external shocks.

Aljoscha Nau is European Affairs Analyst & Coordinator at the Brussels office of the German Economic Institute (IW). In his work he focuses on trade and investment, industrial policy-making and EU-China relations.

An extended version of this article was first published by the German Economic Institute (IW) and you can find the full paper [here](#).

The Wilfried Martens Centre for European Studies is the political foundation and think tank of the European Peo-

ple's Party (EPP), dedicated to the promotion of Christian Democrat, conservative and likeminded political values.

This publication receives funding from the European Parliament.

© 2020 Wilfried Martens Centre for European Studies The European Parliament and the Wilfried Martens Centre for European Studies assume no responsibility for facts or opinions expressed in this publication or their subsequent use.

Sole responsibility lies with the author of this publication.

Wilfried Martens Centre for European Studies
Rue du Commerce 20
Brussels, BE – 1000
<http://www.martenscentre.eu>