

The background features a stylized illustration of a forest. On the left, several dark blue tree trunks rise vertically. To the right, a large tree with a thick trunk and a canopy of light blue leaves and circular shapes is depicted. The overall color palette is various shades of blue.

# IV. A more resilient multilateralism for trade and development beyond 2030



151. Integration into the global economy is not limited to the elimination of barriers to cross-border movements of goods, services, capital, labour and technology, but extends to integration into international economic governance systems and institutions. These systems and institutions must address governance problems that arise when the regulatory reach of a country's institutions is confined to its national borders, while forces unleashed by globalization and growing integration have impacts across borders and may constrain domestic policymakers in attaining their goals. From this perspective, globalization implies an erosion of national sovereignty. By contrast, the current backlash against globalization can be seen as a reaffirmation of the nation State. The new task ahead of multilateralism going forward must be how to reconcile the reaffirmed State with governance of a “better globalization”, and how new areas of consensus can be found on issues of common ground among many countries, such as the need for building transformative productive capacities.

The new task ahead of multilateralism is reconciling the reaffirmed State with governance of a “better globalization”

152. Multilateralism is a mechanism for countries to deal with such governance problems, by voluntarily reducing sovereignty on a reciprocal basis and managing the interface between different national systems. The resulting arrangements design, implement and enforce mutually agreed multilateral rules and disciplines. As such, multilateralism differs importantly from mechanisms that are determined solely by economic nationalism. Within multilateralism, there exists an important tension between individual States' pursuit of economic self-determination and multilateral constraints on individual State actions. Even under multilateralism, powerful countries may still try to extract concessions through unilateral measures and to reduce national differences by promoting a singular omnipotent economic and legal structure.

153. A difficulty that multilateralism faces in the economic sphere is that, in legal terms, multilateral rules and disciplines may be equally binding for all participants but, in economic terms, they may be biased against the accommodation of requirements of those countries whose structure of production and comparative advantage provide fewer options for using international systems to benefit from the options that are open to them. This difficulty can be addressed by making it possible for these countries to invoke specific safeguard or opt-out clauses, or by according them special and differential treatment. Another difficulty is that some participants may feel increasingly disadvantaged by the way multilaterally agreed rules are implemented or by changes in economic circumstances that make them perceive a shift in the degrees of freedom that the rules accord to countries,

relative to the time when the rules were formulated. A third difficulty is that multilateral rules and disciplines may not be sufficiently comprehensive in scope and fail to accommodate adequately the interests of some countries, for example, in such areas as finance, labour mobility and corporate taxation. As a result, perceptions of an overreach of rules and restrictions in some areas, and their absence in others, can be a crucial factor in undermining consensus around multilateralism.

154. Regarding trade, the outcome of the Uruguay Round of multilateral trade negotiations 25 years ago extended the scope of multilateral disciplines to include rules that directly impinge on domestic policies. These include policy instruments that had been widely used when the now mature or late industrializers embarked on industrialization to reach their current levels of development. WTO rules have also curtailed the significant opportunities that the previous General Agreement on Tariffs and Trade provided countries to opt out of specific disciplines. Instead, the agreed rules became binding to all WTO-members and subjected them to binding dispute-settlement procedures.

155. The multilateral rules-based trading regime governed by the WTO benefits developing countries as it attenuates the coercion that powerful countries can exert in trade negotiations and relations. Nonetheless, the scope of the rules, the topics chosen for negotiation and the implementation patterns of agreed outcomes may not always be conducive to accelerating the building of transformative productive capacities needed for developing economies to catch-up. For example, the round of multilateral trade negotiations launched in Doha in 2001, commonly referred to the Doha “Development” Agenda, was designed to emphasize the trade and development aspirations of developing countries. Yet it remains an unfinished agenda. It has arguably been put to rest through paragraph 30 of the ministerial declaration of the Tenth Ministerial Conference of WTO, which recognizes that “many members reaffirm the Doha Development Agenda, and the declarations and decisions adopted at Doha and at the Ministerial Conferences held since then, and reaffirm their full commitment to conclude the [Doha Development Agenda] DDA on that basis”, while “[o]ther members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations”.

156. Different views on how to address further multilateral trade negotiations have additionally encouraged a turn to bilateral and regional trade agreements that is closely related to the spread of global value chains, as mentioned above. Combined with a tendency to favour plurilateral negotiations within the WTO, this has caused the multilateral trading regime to become increasingly fractured. What is more, increasing unilateralism in

global trade policy has led to increased pressure on the dispute-settlement mechanism of the WTO, widely regarded as the cornerstone of the rules-based multilateral trading system. Its Appellate Body became paralysed in December 2019 following disagreement among WTO members over the selection of new Appellate Body members, as well as concerns regarding the timeline for completing the Appellate Body review and the Appellate Body's alleged judicial activism. In addition, the principle of special and differential treatment for developing countries has increasingly been challenged, as their importance in global output and trade has grown rapidly. The frequency and severity of trade disputes are expected to increase unless these issues with the multilateral trading regime are resolved satisfactorily for all parties.

157. These fractures in the multilateral trading regime have gained particular importance with heightened tensions between China and the United States and the imposition of unilateral, potentially WTO-inconsistent tariffs and other impediments to trade and investment flows. The agreement between China and the United States in December 2019 has provided temporary respite, but it leaves previously elevated tariffs in place – challenging the most-favoured-nation principle that underpins the multilateral trading regime – and the numeric specification of intended trade expansion signals a return to bilaterally managed trade. The COVID-19 crisis has the potential to further exacerbate tensions, and to create more segmented and polarized global trade relationships, with obvious negative consequences for many countries.

158. An imminent final resolution to trade tensions is unlikely. In fact, there is a risk that trade tensions may continue or even intensify and include increased trade-restrictive measures between other countries as well. This impact could also spread beyond the parties involved and affect economies around the world, through both direct and indirect channels. It could generate the risk of managed trade being widely adopted through bilateral trade deals. By contrast, an early resolution of the trade tensions between the United States and China would alleviate some of the weakness in global demand, trade and investment brought about by the COVID-19 pandemic.

159. The trade tensions between China and the United States pose wider challenges to multilateralism. This is not only because it involves the world's two largest economies, but also because it juxtaposes an established global power, the United States, and an emerging global power, China, each with different economic, social and political systems. Some observers argue that such constellations face the so-called Thucydides trap – named after the Greek historian Thucydides who argued that the Peloponnesian war was

Fracturing of the global economy into two distinct economic spheres would have severe adverse impacts

caused by the growth of Athenian power and the fear that this caused in Sparta – or the idea that, as China increases its economic, technological and geopolitical power relative to the United States, the two countries are inevitably set on a collision course towards war.<sup>41</sup>

160. While the risk of a Thucydides trap may be small, current trade tensions could lead to a long-term confrontation reminiscent of that between the United States and the Soviet Union during the Cold War. An ensuing “decoupling” and the fracturing of the global economy into two distinct economic spheres centred on the United States and China would have severe adverse impacts, for several reasons. First, contrary to the Soviet Union at the time of the Cold War, today’s China is deeply integrated into the world economy, and global value chains have intertwined the economies of China and the United States. A decoupling would further fracture these settings and require a large-scale reconfiguration of global trade links. Another are the large holdings of United States Treasury bonds that China has. A sharp reduction in these holdings, for whatever reason, could cause yields of United States Treasury bonds to spike and possibly further slow economic growth in the United States. Moreover, global trade remains disproportionately invoiced in dollars, and many developing countries have their foreign debt denominated exclusively in dollars. This means that any movements of the dollar exchange rate that result from a trade dispute could have far-reaching ripple effects across the global economy.

161. Second, and relatedly, other economies, both developed and developing, have economic ties with both China and the United States and would be forced to pick their camp, possibly distinguished by different rules and standards, with their sovereignty being turned into bargaining chips and limited by forcing choices between security and economic interests. Third, both China and the United States are essential actors in a host of non-economic transnational challenges – such as climate change and the pandemic – that demand joint efforts.

162. To avoid unnecessary decoupling, it is important to recognize that, at the current juncture, major nations appear not to have the intention of making, or capability to make, adequate unilateral contributions to the provision of global public goods. They are reluctant to voluntarily forego sovereignty and make concessions under the frameworks of multilateral agreements. For this not to result in a shortage of global public goods provisions, including multilateral rules and disciplines, and a disregard for the legitimate interests of other countries, it requires redefining a set of rules and standards that connect the two countries but at the same time guarantee their national

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<sup>41</sup> Allison G, 2017, *Destined for War: Can America and China Escape Thucydides’ Trap?* Boston, New York: Houghton Mifflin Harcourt.

sovereignty and preferences. In more general terms, it would imply seeing multilateralism as a mechanism by which globalization and the nation State are not competitors, but rather mutually reinforce each other.

163. While retreating from our interdependent world is not an option, how to better manage it in ways that address anxieties and rebuild levels of trust is an urgent challenge facing countries at all levels of development. One important consequence of this recognition would be to consider how to deal with globalization forces that have fostered inequality and vulnerability and that have not been, or have been insufficiently, subject to multilateral processes and procedures. This would concern both persistent and emerging challenges. Areas with persistent challenges include the unprecedentedly high global stock of debt, volatile and often harmful short-term international capital flows, and tax evasion and avoidance. These areas also include issues as to how cooperation could be improved between older and newer institutions that provide development finance, such that financing the building of transformative productive capacities can be maximized. A reviving of multilateralism in this direction would not only address the current dilemmas that multilateral trade settings face, but it would provide a more general way forward to the benefit of all.

Reviving trust in multilateralism requires considering how to deal with globalization forces that have fostered inequality and vulnerability

164. The COVID-19 crisis represents one emerging challenge that may require adjustments of current multilateral rules such that they more adequately reflect the needs of a world confronting pandemics such as COVID-19. Production, trade and investment – the basis of our economic systems – need people to be healthy and safe. A world like that may need rules and norms that govern a globalization that is more centred on people, including to prevent shocks such as COVID-19 from halting progress on the 2030 Agenda for Sustainable Development. This type of adjustment would give organizations such as the World Health Organization a more important role in the governance of globalization. It could take its cue from the COVID-19 pandemic and the epidemics of the past 20 years – such as severe acute respiratory syndrome (SARS), Middle East respiratory syndrome (MERS) and Ebola. This would mean giving increased attention to international regulations concerning health systems that can cope with massive surges in demand and concerning ground data on disease prevalence and population immunity, as well as to norms on how economic consequences of massive social isolation can be integrated into policy decisions. Such international regulation would also need to better reflect environmental concerns in the governance of globalization, as the COVID-19 pandemic has shown that environmental protection is an essential aspect of public health. Halting

deforestation and other forms of habitat destructions would reduce vectors for the crossover to humans of dangerous new zoonotic viruses.

165. For the trade and development dimension of globalization, one indispensable step is minimizing the adverse impacts of tariffs and other trade barriers on essential medical and pharmaceutical products on national and global capacities to respond to public health challenges, such as through greater diversification of supply chains and increased strategic stockholding. A “peace clause” on WTO and investment protection cases related to COVID-19 would enable countries to quickly adopt and use emergency measures to overcome intellectual property, data and informational barriers to health measures related to COVID-19, with a permanent standstill in all relevant forums on claims on government measures implemented in the context of COVID-19. This would create the necessary policy space to support recovery efforts. Another measure, specifically targeted at the least developed countries, would be implementation of duty-free and quota-free commitments, with transparent rules of origin.

166. Further steps could extend to flexibilities brought into the implementation of WTO rules with a view to meeting health needs of developing countries. For example, WTO members adopted the 2001 Doha Declaration on the [Trade-Related Aspects of Intellectual Property Rights] TRIPS Agreement and Public Health that states, in paragraph 4, that the Agreement “... can and should be interpreted and implemented in a manner supportive of WTO members’ right to protect public health and, in particular, to promote access to medicines for all”. In 2005, WTO members agreed to make a temporary waiver contained in a 2003 decision permanent, allowing exports of generic versions of patented medicines to countries with insufficient or no manufacturing capacity in the pharmaceutical sector. The COVID-19 crisis raises the question of whether the introduction of these flexibilities is sufficient or whether further discussion is needed on how our economies and societies can become more resilient to and recover better from massive external shocks, and how the benefits of globalization can be shared more fairly.

167. Similar concerns regard climate change. Ensuring that responses to the COVID-19 crisis include policy and investment decisions that address the climate emergency may require associated rules and norms to gain greater prominence in how we manage globalization. Embarking on a non-carbon-intensive growth path is technologically possible. And there is considerable scope for both developed and developing economies to gain from the opportunities that will emerge from structural change towards renewable sources of energy, climate-friendly technologies, low-carbon equipment and more sustainable modes of consumption. But we must make sure from the

very beginning that we take measures that ensure a fair sharing of both the efforts towards and the gains from this transformation. The main obligation rests on the main carbon emitters. This requires global cooperation and clear recognition of the very different positions — in terms of past behaviour, present responsibility and future needs — of the countries of the world. The principle of common but differentiated responsibilities must be upheld, underpinned by robust multilateral principles and structures.

168. A fairer sharing of the benefits of globalization would result from these processes particularly if it were to entail taking globally coordinated steps towards a policy stance that supports sustained economic recovery and investment in transformative productive capacities and that is embedded in appropriately designed multilateral frameworks. Such steps should result from a consultative process that debates the future of multilateralism, based on full, equal and voluntary participation of all parties concerned, and designed to ensure that globalization and integration into the global economy is consistent with countries' respective needs and concerns at different levels of economic development.

169. In accordance with the Nairobi Maafikiano, UNCTAD could make a crucial contribution to this process not only through its technical cooperation tools and research and analysis products, but especially through its dialogue platforms and soft-law instruments relevant to achieving the Sustainable Development Goals. The advantage of using UNCTAD platforms would be its global reach and transparency, as well as the possibility of frank exchange focused on consensus-building, but without needing to galvanize consensus into legally binding rules and provisions. In this respect, the fifteenth session of the Conference is timely and provides the opportunity to conduct an open and frank dialogue on how to shape a new multilateral trading system that enables developing countries to accelerate investment in transformative productive capacities and contribute to global growth and shared prosperity.

UNCTAD could make a crucial contribution to a more resilient multilateralism through its dialogue platforms and soft-law instruments