Policy Note

Boosting trade for growth and jobs

"Free trade means more efficiency; more efficiency means more wealth; more wealth means more jobs".

Australian Prime Minister Tony Abbott, B20 Summit, Sydney, July 2014

Trade as a driver of growth

Enabling trade to flow freely across the globe promotes economic activity and employment.

Open markets allow consumers and producers of goods and services to buy and sell at competitive global prices. Trade supports economies of scale, encourages innovation and investment, and allows for commodities and resources to move from areas of plenty to areas of scarcity. Trade also has a key role in increasing standards of living, particularly in developing countries.

The G20 recognises that both domestic and international reforms are needed to encourage trade and investment, and maximise profits from global value chains.

CHANGING PATTERNS IN GLOBAL TRADE

As the world economy has become more globalised, international trading patterns have become increasingly complex. Goods are no longer made in one country and sold to another, but rather "made in the world". Goods and components cross national borders many times before ending up in the hands of the final consumer, a production process also called "global value chains".

Many modern technologies use components designed, produced and assembled in different countries, from passenger jets to personal computers. Between 30 and 60 per cent of G20 countries' exports consist of imported inputs or are used as inputs by other countries.

Global value chains have changed the traditional understanding of trade. Countries must now be competitive importers as well as competitive exporters. G20 members have identified how they can adjust their trade and economic policies to benefit more from global value chains, including by strengthening customs procedures.

REMOVING BARRIERS TO TRADE

The OECD estimates that reducing global trade costs by just 1 per cent could result in a worldwide income increase of US$40 billion, with 65 per cent of the benefits going to developing countries.

Actions to boost trade will have a significant impact on the global economy and are crucial to deliver on the commitment of Finance Ministers and Central Bank Governors to lift collective G20 GDP by more than 2 per cent above the projected level in the next five years.

MAKING TRADE MORE EFFICIENT

Business tells us that behind the border reforms have a greater impact on trade than reducing traditional tariff barriers.

Opening up trade in services, including logistical, business and financial services, is essential to efficient global production processes, and to encourage competition.

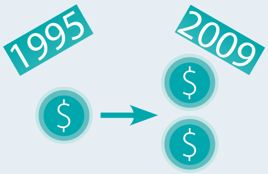
To facilitate trade, the sorts of measures that countries are taking at home include reducing red tape at borders and regulatory burdens on business, streamlining customs procedures, and removing barriers to trade in services.

Trade facilitation helps countries participate in global value chains by cutting costs, avoiding unnecessary delays, and reducing uncertainty.

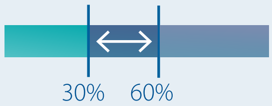
The OECD has reported that the potential reduction in trade costs of fully implementing the WTO Trade Facilitation Agreement is as high as 16 per cent for some developing countries.

MADE IN THE WORLD: GLOBAL VALUE CHAINS CONTRIBUTING TO GLOBAL GROWTH

The OECD has found that income from trade in global value chains doubled between 1995 and 2009.



Global value chains used in G20 exports



Between 30 and 60 per cent of G20 countries' exports consist of imported inputs or are used as inputs by other countries.

Global value chains are particularly sensitive to the quality and efficiency of services, accounting for 42 per cent of the value-added in the exports of G20 economies and more than 50 per cent for some countries.

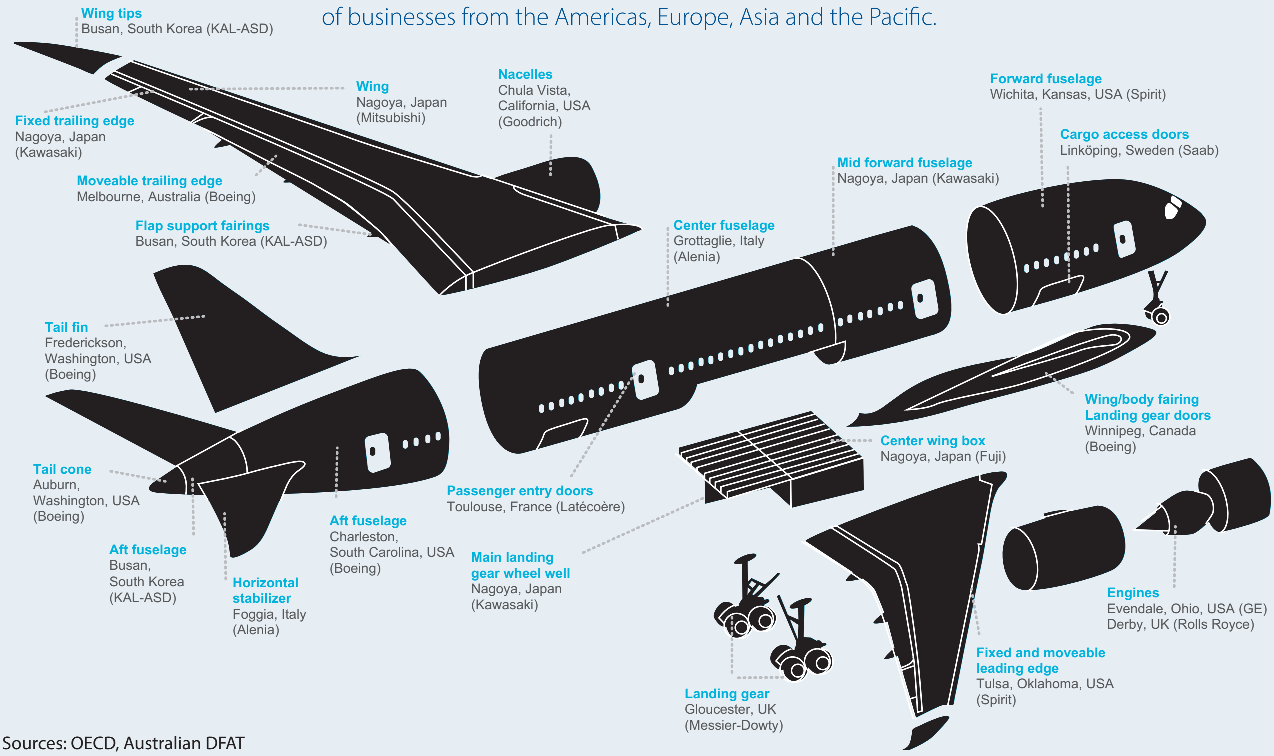
The most typical path for small and medium enterprises (SMEs) to enter global value chains is to sell their goods and services to larger, multinational firms.

The insertion of SMEs into global value chains is especially important in the developing world, where these firms represent approximately 80-90 per cent of total employment.

Infrastructure development is an important element in enabling developing countries to participate in global value chains. Improving logistics services in particular is essential to effective participation.

High-quality logistics affect trade even more than distance or transport costs; every extra day needed to ready goods for export and import could potentially reduce trade flows by up to 4 per cent.

The Boeing 787 Dreamliner is assembled from components built by dozens of businesses from the Americas, Europe, Asia and the Pacific.



Sources: OECD, Australian DFAT

Based on recommendations by the OECD, WTO and World Bank, Australia is encouraging countries to take domestic actions to ease barriers to trade at and behind their borders and to reduce transaction costs to make it easier for businesses, especially small and medium enterprises (SMEs), to access the global marketplace.

Reducing trade barriers and protectionism

G20 members know the importance of open trade policies.

Given the globalised nature of trading patterns, restrictive trade measures can have damaging knock-on effects on countries further along the production chain: if one country restricts trade, it often pushes the costs up elsewhere. Left in place, trade restrictive measures constrain economic growth.

Removing restrictive measures remains difficult. Despite the G20 commitment to remove protectionist measures introduced after the global financial crisis, and to resist implementing new measures that restrict trade, between November 2013 and May 2014, G20 members introduced 112 new trade restrictive measures, covering around 0.2 per cent of global merchandise trade.

In July, G20 Trade Ministers reaffirmed the commitment from St Petersburg to standstill and roll back protectionist measures.

A STRONGER GLOBAL TRADING SYSTEM

Over the last decade, countries have increasingly signed trade deals bilaterally or regionally to open their markets further to specific trading partners. The global trading system is now made up of hundreds of bilateral, regional and sectoral agreements.

The private sector says that the plethora of agreements, with different standards and levels of ambition, can be complex for business, especially SMEs, to navigate.

In 2014, the G20 is discussing how to strengthen the coherence of global trading arrangements (WTO, sectoral agreements and FTAs) to enable business to make better use of opportunities in overseas markets. Complementary bilateral trade agreements can act as building blocks towards multilateral agreements.

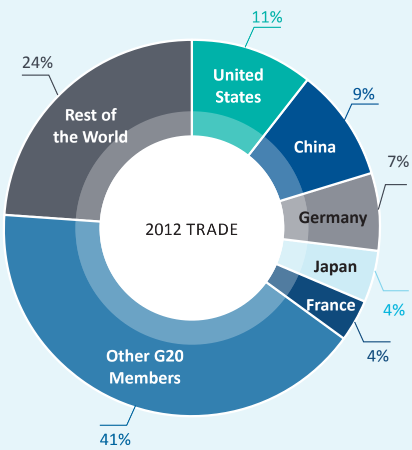
Multilateral agreements

The most effective way to use trade policy to achieve global growth is through multilateral agreements, which set the same standards and rules across the world and create multilateral markets.

A strong, effective WTO at the centre of the global trading system is essential. The G20 is working to ensure that the wider system is as strong as it can be to deliver growth. This includes implementing the Bali package and progressing the WTO's forward work plan. To ensure all countries are able to benefit from the Trade Facilitation Agreement, G20 donor countries will also continue to provide Aid for Trade, to help countries that need assistance make the necessary reforms.

The G20 is also looking at the role of bilateral, regional and plurilateral trade agreements in boosting growth, particularly how to improve the way these agreements interact with each other. This will benefit businesses and consumers worldwide.

GLOBAL TRADE



World Trade Organisation Global Database, 2012 data

The G20 represents around three quarters of global trade comprising US$14.2 trillion of goods exports and US$3.7 trillion of services exports in 2012.

HOW IT HAPPENS

The G20 trade discussions do not have a dedicated working group, but at Australia's request, sherpas have identified officials to support them on this issue.

In July 2014, G20 Trade Ministers met in Sydney and discussed the need to take individual action to reduce trading costs for business and to liberalise services sectors. These actions will contribute to each country's comprehensive growth strategy, which will contribute to the Brisbane Action Plan that leaders will sign off at the G20 Summit in November.

- prepared by the Australian Presidency

Further information

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