



Building a better world  
Trade policies for a new era

# Preface



**D**uring the first part of the 21st century, the world has grappled with global challenges ranging from climate change and poverty reduction to digitalisation and the COVID-19 pandemic. Whether the objective is to scale up fossil-free technology, strengthen resilience or reduce poverty, trade is part of the solution to these challenges. The mundane work of deepening economic ties with our friends and partners is the best way to achieve these objectives. Ultimately, international trade helps us build a better world.

Russia's war of aggression against Ukraine adds to these challenges. The war is not only an attack on Ukraine and the UN Charter, but also on peace, prosperity and democracy in Europe and beyond. Given this dramatic development, the EU needs trade policies that respond to a new geopolitical reality. In the same way that the EU and its partners coordinate sanctions to counter Russia's war of aggression, we must now work together to promote economic integration with partners that respect international rules and norms.

In the fall of 2020, I brought together a group of prominent people to

form a high-level Task Force on international trade policy. I also asked a group of international experts to provide inspiration to the Task Force. The purpose was to allow a group with different perspectives to propose a positive agenda to strengthen trade as an engine for improved living standards, resilience and sustainability. Five meetings were held. The first three were devoted to issues such as trade and health, climate change and digitalisation. The fourth meeting discussed how we can stimulate positive change. A final meeting covered the trade policy implications of Russia's war of aggression against Ukraine.

This report is the combined result of Task Force meetings. Consequently, it is not yet the position of the Swedish Government. My hope is that it will provide important input to both the Government and the broader international debate on how to shape a positive trade agenda that helps create a better, more peaceful and sustainable world.

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# Executive summary

The world is going through broad societal changes. Digitalization, automation and the transition to a fossil-free future mean that we face a transformation comparable to the industrial revolution. In addition, Russia's war of aggression against Ukraine has created a new geopolitical situation. Russia's brutal war is not only an attack on Ukraine, the European security order and the UN Charter, but also on peace, prosperity and democracy more broadly. Generations of European will live with the consequences of it. We are entering a new era.

In the same way that broad-based reforms during the 19th and 20th centuries benefited our societies then, the new era requires updated social contracts both domestically and globally. The rise of nationalist and protectionist sentiments poses a threat to this vision. An inward-looking EU could create a viscous circle of disintegration and declining competitiveness. Ultimately, it would harm our position globally.

Instead, an open and forward-looking EU trade agenda that strengthens

economic bonds with partners that respect international rules and norms is needed. According to the Task Force, three basic elements should frame such an agenda: the transition to a fossil-free and resource efficient economy, digitalisation and economic competitiveness. Improved social sustainability as well as an ambitious global development program serve as the base of the framework. The new geopolitical situation further underlines the need for this agenda. By strengthening the internal market and trade relations with other countries we create the economic resilience needed to counter Russia's war of aggression against Ukraine. It also means that the transition away from fossil-fuels needs to happen faster.

## Climate neutrality

To achieve climate neutrality and limit external energy dependence, the EU must phase out fossil fuels. This further accentuates the need to stop using Russian gas and oil. According to the Task Force, moreover, an effective price on all greenhouse gas emissions is required. By 2025, all G20 countries

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should introduce carbon pricing systems and all EU Member States should introduce a carbon tax. The EU should seek negotiated solutions to establish international carbon price levels needed to meet the goals of the Paris Agreement. The Task Force moreover recommends that all large emitting countries commit to phasing out fossil fuel subsidies.

For more than 20 years, the WTO has tried to negotiate an environmental goods agreement without success. New approaches are therefore needed to advance the transition to a fossil free and resource efficient global economy. The Task Force recommends that negotiations on a fossil-free future trade agreement (“Triple-FTA”) be launched among a G20-OECD coalition of the willing. The list of climate goods should be drafted by climate experts. Whereas almost all developing countries would benefit automatically via most favoured nation treatment, members of the OECD and the G20 would only receive favourable treatment if they participate in the agreement by removing tariffs on climate goods. Russia and countries that provide material support for Russia’s war of aggression against Ukraine would not be allowed to participate or benefit from the terms of the agreement. An agreement on climate services should be negotiated on a parallel track.

## **Digitalisation**

A 1990s reform that made it easy for Swedish households to acquire a personal computer is believed to be one of the reasons that the use of digital technologies is so widespread in Sweden. In recent years, however, Sweden and the EU have lost ground in the digital race. It is therefore vital that we renew our efforts.

Legislative EU initiatives must continue to facilitate progress on a range of issues related to industrial automation (including AI) and e-commerce, while enabling digital trade with third countries. Even though some digital EU files are currently being finalized, a lot of work remains to create a fully integrated digital single market. Telecommunications services are still characterized by national fragmentation within the EU, for instance. The Task Force therefore recommends that the European Commission, in cooperation with Member States and the European Parliament, commence work to create a genuine single EU market for telecom services.

To catch up with the United States and China, an accelerated 5G roll-out in the EU is essential. The EU already has the industrial base needed to produce well-functioning 5G networks and develop 6G technology. For the 5G roll-out, technology-neutral standards based on established WTO principles are already in place. To avoid further delay, governments should not impose additional mandates that promote certain technological solutions.

The ability to transfer data to and from the EU is also essential for the competitiveness of European companies. The Task Force therefore welcomes the new framework for transatlantic data flows announced by European Commission President von der Leyen and US President Biden in March 2022.

The EU should moreover work toward finalising a WTO agreement on e-commerce. It should include ambitious rules to support digital trade and provide new market access. All countries that participate in an e-commerce agreement should adopt the WTO’s two Information Technology Agreements.

An illustrative example of how the new industrial landscape is intertwined with digitalisation is semiconductors. Semiconductors are used in almost all digital equipment and disruptions in semiconductor supply chains have major economic consequences. As recent US experience shows, it is notoriously difficult to predict the effects of export restrictions on semiconductors and their inputs. Export restrictions also represent an opaque and discretionary form of trade barrier that should be avoided as far as possible. Except for measures related to Russia’s aggression on Ukraine, export restrictions that target semiconductor supply chains should therefore be avoided. In connection with this the Task Force noted that subsidization of EU production of semi-conductors is not an efficient option.

## **Economic competitiveness**

The EU single market is of critical importance for European competitiveness. Focus must be on creating the best conditions for EU firms to compete and scale up. Recently, other issues - particularly in connection with the creation of so-called industrial ecosystems - have diverted attention from this core objective. The European Commission should therefore renew its focus on implementing the four freedoms in all areas of the EU economy. The internal

market must become a domestic market in the true sense of the word. The new geopolitical era also calls for a renewed push for EU enlargement, including a membership perspective for Ukraine, Moldova and Georgia.

According to the Task Force, the new geopolitical reality requires a close alliance between the US and the EU on trade. In the same way that the EU and the US coordinate sanctions to counter Russia's war of aggression, we should work together to liberalize transatlantic trade within the context of a new EU-US free trade agreement. A trade policy alliance with the US could also be advanced by deepening current cooperation in the Trade and Technology Council.

More broadly, we must work to diversify trade in close cooperation with our partners. According to the Task Force, the EU therefore needs to complete trade agreements with MERCOSUR, Australia, New Zealand, Indonesia, India, Mexico and Chile as soon as possible.

Research provides overwhelming support for the view that access to imported intermediate goods improves industrial productivity. A straightforward way to strengthen EU competitiveness would be to ensure that all European companies can import their manufacturing inputs duty free. In line with the EU decision to revoke Russia's most favoured nation status, this initiative would not apply to Russia.

According to the Task Force, Nordic integration is essential to competitiveness and sustainability. The Nordic Investment Bank could therefore be used more actively to finance projects of common Nordic interest, such as cross-border infrastructure, carbon-free steel, applied energy research (including on batteries and hydrogen-based fuels), carbon capture and storage, minerals and mining, and a Nordic geological library.

## **Resilience and inclusive trade for all**

Regardless of geopolitical developments, we need to meet the goals of the 2030 Agenda for Sustainable Development. As commodity prices rise in the wake of Russia's war of aggression against Ukraine, there is a large risk that the poorest in the most vulnerable countries are hit the hardest. This adds to already worsened economic conditions for many developing countries in the wake of the COVID-19 pandemic. Reduced trade and investment for develop-

ing countries also prevent the global diffusion of sustainable solutions and technologies. New efforts to support and finance sustainable development in developing countries are therefore needed. Trade policy capacity building, investment in infrastructure, including digital infrastructure, building sustainable productive capacity and investment in trade facilitation are some of the key areas where aid for trade plays a role. Combining aid for trade and trade policy can help create the conditions for job creation, poverty reduction, climate mitigation and overall economic development for people and countries that need it the most.

Developing countries were also hit hard by the COVID-19 pandemic. According to the Task Force, a trade for health agreement that liberalises trade in health-related products should therefore be concluded. The overall objective should be to facilitate global access to healthcare products, including for vulnerable countries without sufficient manufacturing capacity.

Twenty years ago, the EU removed tariffs on everything but arms from least developed countries through its Generalised Scheme of Preferences. Today, the biggest problem for least developed country exporters is not tariffs but non-tariff measures. As a supplement to the everything-but-arms tariff initiative, the EU should therefore abstain from introducing non-tariff measures that threaten to restrict imports from least developed countries.

Trade policy needs a social dimension, which should enable all workers, both within the EU and in developing countries, to benefit from trade and globalization. The Task Force therefore recommends that all EU FTA partners embrace ILO conventions and the four fundamental rights at work. Implementation of social sustainability commitments in EU FTAs should also be improved, for instance by posting labour reporting officers in EU delegations abroad. All trade agreements should make sure that decent working conditions are respected.

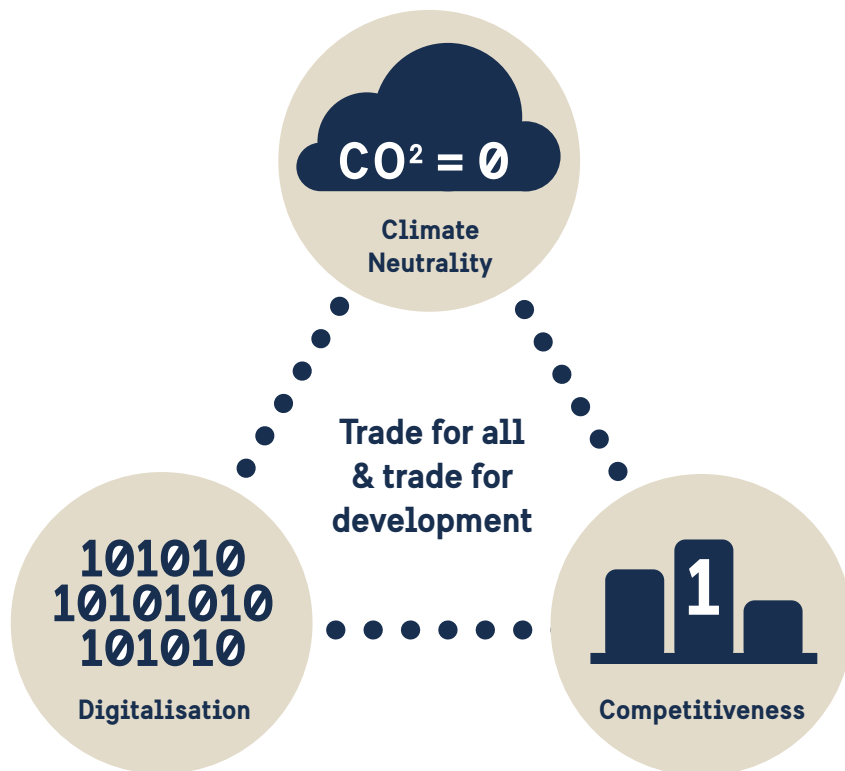
In peacetime, trade is sometimes portrayed as a war between countries when in fact it is a bottom-up process of peaceful cooperation that builds prosperity and development. Set against the savagery of the real war currently raging in Europe, this insight becomes even clearer. The Task Force's overall assessment is that a well-functioning internal market and open EU trade policies are crucial for Europe's future. In line with this, the Task Force report presents proposals designed to build a stronger Europe beyond war and destruction. EU trade policy and EU trade policy actors have a central role to play to promote this vision.

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# 1. A new agenda

At Task Force meetings, members of the group emphasised the need to build a new trade policy agenda based on the positive contributions that trade can make to address a range of current and long-term challenges. Three points of a triangle were proposed as a framework: climate neutrality, digitalisation and economic competitiveness. A foundation that ensures that trade benefits all domestically (social sustainability) and a global development agenda that includes poverty reduction, trade for health and institution building form the centre of the triangle. The report is structured around this framework; see the figure below.



- **CLIMATE-NEUTRAL SOLUTIONS** are supported by market developments, political demands and new geopolitical realities. In other words, the business case for climate-neutral products and technologies has never been stronger.
- **DIGITALISATION** has the potential to support climate neutrality, particularly if trade enables the scaling up of sustainable solutions worldwide. Together with openness to trade, digitalisation is the most important driving force for industrial productivity and competitiveness.
- **ECONOMIC COMPETITIVENESS** cannot be achieved if we fail to make the digital or climate-neutral transition or if the transition process does not include all segments of society. Similarly, an open trade agenda cannot be sustained without global progress in areas beyond trade, including global health and institutions underpinning rule-based democratic and open societies.

Reforms to achieve climate neutrality, digitalisation, economic competitiveness and a global economy that works for all are therefore mutually reinforcing.

## 2. Trade policies for a climate-neutral economy

According to the 2021 UN Intergovernmental Panel on Climate Change report (IPCC, 2021), it is unequivocal that human influence has warmed the atmosphere, ocean and land. Human-induced climate change is already affecting weather and climate conditions across the globe. Global temperatures will continue to increase until at least the mid-century under all emission scenarios. A global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in greenhouse gas emissions occur in the coming years.

While the task ahead is daunting, the Task Force expressed optimism about the private sector's change in mindset from waiting for governments to take action to proactively leading the way with a focus on the opportunities of the

transition in terms of innovation and business development. While there could be a short-term dent due to Russia's invasion of Ukraine, the long-term effect of the war is to speed up the transition away from fossil-fuel dependence. A major cause for optimism also lies in the observation that climate-neutral solutions increasingly improve the bottom line of businesses. According to a report by the UN Environment Programme (UNEP) and the WTO, "companies are putting sustainability front and centre in their efforts to respond to a rapidly changing backdrop of risks and opportunities. From small start-ups to large multinational corporations, these 'pioneer' companies are developing forward-looking business models which consider sustainability as a source of competitive advantage" (UNEP and WTO, 2018). The same report argues that international trade accelerates the diffusion of environmental goods and services. Integrated global markets give companies and consumers improved access to better goods and services to protect the environment. It also drives down cost, "making it easier for countries to replace outdated, polluting technological solutions with environmentally sound ones." (UNEP and WTO, 2018)

## 2.1 Putting a price on greenhouse gas emissions

The most important measure raised in the Task Force in connection with the discussion on climate change was a price on greenhouse gas (GHG) emissions. There are currently 64 carbon pricing instruments, such as a carbon taxes and emission trading systems, in operation around the world (World Bank, 2021); 22 per cent of global GHG emissions are covered by carbon pricing instruments. In most countries with carbon pricing instruments, carbon prices remain far below the range (USD 40–80/tCO<sub>2</sub>) needed to meet the 2°C Paris Agreement target. In fact, less than 4 per cent of global emissions are covered by a carbon price tag at and above this range. At the current price (and EUR-to-USD exchange rate), the EU emissions trading systems (ETS) price of around €80/tCO<sub>2</sub> is above the indicated World Bank range. In connection with this, it is worth noting that Sweden's carbon tax provides the highest carbon price in the world at USD137/tCO<sub>2</sub> (World Bank, 2021) - not far from estimates of what is required to meet the 1,5°C target recently set by the G20<sup>1</sup>.

Carbon pricing represents the most cost-effective policy instrument to reduce emissions and make the transition to a fossil-free future. It provides

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both full incentives (if the price is right) and full flexibility for producers, consumers and markets to make adjustments. According to the Task Force, a paramount objective should therefore be to expand the share of global carbon emissions covered by effective carbon pricing instruments. A recent review of empirical evidence suggests that carbon pricing improves productivity and has little negative effects on other measures of competitiveness, such as turnover, value-added, investment, employment and profits. Studies on the effect of emissions trading systems on net imports find no effects (OECD, 2019, p. 14).

Despite this, rising EU ETS prices have prompted fear of carbon leakage and reduced competitiveness in the EU. The EU is therefore in the process of negotiating a carbon border adjustment mechanism (CBAM) that would require imported goods to purchase CBAM certificates corresponding to the ETS price for products sourced in the EU – with deductions for costs associated with carbon pricing in the export country. Since the CBAM legislation is currently under negotiation, the Task Force does not make recommendations on this specific proposal. It does recommend, however, that all G20 countries introduce carbon pricing systems, such as a carbon tax and/or emission trading systems by 2025.

Not only is carbon pricing a superior instrument in combating climate change, it also serves to avoid trade distortions and red tape caused by a potential new wave of CBAMs around the world. As the European Commission's review of different CBAM options indicates (see European Commission, 2021), any new carbon border measures will have to be rather complex to comply with WTO requirements. As such, they could easily be misused. Consequently, the Task Force also recommends that the EU seek negotiated solutions to establishing international carbon price levels required to meet the goals of the Paris Agreement. Moreover, a carbon tax should be introduced in all EU Member States by 2025. A CBAM must not become an excuse for domestic inaction or a replacement for other, more effective reforms that put a price on CO<sub>2</sub> emissions.



## 2.2 An agreement to eliminate fossil fuel subsidies

In its latest inventory of fossil fuel subsidies in G20 and OECD economies, the OECD registered a 30 per cent increase in direct and indirect support for fossil fuel production in 2019 (OECD, 2021a). Since fossil fuel subsidies function as a negative price on carbon emissions, they are among the most important obstacles to climate neutrality. So far, efforts to put this on the trade agenda have failed. However, within the context of negotiations on an Agreement on Climate Change, Trade and Sustainability (ACCTS) between New Zealand, Norway, Switzerland, Iceland, Fiji and Costa Rica, disciplines to eliminate harmful fossil fuel subsidies are on the table. In line with this initiative, 45 WTO members supported a WTO Ministerial Statement on fossil fuel subsidy reform in December 2021. The Task Force recommends that the EU and other large emitters engage in negotiations, based on these initiatives, to phase out fossil fuel subsidies as soon as possible.

### Case study – The Environmental Goods Agreement (EGA)

One example that highlights recent problems with finalising multilateral trade agreements is the WTO negotiations for an environmental goods agreement (EGA). In 2001, the WTO Ministerial Conference mandated negotiations on the reduction or elimination of tariffs on environmental goods.

To the outside observer – mindful of the increasingly acute climate crisis – these negotiations sound like a ‘no-brainer’. And yet, two decades later, they have produced no results. The global benefits are obvious, since duty-free treatment of environmental goods reduces costs, cuts red tape, allows the scaling-up of sustainable

goods and technologies while making them more competitive on the world market compared with non-sustainable alternatives. It is a just-do-it type of liberalisation that should require no balancing of export interests.

In this case, it is even possible that WTO negotiations prevented the liberalisation of environmental goods, because countries maintain tariffs as bargaining chips for as long as a negotiation lasts. This demonstrates that a different approach is required. In section 2.3 below, we outline a proposal for how to move ahead with just-do-it liberalisation for climate-neutral goods.

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## 2.3 A fossil-free future trade agreement

As the EGA case study shows, liberalisation of climate-friendly goods requires a new approach. To break 20 years of gridlock, negotiations on a fossil-free future trade agreement (“Triple FTA”) should be launched among a G20 and OECD coalition of the willing. To speed up the process and prevent marginal, yet sometimes endless, market access haggling, the list of climate goods and their manufacturing inputs could be drafted by an independent group of climate mitigation experts. The list should be based on how much the goods contribute to reducing GHG emissions. Liberalisation of these goods would be extended to all WTO members on a most-favoured-nation basis, but OECD and G20 countries would only benefit from favourable treatment if they participate in the agreement by removing tariffs on climate goods<sup>2</sup>. Russia and countries that provide material support for the war of aggression against Ukraine would not be allowed to participate in or benefit from the terms of the agreement. An agreement on climate services should be negotiated on a parallel track.

## 2.4 Change the customs code classification for some climate goods

A challenge when addressing trade in climate goods and technologies is that some goods – for instance, lithium-ion batteries used in electric vehicles – are not identified under specific customs codes. Instead, they are classified

with similar goods that might not have the same climate benefits. The global customs code classification system is revised every five years by the World Customs Organization. The upcoming revision (in 2022 and 2023) offers an opportunity to update customs codes to allow for more precision in efforts to stimulate trade in climate goods.

## 2.5 Integrate climate objectives into EU FTAs and improve enforcement

With the adoption of the 15-point EU action plan to improve implementation of trade and sustainable development chapters and the establishment of a Chief Trade Enforcement Officer, the EU has taken steps towards making enforcement of sustainability chapters in free trade agreements (FTAs) more effective. The integration of climate objectives into EU FTAs should continue and the action plan should be implemented. During the current review, experience from implementation should serve as a basis for further steps to improve enforcement.

## 2.6 Prevent trade defence measures on climate goods

When trade defence measures such as anti-dumping duties are applied to climate goods, the result is typically an increase in price and delays in the global diffusion of goods needed to achieve climate neutrality. While imports from the

targeted country drop after the imposition of anti-dumping duties, a new study by the National Board of Trade Sweden (2021) shows that EU producers do not pick up the drop in supply. In other words, EU producers of targeted goods do not expand their production to any great extent, while the costs for downstream user industries and consumers could increase. The Task Force therefore recommends that the EU stop applying trade defence measures to climate goods.

# 3. Trade policies for the digital transformation

Just like trade in goods and services, digital trade faces headwinds in the form of more and higher trade barriers (OECD, 2021b). Such barriers delay digitalisation and limit its benefits. An important issue discussed in the group is the potential for digitalisation to help broad segments of our societies improve their lives, for instance through digital applications, better welfare services and jobs created in emerging industries. Another opportunity relates to the contributions digitalisation can make to environmental sustainability.

The group also emphasised that sovereignty with respect to data flows is illusory. Data and digitalisation mainly produce societal benefits via their network qualities. When we try to shut data in, out or down, it just moves elsewhere, and the benefits disappear. At the same time, there are privacy and

### Data flows and competitiveness

According to Ferrance et al. (2018), “restrictive data policies result in a substantial productivity loss for local companies in industries and services sectors more reliant on data. Both the

restrictions on the cross-border movement of data and on the domestic use of data are found to have a negative and significant impact on productivity ... Removing data restrictions would, therefore, have a

positive impact on the productivity performance of local firms. On average, we predict that lifting these restrictions would generate a [productivity] increase of about 4.5% across countries”. Ferrance et al. furthermore estimate that the two largest beneficiaries of relaxed data

restrictions would be Germany and France, who were both predicted to experience very strong productivity gains from lifting data restrictions. Based on these considerations, the Task Force makes the following recommendations regarding digitalisation.



security concerns that need to be addressed, particularly in relation to countries that have different views on the protection of privacy or are of concern from a security perspective. Finally, it was argued that user maturity – a potential digital bottleneck – is a source of strength for Sweden. This competitive edge should not be wasted through a slow roll-out of 5G infrastructure.

### **3.1 A single market for telecommunication services**

The development of the digital single market is important for both competitiveness and climate-neutrality. The EU must continue to facilitate progress on a range of issues related to industrial automation (including AI) and e-commerce (including EU-wide solutions for e-payment and e-identity), while enabling digital trade with third countries. Even though some digital EU files are currently being finalized, a lot of work remains to create a fully integrated digital single market. Telecommunications services are still characterized by national fragmentation, for instance. Reform is necessary to provide investment incentives and a better business case to improve 5G and 6G services. The Task Force therefore recommends that the European Commission, in cooperation with Member States and the European Parliament, commence work to create a genuine single EU market for telecom services.

### **3.2 Predictable conditions for the transfer of personal data outside the EU**

In the digital era, the ability to transfer data to and from the EU is essential for the productivity and competitiveness of EU companies. The Task Force therefore welcomes the new framework to create a legally predictable environment to guarantee the free transatlantic flow of data announced by the Commission President von der Leyen and US President Biden on 25 March 2022. More countries must be offered the possibility to tap into EU data flows on predictable terms, potentially based on the new EU-US framework. Fragmented data protection regulation could easily lead to decoupling, which would undermine the EU's digitalisation process and harm productivity and competitiveness.

### **3.3 Accelerate the roll-out of 5G networks and the development of 6G technology**

To catch up with the US and China, an accelerated 5G roll-out in the EU is necessary. The EU already has the industrial base needed to build well-functioning 5G networks and to develop 6G technology. For the 5G roll-out, technology-neutral standards based on WTO principles for international standards development are already in place. To avoid further delay, governments should not impose additional mandates that promote certain technological solutions.

### **3.4 Engage with Asia-Pacific partners and use new frameworks for digital cooperation**

Beyond the bilateral Digital Partnership Agreements announced in the EU's Indo-Pacific Strategy, the Task Force recommends that the EU engage with new initiatives such as the Digital Economic Partnership (DEPA) between New Zealand, Singapore and Chile and the Singapore-Australia Digital Economy Agreement (DEA). Proactive EU engagement with like-minded partners is required to avoid digital decoupling and shape digital rules for the future.

### **3.5 Avoid export restrictions targeting the semi-conductor supply chain**

EU digitalisation depends on functioning international semiconductor markets. Government subsidies for EU production of advanced semiconductors is not an efficient option. Furthermore, given the complex nature of digital supply chains, predicting the effects of trade restrictions is notoriously difficult. US export restrictions on semiconductors and their inputs is but one recent example of this (Bown, 2020). Export restrictions also represent an opaque and discretionary form of trade barrier that should be avoided as far as possible (see section 5.4 on trade and good governance). With the exception measures related to Russia's aggression on Ukraine, export restrictions that target semiconductor supply chains should therefore be avoided.

### **3.6 Finalise WTO e-commerce negotiations**

WTO plurilateral negotiations on e-commerce should be finalised as soon as possible. They should include ambitious rules in support of digital trade, including on the facilitation of data flows and prohibition of data localisation requirements. The negotiation result should also provide market access for e-commerce-related services and goods and services. All countries that participate in an e-commerce agreement should adopt the WTO's two Information Technology Agreements. Aid for trade in support of developing country capacity in these negotiations should be further strengthened.

### **3.7 Increase the EU de minimis threshold for e-commerce**

E-commerce has the potential to help small- and medium-sized firms grow on world markets. An important trade facilitation issue for small firms is the de minimis threshold (DMT), a numerical ceiling for imports below which no duty is charged and for which the trade procedures are minimal. While the US recently raised its DMT value from USD 200 to USD 800, the corresponding threshold value for the EU remains EUR 150. To allow SMEs to grow and compete on world markets, the EU DMT should be raised to a level in line with the current US DMT.

## **4. Trade policies for economic competitiveness**

A recurring topic in Task Force discussions was the problem of Europe's low economic growth, a problem associated with low industrial productivity and declining competitiveness. The new geopolitical situation underlines this priority and the need to improve European economic competitiveness<sup>3</sup>. One member

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It is going to be ever more important for Germany – and Europe – to import ideas, technology and human capital from abroad ...

PHILIPP LAMPRECHT in ‘What is wrong with the German economy?’

mentioned that the cost of the EU’s low growth in relation to the US over the past 10 years is comparable to the EU’s total climate bill or a Brexit every 10 years. Without reforms to restore European economic growth and competitiveness, we risk creating a viscous circle of declining competitiveness, lower real wages, more demand for protection, reduced global influence etc.

A closely related discussion concerned the notion that we are on the brink of a new industrial revolution driven by digitalisation and automation. For the past 80–90 years, economic progress has occurred incrementally. Now we face an economic leap similar to the Industrial Revolution. Just like 100 years ago, this industrial leap requires a renewed social contract in a number of areas. Moreover, an open EU trade policy and effective single market are critical components in support of competitiveness in the new geopolitical era. Consequently, there was a clear sense in the group that Europe must not become defensive on trade. As one member expressed it: “We must not mess up free trade. It drives growth and competitiveness”. According to another member, “we have work to do at home to become competitive. The internal market is still full of trade barriers” Yet another member of the group added that the transition to a fossil-free future makes a well-functioning global trading system even more important. International division of labour – not self-sufficiency – is the key to addressing climate change effectively. It’s naïve to think that self-sufficiency can achieve resilience in a world with 10 billion people and 180 countries, the same member added.

The Task Force also discussed distributional effects of a digital and climate-neutral economic transition. Policies that give the rich tax breaks for electronic vehicles or solar panels, while penalising the working poor who cannot afford

EUR 50 000 electric vehicles, are unlikely to have broad support unless more people can share the benefits of the transition. If trade can help reduce the price of climate-friendly goods and services, it would contribute to greater equity and, in turn, a socially sustainable economic transition.

#### 4.1 Trade and industrial productivity

While most policymakers are aware of the ‘old’ gains from trade associated with specialisation based on comparative advantage, 21st century trade research has focused on how openness to trade stimulates productivity. According to this line of research, the gains from trade are considerably higher than previously thought (Melitz and Trefler, 2012; Balistreri, et al., 2011). It is therefore worrying that EU strategic documents largely ignore the role of openness to trade in improving industrial productivity.

According to a recent literature review (Shu and Steinwender, 2019), 18 out of 20 research papers found a statistically significant and positive effect of better access to imported intermediates on firm productivity. No paper found negative effects. In the social sciences, this is as close to empirical proof that one gets. In line with this result, Philipp Lamprecht, Senior Economist at the European Centre for International Political Economy, recently argued that “it is going to be ever more important for Germany – and Europe – to import ideas, technology and human capital from abroad”.

Modern trade research also finds strong evidence of improved productivity through a reallocation of firms within a sector. According to this research, more productive firms scale up under open trade, whereas less productive firms scale back (Melitz, 2003). As a result, average productivity and real wages increase. This process is undermined when trade policy shields parts of the economy from foreign competition.

The ‘selection’ of high-productivity firms described above represents one of the best ways of spreading the benefits of trade more widely and ensuring that trade will work for all. Historically, the Swedish experience is that productivity improvements in the export industry have been widely shared with the help of collective bargaining. Trade was also part of the Rehn-Meidner model of the mid-1900s in Sweden, which sought to promote productivity, higher real wages and better working conditions through structural adjustment associated with

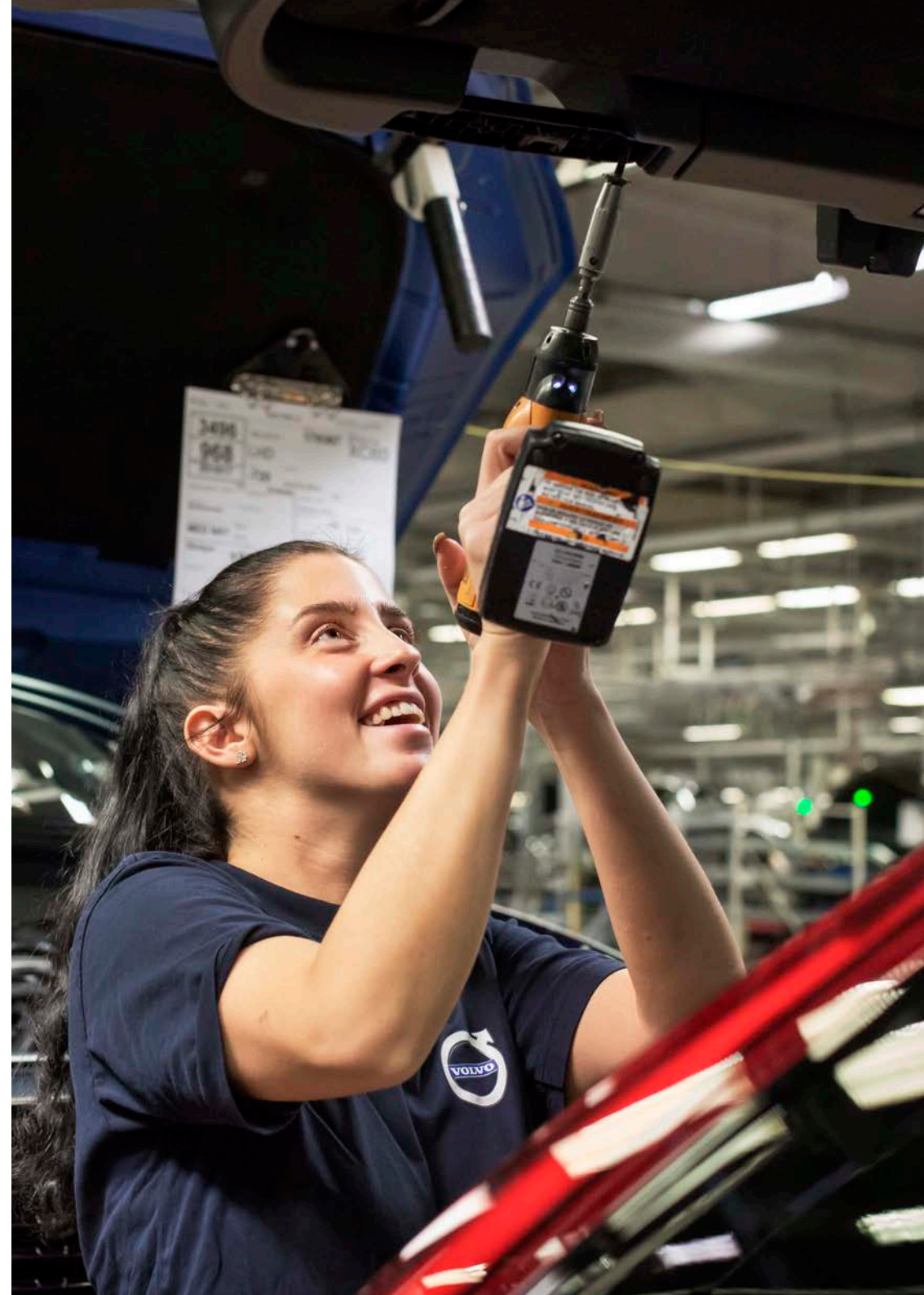
automation. As we enter a new industrial era, it is critical that this channel for European economic advancement is not obstructed.

## 4.2 Russia's war of aggression against Ukraine

According to the Task Force, Russia's war of aggression against Ukraine creates a new geopolitical context which makes economic decoupling from Russia necessary. This process will inevitably lead to structural economic change in Europe. To prevent declining competitiveness and unnecessarily high social costs from the adjustment process, it's important to diversify European supply chains by deepening trade ties with other economies. As the Covid-19 pandemic showed, the best way to support resilience at the societal level is to allow firms to adjust by providing them with sourcing alternatives. Similarly, structural adjustment associated with a faster transition to a climate-neutral economy requires access to well-functioning global markets.

## 4.3 China – economic challenges and opportunities

An important part of Task Force discussions on economic competitiveness concerned competition from China. It was recognised that China's state capitalist model presents substantial challenges for EU-China trade relations, and that China tends to cherry pick sectors and products that the Government views as suitable for trade on equal terms. Where there is a domestic supplier available, Chinese trade policy quickly becomes protectionist and state-controlled enterprises can distort competition. According to the Task Force, the solution for Sweden and the EU is to work with other countries to put pressure on China to make reforms that protect the rule of law, provide competition on equal terms and promote a genuine market economy. At the same time, there was consensus in the Task Force that the EU should seek to have a working relationship with China. According to the Task Force, decoupling is not an option but the EU should continue to make it clear to China that we do not accept Chinese support of Russia's war against Ukraine. In some areas, such as climate mitigation and the integrity of the multilateral trading





The transition to a fossil-free future makes a well-functioning global trading system even more important

system, the EU and China share key global interests. In other areas, China views Sweden and the other Nordic countries as potential models for domestic reform. Taken together, this suggests that there are areas where cooperation is possible, despite the challenges discussed above. Given these considerations, the Task Force makes the following recommendations for the purpose of improving economic competitiveness through trade policy.

#### **4.4 Renew Sweden's societal contract**

In the same way that broad-based reforms during the 19th and 20th centuries benefited our societies then, the industrial revolution of the 21st century requires renewed social contracts both domestically and globally. No one should be left behind. In relation to Sweden, the following policy areas were mentioned: infrastructure, energy supply, transport, skills upgrading (including education, on-the-job training, apprentice opportunities and attracting skilled workers from abroad), housing and foreign investment. Reforms with broad support in these areas should serve to create stable conditions for private sector investments, upgrade skills in the labour force and support social sustainability. In the new geopolitical situation, transparency in corporate conduct and due diligence also emerge as even more critical issues.

#### **4.5 Upgrade skills**

To ensure that trade benefits all, the Task Force emphasized that both governments and the private sector have a responsibility to provide high-quality education (governments) and on-the-job training (private sector). Sufficient

funds should also be allocated to retraining programmes for workers who risk losing their jobs due to structural adjustment. Improved apprentice systems and robust social safety nets also allow workers to upgrade their skills as the economy evolves.

#### **4.6 Speed up public permit processes**

Economic competitiveness abroad begins at home. Several Task Force members argued that slow processes for obtaining permits in critical industries were detrimental to the competitiveness of Swedish firms. The new era requires faster processes than is currently the case. In connection with this, one member also argued for improved e-governance.

#### **4.7 A renewed focus on completing the EU internal market**

Members of the Task Force consistently emphasised that EU single market as the foundation of European competitiveness and resilience. This point is underscored further by Russia's aggression against Ukraine. Recently, however, single market policies have not focussed on the four freedoms and the single market's role as the foundation of a 21st century European industrial revolution. A recent survey by the European Round Table for Industry (2021) furthermore revealed that the completion rate of the Single Market is only 75 percent, when members were asked to rate the free movement of people, goods, services and capital. Instead of providing the best framework conditions for EU firms to compete and scale up, a lot of attention has been paid to the distribution of EU recovery funds and a top-down creation of industrial ecosystems that adds regulatory complexity. According to the Task Force, the EU's role should not be to build industrial ecosystems but to create the regulatory framework that allows ecosystems to evolve and thrive through the interaction of millions of European firms, workers and consumers. This bottom-up view of the single market should guide the European Commission in the years ahead. The Task Force therefore recommends that the Commission renew its focus on deepening and completing the single market and on implementing the four freedoms in all areas of the EU



economy. The new geopolitical situation also calls for a renewed push for EU enlargement, including a membership perspective for Ukraine.

#### **4.8 A new EU-US free trade agreement**

There was strong consensus in the group that the new geopolitical reality requires a close alliance between the US and the EU, not only in the security sphere but also on trade. In the same way that we coordinate economic sanctions to counter Russia's aggression, the EU and the US should work together to liberalize transatlantic trade within the context of a new free trade agreement. This issue has been off the radar in Brussels and Washington for a while but gains renewed relevance in the wake of Russia's war of aggression against Ukraine. The US created the GATT - forerunner to the WTO –for the purpose of uniting allies after World War II. The EU and the US should now use a similar strategy to reconnect the world's two largest economies and create an unprecedented centre of gravity in world trade. A trade policy alliance with the United States could also be developed through deeper cooperation in the context of the Trade and Technology Council.

#### **4.9 Liberalise trade with other EU partners**

Besides a new trade alliance with the US, the Task Force recommends that the EU liberalise trade with other partners. This can be done both by completing trade agreements such as the ones with Chile, Mexico, Mercosur, Australia, New Zealand, Indonesia and India, and by linking existing EU trade agreements to create a larger cohesive area between the EU and other partners. Several such countries are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). They are suitable candidates for an initiative to create a larger, cohesive trade area among like-minded partners.

#### **4.10 Duty-free treatment of manufacturing inputs**

One straightforward way to improve industrial competitiveness and resilience through trade policy is to allow all EU firms to import their manufacturing inputs



duty free. In theory, most manufacturing inputs can already be imported to the EU at low cost. At the same time, all the overlapping arrangements result in unnecessary administrative costs. The EU could avoid this by following Canada's and Switzerland's example and simply remove tariffs on manufacturing inputs. The Task Force therefore recommends that duty-free treatment of all manufacturing inputs be introduced as soon as possible to support industrial competitiveness and resilience in the face of new geopolitical challenges. In line with the EU decision to revoke Russia's most favoured nation status, this initiative would not apply to Russia.

#### **4.11 Use the OECD to advance trade negotiations**

In the context of a discussion of the effects of the war in Ukraine and new geopolitical conditions, it was suggested that the OECD is an underused platform for trade cooperation among constitutional democracies. The Task Force therefore proposes that OECD members consider using the OECD to advance trade negotiations among like-minded countries, particularly if other global partners are unwilling to commit to meaningful reform in the context of multilateral trade talks. In relation to this, it is furthermore worth noting that the OECD has often been used as a trade policy test bed in the past. It would make sense to re-establish this role for the organisation. The OECD guidelines on multinational enterprises should also serve as the benchmark for responsible business conduct.

#### **4.12 Increase regional presence in trade promotion**

To improve firm proximity, the Task Force recommends that regional presence in Sweden's export promotion be reinforced. The participation of regional business communities in trade delegations to and from other countries should also be strengthened. Regional chambers of commerce could also establish a trade promotion council with the broad representation of regional firms.

#### **4.13 Use the Nordic Investment Bank to finance projects of common Nordic interest**

In 2019, the Nordic prime ministers declared that the Nordic region should become the most sustainable and integrated region in the world by 2030. During Task Force meetings, it became clear that deeper Nordic integration has great potential both as a platform for firms that want to scale up globally and as a model with respect to digital and sustainable solutions. In many cases, the Nordic social contract also serves as an inspiration for others. At the same time, it was clear that obstacles to Nordic integration remain and that industrial complementarities can be further explored. The pandemic exposed shortcomings with respect to free movement in the region and there are still unnecessary transportation costs and regulatory disparities.

The Nordic Investment Bank (NIB) finances projects that improve productivity and benefit the environment in the Nordic and Baltic countries. NIB financing should address sustainable growth, technological innovation, climate change, the development of circular economy and the protection of marine environments. The Task Force discussed how the NIB could be used more actively to finance projects of common Nordic interest, including through new or improved financial instruments. Projects of common Nordic interest could include cross-border infrastructure, fossil-free iron and steel production, applied energy research (including research related to batteries and hydrogen-based fuels), carbon capture and storage, minerals and mining, and a Nordic geological library.

## **5. Trade for all and trade for development**

“Thank you industrialisation. Thank you steel mill. Thank you power station and thank you chemical processing industry that gave us time to read books.”

When the late Professor of global health Hans Rosling finished his famous

2010 TED talk 'The Magic Washing Machine' with these words, he connected industrialisation to education and a better life not just for the few but for the many. As we enter a new era, Professor Rosling's message resonates with us. Today, we might add a word of gratitude to the magic vaccine machine, based on global supply chains, that allows us to spend time together again.

Beyond climate issues (see section 2), the Task Force devoted time to global challenges such as health, poverty reduction and good governance. Based on those discussions, the Task Force makes the following recommendations for an inclusive trade agenda for all.

## 5.1 Aid for trade – building back better

Empirical studies have shown that every dollar invested in Aid for Trade generates nearly twenty dollars of exports in LDCs and that the effects from Aid for Trade on employment as well as poverty reduction are positive, especially in LDCs (OECD, 2013; Durowah, 2017; Kimm, 2018).

As commodity prices rise after Russia's invasion of Ukraine, there is a large risk that the poorest in the most vulnerable countries are hit the hardest. This adds to already worsened economic conditions for many developing countries in the wake of the COVID-19 pandemic. Reduced trade and investment for developing countries also prevent the global diffusion of sustainable solutions and technologies. To support the economic recovery, new efforts to support and finance sustainable development in developing countries are needed. Trade policy capacity building, investments in infrastructure, including digital infrastructure, building sustainable productive capacity and investments in trade facilitation are some of the key areas where aid for trade plays an important role. Combining aid for trade and trade policy can help create the conditions for job creation, poverty reduction, climate mitigation and overall economic development for people and countries that need it most. The Task Force also emphasized sustainable development goal (SDG) 8a, where the global community has committed to increase aid that goes towards trade to support developing countries, particularly least developed countries.



## 5.2 A Trade for Health Agreement

To achieve health-related sustainable development goals and speed up global recovery from the COVID-19 pandemic, a rapid global vaccine roll-out is essential. As EU Commission President Ursula Von Der Leyen said in her 2021 State of the Union address, “Our first and most urgent challenge is to speed up global vaccination.”

At the time of writing, almost 60 percent of the world’s population have received two doses of COVID-19 vaccine. At the same time, only 11 per cent of people in low-income countries have received two doses. The Task Force therefore recommends that sufficient vaccine doses be made available to the WHO’s COVAX programme in order to vaccinate the world’s population as soon as possible.

Evidence from the health sector presented by members of the Task Force furthermore showed that trade restrictions enacted during the COVID-19 pandemic were counterproductive. Rather than reducing domestic shortages, they contributed to disruptions. As one member of the Task Force put it, we must never repeat the spring of 2020 when we saw ‘government-sponsored piracy’ with respect to medical and personal protective equipment. In line with Sweden’s original trade for health proposal, countries should refrain from imposing quantitative restrictions, remove tariffs and implement trade-facilitation measures that benefit the health sector. In addition, the 1994 Pharmaceutical Tariff Elimination Agreement should be updated to include more countries and products. The overall objective of a trade for health agreement should be to facilitate global access to healthcare products, including for vulnerable countries without sufficient manufacturing capacity. As for climate goods, a trade for health agreement would benefit from a plurilateral negotiation among a coalition of the willing.

## 5.3 A moratorium on non-tariff measures restricting imports from least developed countries

According to SDG 1, extreme poverty for all people everywhere should be eliminated by 2030. Under SDG 17, moreover, the global community has

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Open trade supports good governance, whereas protectionism allows vested interests and oligarchs to benefit at the expense of people and firms without the right connections.

committed to significantly increasing developing country exports and, in particular, to doubling exports from least developed countries. Meanwhile, the COVID-19 pandemic has had a severe impact on many developing countries and goods exports from least developed countries fell by 12 per cent in 2020. Together with the fallout from Russia’s war of aggression against Ukraine, this threatens to reverse decades of progress on poverty reduction.

Twenty years ago, the EU removed tariffs on everything but arms from least developed countries. Today, the biggest problem for least developed country exporters is not tariffs but non-tariff measures. Consequently, the Task Force proposes that the EU abstain from introducing non-tariff measures that threaten to curb imports from least developed countries. In essence, it would be a moratorium on non-tariff measures that restrict imports from least developed countries.

## 5.4 Trade for good governance

Another global development topic the Task Force discussed was the promotion of democracy and good governance. Open trade supports good governance, whereas protectionism allows vested interests and oligarchs to benefit at the expense of people and firms without the right connections. Ultimately, this



could harm democratic institutions. The GATT's founding members were mindful of how different types of trade restrictions have different implications for the ability to maintain good governance and prevent corruption. As a consequence, quantitative restrictions, which require non-automatic market allocation via licences, were banned by the GATT. By contrast, tariffs declared in advance and published openly were allowed. The historical lesson that there are bad and worse types of trade-restrictive measures, where the worse ones are non-transparent and discretionary, appears to have been forgotten in recent years. A whole new breed of non-tariff measures is currently on the rise globally, whereas tariffs are left largely untouched. The Task Force therefore recommends that the EU gives higher priority to promoting good trade governance and restricting discretionary and non-transparent trade measures.

As mentioned, the global community has committed to increasing aid for trade under SDG 8. Development cooperation should therefore also be designed to improve trade-related governance in partner countries.

## **5.5 Integrate fundamental rights at work better in EU FTAs**

Trade policy needs a social dimension, which should enable all workers – both within the EU and in developing countries – to benefit from trade and globalization. In particular, the Task Force emphasized that all EU FTA partners should embrace ILO conventions and the four fundamental rights at work<sup>4</sup>. FTA negotiations should include more than future consideration of core conventions and fundamental rights, and EU trading partners should make concrete commitments. Implementation of social sustainability commitments in EU FTAs should also be improved, for instance by posting labour reporting officers in EU delegations abroad. All trade agreements should make sure that decent working conditions are respected.

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#### FOTNOTER

1. According to an estimate by Wood Mackenzie (2021), a price of \$160/tCO<sub>2</sub> is required to meet the 1.5°C target.
2. If some OECD and G20 countries ultimately refuse to participate, this approach could require an MFN exception in the WTO, for instance under GATT article XX.
3. Here, economic growth refers to improved productivity, i.e. a better use of available resources rather than a nominally higher GDP due to an overexploitation of resources. See Draghi (2016) or Lamprecht (2021) for discussions on Europe's productivity problem.
4. 1) Freedom of association and effective recognition of the right to collective bargaining; 2) elimination of all forms of forced or obligatory labour; 3) effective abolition of child labour; 4) elimination of discrimination in employment and occupation.

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#### PHOTOS

- p. 1, 40, Asaf Kliger
  - p. 20, 27, 38 Sofia Sabel
  - p. 30 Simon Paulin
  - p. 35 Melker Dahlstrand
  - p. 42 Thomas Adolfsén
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