



**U.S.-Kenya Trade Talks Begin:
What could they mean?**

**WTO Talks on Fishing Subsidies
Crucial to Safeguard Marine
Resources**

**Sustainable Trade After
COVID-19: Can we do
better?**

TRADE AND SUSTAINABILITY REVIEW

VOLUME 1 | ISSUE 1 | NOVEMBER 2020



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INTRODUCTION





Dear readers,

It has now become almost cliché to say that the world is in turmoil, that our economic governance systems need a deep overhaul, and that the multilateral trading system is at a crossroads. As familiar as these talking points are, however, their urgency is no less powerful. The COVID-19 crisis has provided us with a painful reminder that as interconnected as our world has become, with all the associated gains, this interdependence has also exposed the world’s poorest and most vulnerable to extraordinary risk. Whether it involves the shockwaves of a pandemic, the rapidly escalating impacts of climate change, or the profound and lasting tolls of natural disasters and conflict, those that will suffer the most are usually the ones who already have the least.

The urgency for integrating sustainable development prerogatives into international economic policy to avoid or lessen future economic and environmental shocks is real—this is also true in trade. As we look to fulfill the calls for “building back better,” it is clear that now—especially now—there is a need for analysis, commentary, and news reporting on trade policy with sustainable development at its core. Doing so brings us back to the spirit of the Marrakesh Agreement’s preamble and reinforces our commitment to the ambitions of the 2030 Agenda for Sustainable Development. This first issue of IISD’s Trade and Sustainability Review forms part of our own contribution to this effort. We hope it can serve to promote [engaged, inclusive conversations](#) on trade policy, together with the revamped trade reporting work being undertaken by our SDG Knowledge Hub.

With our new quarterly magazine, we want to engage the community that already exists on international trade policy and politics and also bring in voices from the broader sustainable development ecosystem. We hope to support a much-needed open debate among all these actors, one that is forward-looking, creative, and committed to evidence-based solutions that advance the Sustainable Development Goals. The crisis that we are living through now is reshaping nearly every aspect of our lives, both professionally and personally, and how it will end is not yet clear. Yet we hope that from crisis and pain, eventually, a better, fairer system will prevail.



As we embark on this new quarterly review project, we are delighted to announce the founding editorial team of this new publication, which involves a team of experienced trade reporters, translators, editors, and publishing and digital media experts. Jennifer Freedman is the *Trade and Sustainability Review's* Managing Editor, with the oversight and support of Sofia Baliño, the Communications and Editorial Manager of IISD's Economic Law and Policy program. Our translation team of María Candela Conforti and Isabelle Guinebault ensures that this publication can reach Spanish and French-language audiences and also leads the translation of our sister publication, *Investment Treaty News*. Kiranne Guddoy and Sofia Baliño provide the editorial review of our French and Spanish versions, respectively. Tom Penner of Firefly Communications, Kathy Clark as the lead of IISD's publishing house, Ryan Woo as IISD's web manager, and Adam Smith of Metronome's design team play an invaluable role in ensuring that this new venture takes advantage of the best digital, publishing, and design tools and principles on offer.

We are grateful for the financial support of the UK government, without whose trust this effort would not have been possible. We also wish to thank our inaugural authors, whose backgrounds range from intergovernmental organizations to civil society and academia. They have given us a profound vote of confidence with their thoughtful submissions, along with important material for reflection and discussion.

We are extremely pleased to share our new publication with you and we welcome your comments, your suggestions, and your submissions.

Nathalie Bernasconi-Osterwalder
Executive Director, IISD Europe



SUSTAINABLE TRADE AFTER COVID-19: CAN WE DO BETTER?

by *Aik Hoe Lim*¹

¹ Aik Hoe Lim is director of the Trade and Environment Division at the World Trade Organization (WTO). The views expressed are those of the author and cannot be attributed to the WTO or its members. The author is grateful to Gergana Kiskinova for research assistance and Karsten Steinfatt for comments. This article was inspired by the author's recent contribution to *The Future of International Economic Law and the Rule of Law*, edited by Rafael Leal Arcas.

“Trade and trade policies can help societies achieve an economic recovery that is both sustainable and resilient.”



“The price tag of not tackling mounting environmental challenges will dwarf the trillions of dollars that governments are handing out to combat the pandemic.”

The impact of COVID-19 on the environment, society, and economy is unprecedented. Never before have national and global economies been shut down so suddenly or for so long. In this sense, the sudden impact of the pandemic on economies has been likened to that of a war, but without the damage to physical infrastructure and the underlying productive capacity of a country.

While COVID-19 is first and foremost a health crisis, it has morphed into a global economic crisis compounding the already negative effects of the pandemic on livelihoods. Protecting jobs, keeping food supplies and other essential goods flowing, and ensuring access to basic services have become vital considerations. International trade is expected to drop at least 13% this year, while foreign direct investment will slide 30% to 40%.² Initial estimates for the second quarter of 2020 indicated a year-on-year drop of around 18.5%.³

Behind these figures is a tremendous social and economic impact with shrinking output, massive job losses, and rising hunger. Years of hard-won development progress also risk being reversed. The economic crisis is expected to push 500 million people into poverty, the first increase in poverty rates in decades, and the number of people facing starvation may almost double to 265 million from 135 million.⁴

As governments look beyond the crisis, massive injections of capital are expected to support the recovery. This is a critical inflection point, especially as the price tag of not tackling mounting environmental challenges will dwarf the trillions of dollars that governments are handing out to combat the pandemic.⁵ How these funds will be used and the extent to which they will help build back more sustainable and resilient economies is increasingly in the policy discourse.

For instance, the Next Generation EU recovery plan presented by the European Commission in late May includes many initiatives aimed at both reviving the economy and stimulating the greener transformation of European economies. On July 21, European Union leaders agreed on a EUR 750 billion fund for the post-coronavirus recovery plan.

² See WTO estimates at https://www.wto.org/english/news_e/pres20_e/pr858_e.htm

³ Ibid.

⁴ These figures were cited in Rijsberman, F. Acosta, L., Bhardwaj, N., Dickinson, C., Gibson, M., Grafakos, S., Solvang, I., & Storey, D. (2020). *Achieving green growth and climate action post-COVID-19*. Global Green Growth Institute. <https://gggi.org/report/achieving-green-growth-and-climate-action-post-covid-19/>

⁵ McKinsey estimates that governments are putting together an unprecedented financial response that already exceeds USD 10 trillion. Cassim, Z., Handjiski, B., Schubert, J., & Zouaoui, Y. (2020, June 5). *The \$10 trillion rescue: How governments can deliver impact*. McKinsey. <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-10-trillion-dollar-rescue-how-governments-can-deliver-impact>

They earmarked 30% of the recovery package for climate projects that are consistent with the Paris agreement and comply with the objective of EU climate neutrality by 2050.⁶

The Organisation for Economic Co-operation and Development (OECD) highlights several ways governments could support a sustainable and resilient post-COVID-19 recovery in its publication, *Building back better: A sustainable, resilient recovery after COVID-19*.⁷

These include a people-centred recovery that targets well-being, improves inclusiveness, and lessens inequality; aligning recovery measures with long-term objectives for reducing greenhouse gas emissions; strengthening resilience to the impacts of climate change; integrating more ambitious policies to halt and reverse biodiversity loss and restore ecosystem services, including through nature-based solutions; fostering innovation that builds on enduring behavioural changes; and improving resilience of supply chains, including through greater adherence to circular economy principles.

There are a growing number of recommendations and policy briefs on post-COVID-19 sustainable recovery like that issued by the OECD. However, the role of trade in supporting this recovery is less discussed.⁸ This article examines how trade and trade policies can help societies achieve an economic recovery that is both sustainable and resilient.⁹

Pathways Linking Sustainable Trade to Recovery

Policies supporting post-COVID-19 recovery are likely to have four key interrelated dimensions in their sights. The first will be to bolster the labour market by investing in activities that stimulate job creation. The International Labour Organization (ILO) has estimated that full or partial lockdown measures have hit 81% of the

⁶ General Secretariat of the European Council. (2020, July 21). *Special meeting of the European Council (17–21 July 2020) – Conclusions*, Brussels. <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>. Along with the recovery plan, EU leaders agreed on a budget for 2021–2027 amounting to EUR 1.074 trillion. Overall, 30% of the total amount of the EU budget and the recovery fund will support climate objectives.

⁷ OECD. (2020). *Building back better: A sustainable, resilient recovery after COVID-19*. https://read.oecd-ilibrary.org/view/?ref=133_133639-s08q2ridhf&title=Building-back-better- A-sustainable-resilient-recovery-after-Covid-19

⁸ UN Environment Programme. (2020). *Covid-19: Implications for trade and environment*. Environment and Trade Hub. <https://wedocs.unep.org/bitstream/handle/20.500.11822/32205/Covid.pdf?sequence=1&isAllowed=y>; Charveriat, C. & Deere Birkbeck, C. (2020, May). *Greening Trade for a global, green and just recovery*. Hoffman Centre for Sustainable Resource Economy. <https://ieep.eu/uploads/articles/attachments/10a0999c-06d5-4972-914a-251b2b02b3ef/Greening%20trade%20for%20a%20green%20recovery.pdf?v=63756597346>

⁹ This article draws from presentations and discussions at the WTO World Environment Day webinar: WTO. (2020, June 4). *Sustainable Trade after Covid 19: Can we do better?* https://www.wto.org/english/tratop_e/envir_e/wed2020_e.htm



global workforce, causing unprecedented job losses and furloughs.¹⁰ Some 25 million people had lost their jobs as of May 2020, according to the ILO, with the loss of income amounting to USD 3.4 trillion. This initial projection is expected to be markedly higher by the end of 2020.¹¹

A second dimension will be to support activities that are likely to have a high economic multiplier effect and in which there is significant growth potential. A third consideration will be to restore sectors that have been severely affected by the crisis through rescue spending. In aviation, for instance, losses of USD 112 billion to USD 135 billion have been projected in the first half of 2020.

A fourth consideration, which is directly related to international trade, will be to safeguard the robustness and resilience of supply chains for food, medicines, medical equipment, and other essential goods and services. Export- and import-restrictive measures that disrupted global supply chains affected a substantial share of world trade. Although curbs remain, import-facilitating measures are increasingly being introduced as economies start to rebuild. World Trade Organization (WTO) members imposed 363 new trade and trade-related measures between mid-October 2019 and mid-May 2020, 198 of them trade-facilitating and 165 trade-restrictive.¹²

¹⁰ International Labour Organization. (2020). ILO Monitor: COVID-19 and the world of work. 2nd Edition https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_740877.pdf

¹¹ United Nations International Civil Aviation Organization. (2020). *Effects of novel coronavirus (COVID-19) on civil aviation: Economic impact analysis*. <https://www.icao.int/sustainability/Documents/COVID-19/ICAO%20Coronavirus%202020%2005%2008%20Economic%20Impact.pdf>

¹² WTO. (2020, July 10). Report of the *Trade Policy Review Body from the Director-General on trade-related developments*. WT/TPR/OV/W/14. https://www.wto.org/english/news_e/news20_e/trdev_24jul20_e.htm

“The challenge... is to find pathways to sustainable trade that can help both the environment and the economy.”

Trade will play a critical role in all four of these policy dimensions. The challenge, however, is not just to reboot the international trade engine, but to find pathways to sustainable trade that can help both the environment and the economy. Some of these pathways can be linked to work that has already been initiated at the WTO under the auspices of the Committee on Trade and Environment, as well as initiatives launched by members.

The first pathway is facilitating trade in environmental goods and services to support clean technology dissemination. This is not a new route, but it should be revisited. The Paragraph 31 (iii) mandate from the Doha Ministerial Declaration for the “reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services” has unfortunately not been concluded.

Plurilateral negotiating initiatives among a group of WTO members in the form of the Environmental Goods Agreement (EGA) also have yet to yield results.¹³ Although considerable efforts went into the EGA in 2015–2016, ministers were unable to overcome differences at their meeting in Geneva in December 2016. Lowering tariffs and other trade barriers on goods and services that address pollution and greenhouse gases, and those that facilitate transition to renewable energy and improve resource efficiency, is one of the most direct contributions that trade policy can make to sustainable trade after the pandemic.

The rationale for supporting clean technology dissemination through trade is possibly stronger than ever. COVID-19 lockdowns have significantly reduced air pollution, but this probably will not be long lasting without transformational change in key sectors of the economy, such as energy and transport. The lessons from the 2008 financial crisis showed that pollution and greenhouse gas levels rebounded quickly with economic recovery and even exceeded those before the crisis. Despite difficulties in concluding a deal, cutting tariffs on a broad range of environmental goods could lead to carbon dioxide reductions of 10 million tonnes by 2030 while boosting world trade by 1.1%.¹⁴

Clean energy technologies were already expanding quickly before the COVID-19 outbreak, with the International Energy Agency predicting that renewable energy capacity would expand by 50% between 2019 and 2024.¹⁵ However, the pandemic poses challenges to its continued rapid growth.

¹³ For more information on the Environmental Goods Agreement, see https://www.wto.org/english/tratop_e/envir_e/ega_e.htm

¹⁴ European Commission. (2016). *Trade sustainability impact assessment on the Environmental Goods Agreement (final report)*. Development Solutions. <https://op.europa.eu/en/publication-detail/-/publication/f256d8d8-067c-4f3c-9a21-c3601816c2cf>

¹⁵ IEA. (2019). *Renewables 2019*. <https://www.iea.org/reports/renewables-2019>



For one, the sector depends heavily on global supply chains. Much of the impressive growth in renewable energy has been accompanied by cost reductions, driven partly by trade-fueled global competition and economies of scale.¹⁶ Virus-related travel restrictions and border closures, which risk fragmenting supply chains and disrupting the flow of inputs, could raise the cost of renewables.¹⁷ Supply chain delays due to COVID-19 have created a shortage of turbine blades, gearbox bearings, and logistical equipment such as cranes, according to renewable energy analysts.¹⁸ At the same time, lower fossil fuel prices are putting pressure on the competitiveness of renewable energy sources.

In addition to redoubling efforts to conclude the environmental goods negotiations, governments should consider scrapping tariffs unilaterally. The United Kingdom, for instance, intends to eliminate applied tariffs on more than 100 products that contribute to renewable energy, energy efficiency, carbon capture, and the circular economy.¹⁹ This will include tariff cuts on three types of hydraulic turbines used in sustainable energy production and on their parts, as well as on several of the elements needed for gearing systems used in wind energy production.²⁰ There is a precedent for environmental goods liberalization with the successful negotiations by Asia-Pacific Economic Cooperation economies in 2012 to voluntarily reduce tariffs on 54 environmental goods to 5% or less.²¹

A second related pathway is to use environmental goods and services market access to help green businesses scale up. At the broadest level, the Business and Sustainable Development Commission estimates that the value of sustainable business opportunities across four key systems—food, cities, energy and materials, and health and well-being—could reach USD 12 trillion annually by 2030.²² More specifically, the value of the environmental goods and services market has been estimated at USD 2 trillion.²³

¹⁶ See Chapter 2 in WTO and UN Environment. (2018). *Making trade work for the environment, prosperity and resilience*. https://www.wto.org/english/res_e/publications_e/unereport2018_e.pdf

¹⁷ See Dempsey, H. (2020, April 29). Wind power boom under threat as coronavirus hits supply chains. *Financial Times*. <https://www.ft.com/content/1205af7e-47dc-41fa-a9b4-ff6a03fe1cdc>

¹⁸ Ibid.

¹⁹ Announced in remarks by WTO World Environment Day webinar, *supra* note 9.

²⁰ Ibid.

²¹ For the list of environmental goods liberalized by APEC, see https://www.apec.org/Meeting-Papers/Leaders-Declarations/2012/2012_aelm/2012_aelm_annexC.aspx

²² AlphaBeta. (2017). Valuing the SDG Prize: *Unlocking business opportunities to accelerate sustainable and inclusive growth*. Business and Sustainable Development Commission. <http://s3.amazonaws.com/awbsdc/Valuing-the-SDG-Prize.pdf>

²³ Bucher, H., Drake-Brockman, J., Kasterine, A., & Sugathan, M. (2014). *Trade in environmental goods and services: Opportunities and challenges*. International Trade Centre. <http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AssetPDF/EGS%20Ecosystems%20Brief%20040914%20-%20low%20res.pdf>



“To ‘build back better,’ developing nations will need investment and assistance in sectors that can contribute to better sustainability outcomes.”

In 2018, trade in solar photovoltaic systems and components totaled USD 287 billion. Trade in these goods grew at an annual average rate of 7.6% in the years 2005–2018, compared with just under 5% for manufactured goods generally. Trade in machines to manufacture photovoltaic panels and their parts also climbed, rising to USD 140 billion in 2018 from slightly less than USD 52 billion in 2007.²⁴

Scaling up green business opportunities can help create jobs. The renewable energy sector already employs about 11 million people worldwide,²⁵ and low-carbon development is expected to add more than 65 billion jobs globally by 2030.²⁶ The Global Green Growth Institute says a USD 1 million investment would generate around 7.5 full-time jobs in renewable energy infrastructure and about 7.7 full-time jobs in energy efficiency, compared to only 2.6 full-time jobs in fossil fuel.²⁷

Twenty years ago, environmental considerations were viewed primarily as a cost and risk factor. Today, a growing number of businesses are adopting a more holistic approach that considers sustainability as a source of competitive advantage, a driver of efficient value chains and a gateway to tap into emerging business and trade opportunities.²⁸ International trade can facilitate the creation and expansion of markets for sustainable goods, thereby strengthening incentives for more environmentally sustainable production, while boosting employment and green growth.

The third pathway is to address capacity gaps. Not all countries will be fully able or sufficiently ready to make the green transition or to take advantage of the opportunities created by the emerging green economy. Capacity gaps and challenges exist in terms of skills, supply capacity, trade-related infrastructure, and ability to meet and demonstrate conformity to environmental regulatory requirements and upgraded standards.

To “build back better,” developing nations will need investment and assistance in sectors that can contribute to better sustainability outcomes. This could be in terms of export diversification, improving productive capacity, channeling investments into climate-resilient infrastructure, upgrading quality infrastructure for standards and conformity assessment, and much more.

²⁴ WTO calculations based on UN COMTRADE database.

²⁵ IRENA. (n.d.). Job Creation. <https://www.irena.org/benefits/Job-Creation>

²⁶ See Rijsberman et al., *supra* note 4

²⁷ Ibid.

²⁸ See pp. 19–21 in WTO and UN Environment, *supra* note 16.



Some of this investment could come through existing initiatives aimed at addressing trade-related capacity gaps. Aid for Trade, the Enhanced Integrated Framework, and the Standards and Trade Development Facility are key examples of WTO-led partnership initiatives.²⁹

Aid for Trade, which constitutes roughly 30% of official development assistance, disbursed around USD 340 billion in 2006–2016.³⁰ Almost a third (USD 112 billion) has been allocated to projects with an environmental objective.

The Standards and Trade Development Facility helps developing countries meet sanitary and phytosanitary measures. It works on various environment-related issues, including problems caused by invasive alien species, protection of biodiversity, and the mitigation of climate change risks. In COVID-19 recovery, there is a potential to scale up and focus on further “greening” such programs to improve the capacity of developing countries to engage in sustainable trade. This could be a central part of green economic recovery from COVID-19.

A fourth pathway is improving the environmental footprint of trade itself. This could, for instance, be in terms of reducing emissions, pollution, and waste from international transport. Again, there is potential here to improve capacity to adopt cleaner technologies, improve waste management, build circular economies that close resource loops, and improve the management of natural resources.

Some of these policies will be beyond the competence of trade policies, and the challenge will be to ensure that governments have the political will, technology, and institutional capacity to drive through reforms. At the same time, it is important not to lose sight of the fact that international trade, by allowing for a more optimal allocation of resources, can improve efficiency. And this can contribute to environmental gains.

The fifth pathway is strengthening mechanisms for trade and environmental governance. The WTO Committee on Trade and Environment is one such institutional mechanism that could be used to improve cooperation and coherence between post-COVID-19 green recovery and trade.

The committee serves as the key multilateral forum for WTO members to identify and discuss the relationship between trade measures and environmental measures to promote sustainable development. Recent topics have included environmental taxes

²⁹ See www.wto.org for more information on these programs.

³⁰ See page 210 in WTO. (2019). *Aid for trade: Global review 2019*. https://www.wto.org/english/tratop_e/devel_e/a4t_e/gr19_e/glossy_summary_report_e.pdf

and labeling schemes; sustainability aspects of trade in sectors such as forestry, fisheries, and energy; measures to facilitate the dissemination of environmental goods and services; the environmental footprint of products and services; and the trade elements of climate measures.

The UN Environment Programme and secretariats of multilateral environmental agreements regularly brief the committee on their work. This helps promote mutual supportiveness between trade and environmental policies.

WTO members have used the committee to build support for new initiatives, such as promoting circular economy principles, addressing plastics pollution, advancing the declaration to reform fossil fuel subsidies, and raising awareness about new negotiations, such as on a plurilateral agreement on climate change, trade, and sustainability.³¹ Some members, acting collectively as the group Friends of Advancing Sustainable Trade, have been building broad support for a ministerial statement on environmental sustainability and trade to be adopted at the next WTO ministerial conference.³² As COVID-19 recovery plans go forward, the committee can play a very important role in providing a deliberative space to incubate ideas on how to make trade more sustainable and resilient.³³

The committee can also help ensure transparency and avoid protectionist measures being taken in the guise of COVID-19 green economic recovery. The WTO Environmental Database helps support the committee's transparency pillar, and more use could be made of this tool to keep track of measures that are being taken.³⁴

The pandemic has already provoked inward-looking responses, with some arguing forcefully for reshoring and closing borders to imports. This would be costly, not very feasible for countries that depend on international trade for earnings and supplies, and very damaging for developing economies. Some environmental think tanks have also pointed out that turning inward and beggar-thy-neighbour policies would hamper the diffusion of clean technologies and could serve as disguised protection for high-carbon and inefficient technologies.³⁵

³¹ For an overview of recent discussions by the Committee on Trade and Environment, see the press report of its meeting of July 3, 2020 at https://www.wto.org/english/news_e/news20_e/envir_03jul20_e.htm

³² This group intended to adopt the ministerial statement at the WTO ministerial conference planned for July 2020 in Kazakhstan. The conference was canceled due to the pandemic, and at the time of writing, WTO members have yet to decide when it will be held.

³³ See WTO, *supra* note 9.

³⁴ The Environmental Database is available at edb.wto.org. See also Lim, A.H., Mathur, S., & Suk, G. (2020, March). *Trade and environment: what can we learn from trade policy reviews?* (WTO staff working paper, ERS20-06). https://www.wto.org/english/res_e/reser_e/ersd202006_e.htm

³⁵ Remarks by Céline Charveriat at WTO World Environment Day webinar, *supra* notes 8 and note 9.

The sixth pathway is to ensure that supply chains are not only more resilient to risks and shocks, but also environmentally more sustainable. The crisis has underscored the interdependence of economies and the importance of robust and resilient global value chains. Reliable regional and international supply chains reduce vulnerabilities to localized shocks and help with the affordable supply of essential goods and services.

Closing borders, protectionism, and deglobalization would hamper sustainable trade. This would make supplies even more precarious and could potentially make it harder to diffuse sustainable technologies. The economic slump caused by the pandemic is already pushing millions into poverty, disproportionately affecting those in low-income groups and developing countries. Rising poverty rates could be a setback for sustainable trade as producers focus on meeting immediate income needs.

The World Economic Forum argues that efforts must go instead into building more sustainable, resilient supply chains that can help the world emerge healthier from COVID-19.³⁶ This requires more inclusive and cooperative approaches to the governance of supply chains, including in the design and use of sustainability standards and certification. Further efforts are also required to improve market access conditions for sustainable products. As part of this, it is important to ensure that sustainability requirements are transparent and based on relevant international standards, while not creating any unnecessary barriers to trade.

Another common supply-side problem is the lack of access to a well-functioning, affordable, and reliable quality infrastructure that allows farmers to demonstrate compliance with relevant sustainability standards. As efforts go into greening the COVID-19 recovery, there is an opportunity to build supply-side capacity that can help producers meet sustainability standards. The burden of greening supply chains cannot rest on the shoulders of producers alone; there is a joint responsibility on the demand side to invest in sustainable production.

³⁶ Rennie, R. (2020, June 26). *3 ways sustainable supply chains can build better business in a post-COVID world*. World Economic Forum. <https://www.weforum.org/agenda/2020/06/sustainable-supply-chains-covid-19-era/>

“My answer to the question of whether we can do better on sustainable trade is a clear ‘yes.’”

“A collective response on trade that fosters sustainability, inclusiveness, development, and resilience is what will help us bounce forward toward a more sustainable future.”

Doing Better on Sustainable Trade

My answer to the question of whether we can do better on sustainable trade is a clear “yes.” There are pathways that can help governments, businesses, and people achieve this in the context of the COVID-19 economic recovery. Growing environmental stresses leave our societies vulnerable to natural disasters, resource scarcity, and disease. Protecting people and the planet is thus not a luxury, but a necessity.

Multilateral bodies such as the WTO Committee on Trade and Environment can help governments intensify their policy dialogue, invigorate efforts to make trade policies supportive of sustainability and explore creative ways to make supply chains greener and more resilient. What needs to be avoided are beggar-thy-neighbour policies that seek to protect inefficient and environmentally harmful industries in the guise of economic recovery.

A collective response on trade that fosters sustainability, inclusiveness, development, and resilience is what will help us bounce forward toward a more sustainable future.





WTO TALKS ON FISHING SUBSIDIES CRUCIAL TO SAFEGUARD MARINE RESOURCES

By Alice Tipping¹



¹ Alice Tipping is Lead, Fisheries Subsidies, at IISD. This article draws from Tipping, A. & Irschlinger, T. (2020). *WTO negotiations on fisheries subsidies: What's the state of play?* <https://www.iisd.org/library/wto-negotiations-fisheries-subsidies-state-play>

No one is more surprised than World Trade Organization (WTO) members to find the trade body front and centre of international efforts to preserve the global ocean. But it is.

Although 2020 was meant to be a “super year” for ocean governance, international meetings, including the UN Ocean Conference, have been postponed until 2021 due to the COVID-19 pandemic. This means the last remaining hope of concrete action this year to halt the depletion of the world’s marine resources lies in WTO negotiations on new rules on fishing subsidies.

The talks were mandated as part of the Doha Development Agenda back in 2001. However, they were given a political boost by Sustainable Development Goal Target 14.6, which set a deadline of 2020 to clinch a deal.

So, what are these negotiations all about? And what are the chances of getting an agreement that buoys the 2030 Agenda for Sustainable Development and salvages the WTO’s negotiating function?

First, a word on why the negotiations matter. Healthy fisheries are crucial for sustainable development. In 2017, fish accounted for 20% of the average animal protein intake for 3.3 billion people.² More than 10% of the global population depends on capture fishing and aquaculture to sustain their livelihoods.³ For many coastal communities, fish are a key source of employment and nutrition. Fishing is also deeply embedded in the culture and identity of communities and nations, from North America to West Africa to the Pacific Islands.

The problem is that subsidies (to build boats or buy bigger engines or more fuel, for instance) swell fishing fleets, enabling them to fish more and further afield than would otherwise be cost effective. In 2009, speaking to the massive overcapacity in the global fishing fleet and the urgency of reducing excessive fishing,⁴ the World Bank estimated that the same number of fish could be caught with about half of the effort.

When fishing limits are weak, large fleets can deplete resources quickly. Even with efforts to manage access to a fishery, fleets will often push for higher catch limits to ensure owners a return on their investment in their vessels. The latest statistics from the Food and Agriculture Organization of the United Nations indicate that the



“The problem is that subsidies swell fishing fleets, enabling them to fish more and further afield than would otherwise be cost effective.”

² Food and Agriculture Organization of the United Nations (FAO). (2020). *The state of world fisheries and aquaculture: Sustainability in action*. <http://www.fao.org/3/ca9229en/CA9229EN.pdf>

³ Food and Agriculture Organization of the United Nations (FAO). (2018). *The state of world fisheries and aquaculture – Meeting the Sustainable Development Goals*. (2018). www.fao.org/3/i9540en/i9540en.pdf
Note: aquaculture is not within the scope of WTO fisheries subsidies negotiations.

⁴ Arnason, R., Kelleher, K., and Willmann, R. (2009). *The sunken billions: The economic justification for fisheries reform*. World Bank. <http://documents1.worldbank.org/curated/en/656021468176334381/pdf/476060PUB0Sunk101Official0Use0Only1.pdf>

proportion of overexploited stocks is creeping upwards; around 34% of assessed stocks are fished beyond sustainable limits.⁵

Draft Consolidated Text Reveals Status of Talks

With the end of 2020 in sight, the prospects of reaching a meaningful WTO deal on fisheries subsidies are crystallizing. In June, the chairman, Ambassador Santiago Wills of Colombia, released a consolidated draft text reflecting where work on treaty language is most advanced and suggesting directions for further work on subsidies that contribute to overcapacity and overfishing.

Many WTO members grumbled that the consolidation didn't reflect their long-held positions or did so inadequately. However, none rejected it as the basis for the next phase of negotiations. So, what might the new rules look like?

Conditions May Weaken Rules on Subsidies to Illegal Fishing and Overfished Stocks

The text includes language, developed through intensive consultations by facilitators, that **would prohibit subsidies for fishers found guilty of illegal, unreported, and unregulated (IUU) fishing**. IUU fishing is a widespread and serious problem. Some estimates⁶ suggest that illegal and unreported fishing alone costs the global economy up to USD 23 billion a year.

The structure of this rule generally follows the approach taken in previous commitments on fisheries subsidies (in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, for example), which is to ban subsidies to vessels or operators identified as engaging in IUU fishing. In the draft WTO text, this might include identification by a coastal state, a vessel's flag state, or a regional fisheries management organization.

This issue is of such a high political profile that some form of this rule is certain to be part of the final WTO agreement. But the real question is to what extent the subsidy prohibition is more or less automatic, and thus a solid and effective deterrent to illegal behaviour (likely its main impact) or whether it is whittled down by conditions.

The current consolidated draft text would allow the member providing the subsidy, for example, to argue that (bar a listing of some serious offences) an identification of IUU fishing by another government was a "minor violation" and thus escape the subsidy

"With the end of 2020 in sight, the prospects of reaching a meaningful WTO deal on fisheries subsidies are crystallizing."

"The real question is to what extent the subsidy prohibition is more or less automatic, and thus a solid and effective deterrent to illegal behaviour, or whether it is whittled down by conditions."

⁵ FAO, 2020, *supra* note 2.

⁶ Agnew, D.J., Pearce, J., Pramod, G., Peatman, T., Watson, R., Beddington, J.R., & Pitcher, T.J. (2009). Estimating the worldwide extent of illegal fishing. *PLOS ONE*. <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0004570>

obligation. This risks seriously undermining the effectiveness of the rule.

The compromise on the table for subsidies to fishing of already overfished stocks would see this aid stopped only when an already overfished stock was declining or not recovering, and the WTO member cannot demonstrate that existing measures are adequate to address the problem. This formulation tries to balance the interests of members who wanted a very strict prohibition with those who preferred a rule limited to subsidies that had a “negative effect” on an overfished stock—essentially to allow subsidies to continue when a stock was overfished, but being managed back to health.

Members are still haggling over details, such as whether decisions on stock status should be required to refer to key fisheries management concepts such as “maximum sustainable yield.” But the bigger question is whether this somewhat tangled version of the rule achieves what was originally intended: a strong, clear signal to governments that they should think carefully before subsidizing exploitation of a stock that fishing fleets have already depleted.

Some developing country members have also asked for longer timeframes to implement this rule and that on IUU fishing subsidies, arguing that they need better control over their fisheries before being subject to subsidy obligations.

Tackling Overcapacity and Overfishing

In the third, most contentious, part of the talks, members are trying to find a way to meet the original mandate to “prohibit certain subsidies that contribute to overcapacity and overfishing.” The draft text urges negotiators to focus on an idea that most apparently accept: outlawing the subsidies most likely to lead to more fishing (for capital costs, such as new engines, and operating costs, such as fuel) when, and only when, a fishery already suffers from excess capacity or excess fishing effort (too many boats, for instance, or too much fishing over a season).

It also suggests that members consider ideas for two supplementary prohibitions: subsidies for fishing in areas beyond national jurisdiction (designed to limit aid for distant-water fishing) and for vessels flying other governments’ flags (so-called flags of convenience).

At the crux of this discussion is how new rules would be balanced with flexibilities for developing and least developed countries in the form of special and differential treatment (S&DT). The negotiations’ original mandates explicitly state that S&DT provisions are motivated by the policy objectives of reducing poverty, supporting

“At the crux of this discussion is how new rules would be balanced with flexibilities for developing and least developed countries in the form of special and differential treatment.”



livelihoods, and food security, as well as broader industrial development priorities.

In fishing, like in many global industries, many of the world's largest fishing nations are developing economies. This means flexibilities to meet development priorities must be balanced with the overall effectiveness of the agreement. Very wide flexibilities to continue providing subsidies to boost fishing effort might appear to meet immediate development concerns. To the extent they lead to further depletion of stocks, however, they risk undermining those same developmental priorities in the longer term, either for the subsidizing member or for others.⁷

The draft text includes proposals for wide exceptions from the prohibition that risk landing on the wrong side of this trade-off. The swell of arguments about S&DT generally also affect the discussion in fisheries; for some large developed members, carve-outs based on self-designated development categories are politically untenable.

To address this, some members have proposed quantitative approaches that would require governments to cap and reduce subsidies on a sliding scale based on each members' importance to global fishing. These proposals are not spelled out in the draft consolidated text, but indicated with a placeholder, and proponents have been clear they remain on the table as potential alternatives to ensure an effective accord.

There is everything left to play for in these negotiations. An agreement in December is possible if members are prepared to see each others' points of view and craft solutions that are flexible without sacrificing real impact in the long term.

The talks, which already have so much at stake, are emblematic of the broader tensions and trends in the multilateral trade architecture. As the only multilateral agreement currently being negotiated at the WTO, a creative and effective deal would have importance beyond its actual content: it would signal that the WTO remains an effective forum for finding solutions to collective problems in economic governance. Perhaps even more importantly, it would show that the multilateral trade system protects both the environment and the well-being of the global community it was created to serve.

“There is everything left to play for in these negotiations.”

⁷ For further information on S&DT provisions in WTO fisheries subsidies negotiations, see Tipping, A. (2020). *Addressing the development dimension of an overcapacity and overfishing subsidy discipline in the WTO fisheries subsidies negotiations: A discussion paper by IISD*. IISD. <https://www.iisd.org/sites/default/files/publications/overfishing-discipline-wto-fisheries-subsidies.pdf>



Credit: Robert Brown

COSTA RICAN SPICE FARM PULLS OUT ALL THE STOPS TO SURVIVE PANDEMIC

By Jennifer Freedman¹



¹ Jennifer Freedman is the Managing Editor of IISD's *Trade and Sustainability Review*.

“Small farmers are the first to be affected whenever there’s a blip in the system.”
(Geri Brown)



Credit: Robert Brown

Cinco Ramas, the biggest organic² vanilla farm in Costa Rica, was gearing up for its peak sales season with high hopes and optimal weather when COVID-19 struck. Now, instead of a rush of sales, owners Geri and Rob Brown are struggling to cultivate their crops—and wondering whether their 27-hectare farm will survive until 2021.

It’s a scenario playing out across the planet. While hospitality sector closures have grabbed the headlines, agricultural production from Africa and Asia to the Americas has taken a major hit from the pandemic. Agriculture is both essential and endangered, and small farms like eight-year-old [Cinco Ramas](#) are trying to balance the need to keep their crops sown, watered, fertilized, and harvested with the need to keep their workers healthy—and paid.

“Small farmers are the first to be affected whenever there’s a blip in the system,” Geri Brown said.

Indeed, it’s largely been “business as usual” for big agricultural producers in Costa Rica, such as Del Monte, Dole, and Chiquita. These multinationals have their own ships and plenty of capital, so they have been able to continue exporting key farm goods like pineapples, bananas, coffee, and sugarcane with little interruption.

But most plantations in Costa Rica are small—and they are suffering. In April, for example, a drop in demand for pineapple in Europe and the United States cost 175 small Costa Rican producers of the fruit some [USD 6.5 million a week](#). Farmers of root crops and watermelon have been only moderately affected, while those that grow short-term crops such as basil have been badly hit.

More than 10% of Costa Rica is cultivated, and agriculture accounts for [4.25%](#) of the Central American country’s GDP. The sector employs 14% of the labour force, which means a large share of the country’s 5.1 million people have seen their livelihoods shrink as farms scale back production, let go of workers, and, in some cases, fail.

The pandemic has decimated sales at Cinco Ramas, which is nestled in a lush rainforest in San Carlos, one of the most agriculturally fertile areas of Costa Rica. The farm, which produces 29 organic crops including black pepper, hibiscus flower, ginger, lemongrass, tabasco chilies, and turmeric—and, of course, vanilla—is rather unusual in that “we do everything, from growing and processing all the way to packaging with bar codes,” Brown said. “We also take care of our own logistics,” which means using either the local postal

² Cinco Ramas is certified to the US Department of Agriculture, European Union, and Costa Rican organic standards.

“Companies have had to become innovative and flexible to stay in business.”

service or *encomiendas*—that is, transporting boxes of spices in the underbellies of buses that cross the country every day.

Before the pandemic, Cinco Ramas had nine full-time workers. About half of its sales were to chefs across Costa Rica while a quarter were to small groceries in tourist areas, mom-and-pop shops, and small chains. The rest was exported, largely to two spice and tea shops in the United States and a few chefs in other countries.

Domestic Sales and Exports Shrink

That all changed in mid-March when the government imposed a national lockdown and ordered shops closed to safeguard the health of citizens.

“The first big challenge was that restaurants were closed by the government and the airport in the middle of the tourist season,” Brown said. “When the airport closed, the shops that were active in the tourist areas also closed.”

As domestic sales dried up, exporting also became almost impossible because the passenger airplanes used to transport Cinco Ramas spices overseas were grounded.

Companies have had to become innovative and flexible to stay in business. To meet the demands of one client in Boston who agreed to buy a year’s worth of spices rather than her usual smaller order, for instance, Brown drove 3.5 hours to San José, where she had access to a shipping service that handled the customs paperwork in both countries and would deliver via UPS and paid a higher shipping rate to keep the customer happy.

“Shipping costs went up, and that was passed on to the customers,” she said. “But the slow opening of airports means exporting is still very difficult. That will be an ongoing challenge because when they talk about the reopening, they always follow it with ‘we’re going to test this or that, and we could go backwards again.’ I don’t even feel like it’s a thing that we can start to structure a new plan around yet, because it’s still so unstable.”

Costa Rica [reopened its borders](#) to visitors from Europe and Canada on August 1 and is slowly allowing more tourists from other countries, including the United States. But restaurants are still at 50% capacity while “hotels are not even at 1% capacity,” according to Brown. “Where we used to send 12 kilos of black pepper every two weeks to a well-known, luxury restaurant on the Pacific coast, they haven’t ordered anything since March.”

When the orders stopped coming in, Cinco Ramas and hundreds of other farms across Costa Rica were faced with the dilemma

of what to do about their workers. Stringent employment rules make firing workers very expensive. But for the first time ever, the government permitted companies to reduce employees' hours and pay temporarily, scaled on how much sales have dropped. For instance, businesses whose sales declined by 50% could reduce their staff hours by 60%.

Although the government put in place a program offering subsidies to people who have lost jobs or hours due to the pandemic, demand for the program has far exceeded funding. About a third of the million Costa Ricans who applied for aid [received nothing](#).

Government Grant Offers a Lifeline

Thanks to a government grant, Cinco Ramas has managed to keep enough workers on hand to tend to the farm's essential needs and ensure that it has crops to sell next year.

“Vanilla needs pollinating by hand in the morning. Each flower opens for just a few short hours, one day a year. If the flower is not pollinated that morning, it falls off and doesn't make a vanilla bean,” Brown explained. “Also, the replanting of ginger and turmeric and hibiscus flower—if we didn't do those things, then 2021 would have no harvestable crops.”

Cinco Ramas was one of 200 small and medium-sized enterprises in Costa Rica that received a grant from government trade support institution [PROCOMER](#) in mid-June to cover its payroll for three months. The funds have been the farm's lifeline, Brown says.

“Right now, we are living almost exclusively off that help,” she said. “When it's over, we're hoping we can keep everyone close to full time. Without this particular help, I can't even imagine what the medium-term solution would have been because we were only able to keep everyone employed after the income stopped for four weeks, which was all the cash we had to keep things going.”

Innovation Is Key to Survival

In the meantime, Cinco Ramas has adapted its sales strategy by targeting more end users. More Costa Ricans are now cooking their own meals and buying ingredients online, and “that's going to be our main focus for the next few months, at least,” Brown said. This means the company will be competing with shops that stock Cinco Ramas products.

Other Costa Rican farmers are also coming to realize that they need to reach out to their local customers, she says. Facebook was already



Credit: Robert Brown

“The results of this year will be a challenge for us for a few years.”
(Geri Brown)



“The length of the crisis has forced farmers, the tourism industry and other small industries to break their normal routine and start to include things that they would not have done before.” (Geri Brown)

popular before the pandemic, but many farmers now have Instagram accounts as well.

“The length of the crisis has forced farmers, the tourism industry, and other small industries to break their normal routine and start to include things that they would not have done before, understanding that having a way to communicate directly with the consumer is important,” she noted.

Being connected also enables Costa Rican farmers and others to learn what peers in other countries are doing to remain resilient as the virus continues to sweep across the world. Not being connected, on the other hand, means less innovation and a greater chance of failure.

One way to innovate is to become locally certified, something near and dear to Brown’s heart. She actively encourages other small Costa Rican farmers to get their organic certification, which is free, unlike international certification. The Ministry of Agriculture processes and regulates [local organic certification](#), which is similar to the European standard—“minus the use of logos and verbiage on labels,” she said—but is only for local sales and consumption.

Some 9,000 hectares in Costa Rica are already dedicated to the organic cultivation of about 30 different products, notably bananas, coffee, boysenberries, orange juice, and grenadines. The rural industry directly involves more than 4,000 people, and offers farmers opportunities to crack open new markets and win new customers, Brown says.

“Organic consumers are very educated,” she said. “They do a lot of research and they’re very loyal to organics. If those people are employed, they will buy from your small business.”

A Long Road Ahead

The problem, of course, is that hundreds of thousands of people in Costa Rica have lost their jobs because of COVID-19. In the moving quarter from May to July, the unemployment rate touched a [record-high 24.4%](#)—more than double the 2019 rate of 11.85%. The state of emergency declared in mid-March has yet to be lifted, and Costa Ricans are deeply worried about their future.

That also goes for small farmers like Geri Brown. She expects a 50% decline in income next year because of the pandemic’s impact on her vanilla crop—Cinco Ramas’s biggest source of revenue. That, in turn, will affect everything else grown on the plantation.

“The results of this year will be a challenge for us for a few years,” she said. “Some of our crops are planted once, and you work with

that plant for 10 to 15 years. When you abandon it for a whole year, it takes a plant like that a lot of time to get back to where it was. If we have the cash flow to be able to take care of everything the way we want to in 2021, then 2022 will be more in recovery. At least, that's what we hope."

Costa Rican farmers, already facing [widespread indebtedness](#) before the pandemic, must be proactive to survive COVID-19 rather than count on help from the government, Brown says. They need to learn what new markets want, find as many ways as possible to communicate with consumers to understand their needs and come up with ideas they haven't considered before.

The government provided some relief to companies in the form of a [deferral](#) on payments of sales, value-added, and income taxes as well as certain customs duties due in April, May, and June. The Legislative Assembly is reviewing another three-month payment holiday. Tourism-related services have been exempted from the standard 13% value-added tax until July 1, 2021, and the rate on construction and related services has been cut to zero until June 30, 2021. However, farmers have largely been left to fend for themselves.

Although there are also new loan options for Costa Rican farmers, "as far as I can tell, the government and banks are not really on the same page yet," Brown said.

"Farmers have largely been left to fend for themselves."



Credit: Robert Brown



U.S.-KENYA TRADE TALKS BEGIN: WHAT COULD THEY MEAN?

By Sofia Baliño¹

¹ Sofia Baliño is the Communications and Editorial Manager for IISD's Economic Law and Policy program.

Negotiators from the United States and Kenya met virtually in July 2020 for their first round of talks on a free trade agreement, with a second round taking place this month. Discussions began as the U.S. economy was reeling from the impacts of COVID-19, and Kenya and the wider East African region were grappling with supply chain disruptions and damage to tourism and other key sectors.²

Taking a longer-term view, it is critical to consider the precedent this trade deal might set for U.S. ties with sub-Saharan Africa—especially given the various structures of African economies and parallel efforts to implement a sweeping continental free trade area.

The prospect of negotiations was first raised in 2018, when U.S. Trade Representative Robert Lighthizer confirmed that the Trump Administration would seek a model free trade agreement (FTA) with an African country.³ Should this FTA be reached and other such accords follow, it would eventually supplant the long-standing U.S. practice of providing unilateral, preferential treatment for merchandise imports under the African Growth and Opportunity Act (AGOA).

Which country might end up being the partner for this FTA was the subject of much speculation until early 2020, when Kenyan President Uhuru Kenyatta met with U.S. President Donald Trump in Washington. Trump announced the FTA plans shortly afterwards.⁴

The two leaders had already created a Trade and Investment Working Group in August 2018 to explore “ways to deepen ties between the two countries.”⁵ Afterwards, the two sides met to lay the groundwork for possible negotiations and to consider AGOA implementation issues.⁶

The FTA talks are in an early stage, and it is not yet clear what the change in leadership in the U.S. will mean for the negotiations. Still, the commercial and systemic impact of such an accord should not be overlooked.

² Deloitte. (2020). *The impact of COVID-19 on East African economies*. <https://www2.deloitte.com/tz/en/pages/finance/articles/impact-of-covid19-on-ea-economies.html>

³ Office of the U.S. Trade Representative (2018). *Statement of USTR Robert Lighthizer at the Opening Plenary of the 2018 U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forum (AGOA Forum)*. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/july/statement-ustr-robert-lighthizer-0>

⁴ Office of the U.S. Trade Representative (February 2020). *President Trump Announces Intent to Negotiate Trade Agreement with Kenya*. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/president-trump-announces-intent-negotiate-trade-agreement-kenya>

⁵ White House. (August 2020). *Joint Statement from President Donald J. Trump and President Uhuru Kenyatta*. <https://www.whitehouse.gov/briefings-statements/joint-statement-president-donald-j-trump-president-uhuru-kenyatta/>

⁶ Office of the U.S. Trade Representative. (November 2019). *The United States and Kenya hold Second Meeting of the Trade and Investment Working Group*. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/november/united-states-and-kenya-hold>

“It is critical to consider the precedent this trade deal might set for U.S. ties with sub-Saharan Africa.”



“The commercial and systemic impact of such an accord should not be overlooked.”

Moving Toward a Post-AGOA Reality?

A U.S.–Kenya FTA would mark a potential sea change in trade relations between the two regions—especially if the deal ended up serving as a benchmark for post-AGOA trade ties with the wider African continent. AGOA dates back to 2000, with the current iteration in place through 2025. It has been renewed twice, having originally been set to expire in 2008. Its most recent renewal was in 2015, which set out a 10-year timeframe before the legislation expires.

Still, concerns have been raised about the potential impact without a renewal, or at least a timely one, of AGOA and its third-country fabric provision, which allows production inputs from non-AGOA countries to be used in textiles and apparel.⁷ The 2015 renewal process for AGOA was finalized only months before the program expired, sparking worries that it might lapse without a replacement, especially given that its third-country fabric provision had already lapsed three years prior.⁸

This fear has been compounded given the repeated lapses involving another major U.S. preference scheme, the Generalized System of Preferences (GSP), which covers 5,000 tariff lines. Under AGOA, eligible countries can benefit from duty-free access to the U.S. market for 6,500 tariff lines,⁹ including those already eligible for preferential treatment under the GSP.¹⁰

Countries that participate in AGOA must meet eligibility criteria that range from protecting human rights and ensuring “political pluralism” to having a market-based economy.¹¹ Currently, 38 countries are AGOA-eligible.¹²

“A U.S.-Kenya FTA would mark a potential sea change in trade relations between the two regions.”

⁷ Brookings Institution. (2016). *The African Growth and Opportunity Act: Looking back, looking forward*. https://www.brookings.edu/wp-content/uploads/2016/07/agoa_conclusion.pdf

⁸ Schneidman, W., & Westbury, A. (2015). *AGOA moves forward: Reviewing last week’s reauthorization in the U.S. Senate*. Brookings Institution. <https://www.brookings.edu/blog/africa-in-focus/2015/05/20/agoa-moves-forward-reviewing-last-weeks-reauthorization-in-the-u-s-senate/>

⁹ AGOA.info (n.d.). *AGOA Product Eligibility*. <https://agoa.info/about-agoa/product-eligibility.html>

¹⁰ Naumann, E. (2020, June). *The United States-Kenya Free Trade Area (FTA): insights into the bilateral trade relationship and early progress on setting terms for an FTA*. Tralac. <https://www.tralac.org/publications/article/14663-the-united-states-kenya-free-trade-area-fta-insights-into-the-bilateral-trade-relationship-and-early-progress-on-setting-terms-for-an-fta.html>

¹¹ International Trade Administration (n.d.). *General country eligibility provisions*. <https://legacy.trade.gov/agoa/eligibility/>

¹² Office of the U.S. Trade Representative (2020). *AGOA Eligible and Ineligible Countries – 2020*. <https://ustr.gov/sites/default/files/gsp/agoa/AGOAEligibleCountries2020.pdf>

Most exports from Kenya, the biggest economy in the East African Community by GDP,¹³ enter the U.S. market on a duty-free basis. However, analysts have highlighted the potential to diversify the types of exports under AGOA that Kenya sends to the United States.¹⁴ Kenya exported goods worth USD 644 million to the United States in 2018 and imported USD 365 million of U.S. products.¹⁵ Services trade is negligible, according to U.S. statistics.¹⁶ These imports are mainly textiles and apparel, which enter through a combination of AGOA tariff preferences, the third-country fabric provision, and compliance with the additional AGOA apparel rules of origin.¹⁷

Another issue of long-standing debate is whether AGOA should be improved to address concerns such as preferences being underused, abandoned entirely, or replaced by free trade agreements. This matter has a geopolitical dimension, in light of the European Union's efforts to develop closer economic ties with sub-Saharan Africa through initiatives including economic partnership agreements, as well as China's increased involvement in the region.¹⁸ The original AGOA legislation¹⁹ envisioned the prospect of the United States eventually negotiating FTAs with African countries, but this was largely discussed on a theoretical basis until the Trump Administration arrived.

AGOA Plus? Negotiating Objectives in Brief

The planned U.S.–Kenya FTA would replace AGOA, so it is important to understand whether the accord will be “AGOA plus,” or if significant trade-offs will be involved, particularly given the trade deficit that the United States runs with Kenya. Other considerations are whether some provisions will be non-reciprocal, to account for developmental considerations; whether the FTA will replicate the third-country fabric provision in AGOA; whether the future agreement will involve developing new domestic laws, such as in the area of labour; and whether all of its provisions will be subject to dispute settlement.

¹³ Kimenyi, M. and Kibe, J. (2014). *Africa's Powerhouse*. Brookings Institution. <https://www.brookings.edu/opinions/africas-powerhouse/>

¹⁴ Onyango, C. and Ikiara, M. *Reflections on Kenya's Experience Under AGOA: Opportunities and Challenges*. Brookings Institution. https://www.brookings.edu/wp-content/uploads/2016/06/0601_improving_agoa_onyango_ikiara.pdf

¹⁵ Office of the U.S. Trade Representative (n.d.). *Kenya*. <https://ustr.gov/countries-regions/africa/east-africa/kenya>

¹⁶ <https://crsreports.congress.gov/product/pdf/IF/IF11526>

¹⁷ Naumann, *supra* note 9

¹⁸ Schneidman, W. & Ngubula, M. (2017). *Post-AGOA: Moving to a reciprocal U.S.–Africa trade arrangement*. Brookings Institution. <https://www.brookings.edu/blog/africa-in-focus/2017/09/19/post-agoa-moving-to-a-reciprocal-us-africa-trade-arrangement/>

¹⁹ United States Congress (2000). *The African Growth and Opportunity Act*. <https://www.congress.gov/106/plaws/publ200/PLAW-106publ200.pdf>

An analysis of the negotiating objectives released by each side shows where they are seeking similar outcomes and where their goals might diverge. This should be read with caution, however, as the talks are in an early stage.

Kenya is keen to preserve the “AGOA acquis”—in other words, not going below the benchmark that AGOA has already set—and ensuring the final outcome is “AGOA plus.” The country also wants other members of the East African Community to be able to join the discussions, provided they comply with the asks of both negotiating parties.^{20*}

Also significant is a reference to boosting U.S. foreign direct investment to Kenya, though limited data make it difficult to assess the potential for growth.²¹ Kenya has also said the FTA should include special and differential treatment provisions, such as in relation to services, and related technical assistance and capacity-building support, including when it comes to implementing provisions on intellectual property rights.²²

At the overarching level, Kenya wants the FTA to support “industrial, agricultural, and service industry development through targeted production” destined for the U.S. market, and to build on existing value chains and its own role as a regional transit hub.²³

Kenya is seeking better market access for its goods and to build on the trade facilitation, technical barriers to trade, and sanitary and phytosanitary (SPS) agreements that the East African Community already has in place with the U.S. The country also hopes to simplify rules of origin requirements and “establish flexible rules of origin that allow for wider cumulation provision” and are “asymmetrical,” in line with the different development levels of the two economies.

On trade remedies, Kenya has called for the creation of “a mechanism for resolving trade remedies violations” before either side has recourse to the FTA’s dispute settlement provisions, along with other objectives on cooperation, transparency, and information exchange.²⁴



“Kenya wants the FTA to support “industrial, agricultural, and service industry development through targeted production” destined for the U.S. market.”

²⁰ Ministry of Industrialization, Trade and Enterprise Development, Republic of Kenya (2020). *Proposed Kenya – United States of America Free Trade Area Agreement. Negotiation Principles, Objectives, Scope.* <https://agoa.info/images/documents/15775/kenya-usaftanegotiatingprinciplesobjectivesandscope220620.pdf>

²¹ Office of the U.S. Trade Representative. (n.d.) *Kenya.* <https://ustr.gov/countries-regions/africa/east-africa/kenya>

²² Ministry of Industrialization, Trade and Enterprise Development, *supra* note 19..

²³ *Ibid.*

²⁴ *Ibid.*

On services and government procurement, Kenya is seeking better access to the U.S. market, though in the latter case it has called for a “commitment for application of [the] principle of asymmetry.”²⁵

On labour and the environment, the Kenyan negotiating objectives refer to greater cooperation in existing international forums, such as the International Labour Organization (ILO), and under existing multilateral environmental agreements. Kenya wants “strategic” state-owned enterprises to be exempt from the FTA and for investment to focus on “promotion, protection, facilitation, and liberalization.”²⁶

The U.S. negotiating document goes into considerable detail on the increased market access the White House wants for industrial and agricultural goods—particularly textiles and apparel,²⁷ which are major Kenyan exports to the United States. The document also calls for reduced tariffs and non-tariff barriers on agricultural exports bound for the Kenyan market and “reasonable adjustment periods for U.S. import-sensitive agriculture products.”²⁸

On SPS, customs, and trade facilitation, the United States enumerates its priorities in extensive detail. For example, it refers to “new and enforceable rules” on the implementation of “science-based SPS measures” and says Kenya “will not foreclose export opportunities to the United States with respect to third-country export markets, including by requiring third countries to align with non-science-based restrictions and requirements or to adopt SPS measures that are not based on ascertainable risk.”²⁹

Rules of origin should “ensure that the benefits of the agreement go to products genuinely made in the United States and Kenya,” the negotiating document says. However, it does not specify whether this means the United States intends to move away from the third-country fabric provision in the FTA. The United States also sets out proposed outcomes on intellectual property rights; investment; good regulatory practices; digital trade and data flows; state-owned enterprises; competition; and subsidies, to name a few.

The United States calls for strong Kenyan labour laws and practices that are in line with the ILO Declaration, including the development of new domestic legislation, and for the labour provisions of a future FTA to be subject to dispute settlement. It also wants the FTA’s

²⁵ *Ibid.*

²⁶ *Ibid.*

²⁷ Office of the U.S. Trade Representative. (May 2020). *United States – Kenya Negotiating Objectives*. https://ustr.gov/sites/default/files/Summary_of_U.S.-Kenya_Negotiating_Objectives.pdf

²⁸ *Ibid.*

²⁹ *Ibid.*



dispute settlement rules to apply to its environmental provisions, setting out proposed rules on enforcing domestic environmental laws and protections and ensuring that these are not put aside “for the purpose of encouraging trade or investment.”³⁰

Also notable is the section on services market access. The United States is pushing for market access and opportunities for financial services and telecommunications services, and “specialized sectoral disciplines” for areas such as delivery services. Additionally, it is keen to ensure that any “exceptions from core disciplines” are kept to a minimum and are set out through a negative list, where all services sectors are covered except those specifically excluded.

In the area of government procurement, the United States does not refer to asymmetry, but rather to “reciprocity in market access opportunities for U.S. goods, services, and suppliers in Kenya.” This suggests that the two sides will diverge in how they approach this issue.³¹ The White House also wants sub-federal entities exempted from the FTA’s government procurement rules.

African Continental Free Trade Area (AfCFTA) delay, COVID in the background

By all accounts, 2020 has been a tumultuous year, with the COVID-19 pandemic taking a major health and economic toll across the globe. In the world of trade, much of the pandemic-related discussion has revolved around disruptions to trade flows and supply chains, along with the need to ensure that intellectual property rules are not preventing access to essential medicines, medical products, and medical technologies.

³⁰ *Ibid.*

³¹ *Ibid.*

“It is impossible to know the full extent of COVID-19’s impacts, including what it means for sensitive sectors and supply chains.”

One major trade implication of COVID-19 was the delay in the entry-into-force of the first phase of the AfCFTA, which had been scheduled for this past July.³² This first phase, devoted to goods and services, still has various issues to resolve, including goods and services schedules.³³ It is also unclear how the planned protocols on investment, competition policy, and intellectual property rights will look. Another question is how a U.S.-Kenya FTA will interact with the AfCFTA and the EAC.

Understanding these dynamics is vital to avoid incoherence. Yet it is impossible to know the full extent of COVID-19's impacts, including what it means for sensitive sectors and supply chains. Another key consideration will be ensuring that this model FTA does not ignore the different economic structures, development considerations, and interests of the various AGOA-eligible countries and avoids adopting a one-size-fits-all approach.

Lastly, a deeper understanding of the trade-offs involved in moving away from AGOA toward a bilateral FTA should be unpacked in further depth, along with the need for technical assistance and capacity-building support in doing so.

“A deeper understanding of the trade-offs involved in moving away from AGOA towards a bilateral FTA should be unpacked in further depth.”

³² UN. (2020, May). *AfCFTA: Implementing Africa's free trade pact the best stimulus for post-COVID-19 economies*. <https://www.un.org/africarenewal/magazine/may-2020/coronavirus/implementing-africa%E2%80%99s-free-trade-pact-best-stimulus-post-covid-19-economies>

³³ Erasmus, G. & Hartzenberg, T. (2020, July). *Completing and Implementing the AfCFTA in Difficult Times*. Tralac. <https://www.tralac.org/publications/article/14813-completing-and-implementing-the-afcfta-in-difficult-times.html>



NEGOTIATIONS TO DISCIPLINE FOSSIL FUEL SUBSIDIES AND THE NEGLECTED ROLE OF DATA

By Ronald P. Steenblik¹



¹ Ronald P. Steenblik is an IISD Senior Fellow. The author would like to thank Carmel Cahill, Tristan Irschlinger, Nicolas Lamp, and Robert Wolfe for their helpful comments on earlier drafts of this article.



“One of the important challenges to consider is the role of data in informing such negotiations.”

The increasingly urgent demands for coordinated international action to cut greenhouse gas emissions, particularly from the combustion of fossil fuels, have been joined by calls to phase out subsidies supporting their production and use. Given the World Trade Organization’s (WTO) experience in developing rules to discipline subsidies, it is no surprise that [many are looking to the WTO to play a leading role in this effort](#).

However, one of the important challenges to consider is the role of data in informing such negotiations. This issue has often been neglected in the political appeals to develop new disciplines on fossil fuel subsidies, even as those pushing for talks have also called for better transparency on subsidies. Data and transparency, while linked, are not one and the same issue, and conflating the two subjects can create problems further down the line.

Prospective supporters of new WTO disciplines on fossil fuel subsidies have already indicated that knowing the level and nature of these subsidies is an important initial step. The first formal request to the WTO to consider developing a negotiating mandate on this matter was the *Fossil Fuel Subsidies Reform Ministerial Statement* presented to the 11th WTO Ministerial Conference in Buenos Aires (December 10–13, 2017). The statement, signed by 12 members, sought:

*to advance discussion in the [WTO] aimed at achieving ambitious and effective disciplines on inefficient fossil fuel subsidies that encourage wasteful consumption, including through **enhanced [WTO] transparency and reporting** [emphasis added] that will enable the evaluation of the trade and resource effects of fossil fuel subsidies programmes.*

However, the statement says nothing about the likely quality and timeliness of the data. While calling for better transparency and reporting on subsidies has become routine, it raises questions regarding the sequencing of the information and whether it is likely to be sufficient for understanding the type and level of subsidies that WTO members provide.

The WTO rulebook already requires members to submit regular updates on certain types of measures, including their subsidies. Article 25 of the Agreement on Subsidies and Countervailing Measures obliges members to notify all subsidies with possible trade effects to the WTO every two years.

Yet, there is no effective enforcement mechanism to ensure compliance with this requirement. As a result, [many notifications are sent late and few are comprehensive](#). This is a generally recognized problem, by no means unique to fossil fuel subsidies.

This article therefore looks at the history of data and notifications at the WTO in the context of agriculture and fisheries subsidies. Drawing from these lessons, it examines efforts underway in other forums that could provide useful options to consider when designing rules to discipline fossil fuel subsidies.

Learning From Past Negotiations

A review of the history of the Uruguay Round negotiations and more recent efforts to craft binding disciplines on harmful fisheries subsidies shows that transparency is inherently linked to data—and is far trickier than it may initially appear.

When the parties to the WTO’s predecessor, the General Agreement on Tariffs and Trade, sat down in the late 1980s to hammer out what would eventually become the WTO Agreement on Agriculture, a reasonably complete and systematically applied data set was available on the leading agricultural producers’ domestic support to their farm sectors. This was the Organisation for Economic Co-operation and Development’s (OECD’s) estimates of producer subsidy equivalents or PSEs (nowadays “producer support estimates”) for each country.

[The indicator itself](#) had a big influence on the scope of the domestic support measures included in the Agreement on Agriculture, the approach taken to measure and classify them, and how the support would be reduced. Furthermore, the detailed data and metadata gave Uruguay Round negotiators an understanding of the scale and types of support provided across different countries.

Similarly, when WTO negotiators started to discuss ways to “clarify and improve” disciplines on fisheries subsidies in the early 2000s, the main information they had at hand was the OECD’s database on governmental financial transfers to marine capture fishing (later changed to fishery support estimate, or FSE). This information was supplemented by occasional studies produced by or for the Asia-Pacific Economic Cooperation forum and the World Bank.



“A relatively new trade-and-environment initiative could help lay the groundwork for talks on fossil fuel subsidies to take place, finally, at the WTO.”

Over time, other sources, such as the data compiled by the University of British Columbia’s [Institute for the Oceans and Fisheries](#), also helped inform the discussions. Only once it appeared that a possible outcome of the talks [could involve a cap](#) on each member’s annual subsidies did [notifications to the WTO on fisheries subsidies start to improve](#) and provide an additional, or complementary, information source.

Indeed, sources of data other than WTO notifications [have always provided the basis for previous negotiations](#) to develop disciplines on subsidies provided to specific industries, sectors, or products. Formal notification requirements are established only once the agreements enter into force. Talks on fossil fuel subsidies are therefore likely to require a similar approach.

The Agreement on Climate Change, Trade and Sustainability: A first step toward fossil fuel subsidy disciplines?

A relatively new trade-and-environment initiative could help lay the groundwork for talks on fossil fuel subsidies to take place, finally, at the WTO. In September 2019, four of the WTO members that signed the 2017 fossil fuel subsidy ministerial statement, plus Fiji (later joined by Switzerland), launched negotiations aimed at concluding an Agreement on Climate Change, Trade and Sustainability (ACCTS).

Among its four components, ACCTS would establish new disciplines on fossil fuel subsidies. Notably, however, neither the [Joint Leaders’ Statement](#) issued at the launch of the ACCTS nor the subsequent [Joint Trade Ministers’ Statement](#) issued in January 2020 refers to WTO subsidy notifications. This is a meaningful omission, relative to the language included in the 2017 ministerial statement.

It is also, in my view, the right sequence. As Robert Wolfe wrote in a [recent analysis](#) of the supporting role in trade negotiations played by the OECD’s own work on subsidy quantification and analysis,

*When there is uncertainty about what counts as a subsidy, **formal notifications** may not be the best way to enhance understanding of policies. ... Countries need to understand the incidence of subsidies **before** they can analyse the potential trade distortions, which is the prelude to discipline [emphasis added].*



“Looking at the data available from sources outside the WTO can provide valuable indications of what subsidies exist, as well as their scope.”

As already mentioned, WTO notifications are far from sufficient. Looking at the data available from sources outside the WTO can provide valuable indications of what subsidies exist, as well as their scope. As the agriculture and fisheries negotiations demonstrated, it will take multiple data sources to start developing a coherent picture of subsidy levels.

The ACCTS negotiators working to develop disciplines on fossil fuel subsidies will probably lean heavily on the detailed, program-by-program data compiled in the [OECD Inventory](#), which recently saw five more countries added to the database, including Armenia, Azerbaijan, Belarus, Moldova, and Ukraine. This source may be supplemented by information reported by other intergovernmental organizations and several non-governmental organizations active in this area. For example, estimates of consumer price support—which artificially reduces domestic prices below international reference prices—are generated not by the OECD, but by the [International Energy Agency](#).

The more important omission is the subsidy-equivalent value of credit-related subsidies, such as concessional loans and government loan guarantees. The face value of these [is substantial, but some confer greater benefits to recipients than others](#). OECD analysts are aware of their importance, of course, [and have proposed a way to measure them](#). But the task of doing that for all countries would be formidable, and the necessary data difficult to obtain.

That said, these problems are manageable, provided negotiators are aware of them and respond accordingly. If the ACCTS parties were to demand an end to measures that support new investments in fossil fuel production capacity and new fossil fuel-fired power plants, the absence of subsidy-equivalent estimates of those measures might not prove crippling. That is, information on whether any such measures are still being used at all may suffice.

Some of the same governments may seek in parallel to improve transparency on fossil fuel subsidies at the WTO—not only through notifications, but also through the trade body’s trade policy reviews. But it would be hard to imagine them letting substandard reporting to the WTO delay the ACCTS negotiations. Nor should they.

“Watching how the ACCTS parties address the data issue as they progress in their negotiations will be useful for the wider WTO membership.”

Eyeing a Multilateral Agreement

Watching how the ACCTS parties address the data issue as they progress in their negotiations will be useful for the wider WTO membership.

Considering the small number of parties negotiating the ACCTS, their data needs can probably be met with readily available information, supplemented by a bit of additional digging. But the ambition of the ACCTS parties, once they strike an accord among themselves, is to open up the pact to any WTO member that can meet the standards they set, with the eventual goal of providing “a pathway to multilateralism” for the agreement. What then?

One possibility is that the parties will create specific notification requirements for their fossil fuel subsidies, either to the group or to the WTO itself, and make completion of such a notification a condition for acceding to the agreement. Would that remove the need for other sources of data on these countries’ fossil fuel subsidies? Not if past experience offers any guide.

Since the Agreement on Agriculture went into effect, WTO members have had to notify their domestic support to the WTO’s Committee on Agriculture. But, as with other subsidy-related notification requirements, [compliance rates and timeliness have varied widely](#), prompting numerous counter-notifications by other members, and “[shadow notifications](#)” by non-governmental organizations.

It is also telling that, despite the increased information provided to the WTO, OECD members did not stop the separate monitoring and evaluation work on domestic agricultural support being carried out by the OECD Secretariat. Indeed, the [country coverage](#) of that exercise has continued to expand, so that it now covers most of the major non-OECD agricultural producing economies, as well as all OECD countries. Not only is the OECD’s agricultural PSE database applied consistently across the countries it covers, but its updates include more recent years and its information is more granular than that notified to the WTO.

“The availability of robust, internationally comparable, and timely information on fossil fuel subsidies ... must be ensured both at the beginning of negotiating a subsidy agreement and after it goes into force.”

The OECD Inventory of government support for fossil fuels covers only its member countries, plus most of the non-OECD members of the G20. Fortunately, additional information on fossil fuel subsidies for other countries may soon become available through national submissions to the United Nations as part of the Sustainable Development Goals (SDGs) indicator process, [specifically for SDG Indicator 12.c.1](#), which relates to fossil fuels. Ideally, the SDG process will complement the ongoing work in other intergovernmental organizations, while keeping duplication of effort to a minimum.

That the original sources of subsidy data continue their own reporting holds lessons for plurilateral and perhaps eventually multilateral agreements on fossil fuel subsidies. But inadequate resources remain a concern. Wolfe’s study notes (p. 24) that subsidy information is too often undersupplied.

The availability of robust, internationally comparable, and timely information on fossil fuel subsidies—and not just formal notifications provided by governments—must be ensured both at the beginning of negotiating a subsidy agreement and after it goes into force. How those datasets can best complement each other needs to be factored into the architecture of the agreement from the start, in parallel with or even before the formal notification requirements are established.





ANTICIPATING INTERNATIONAL ECONOMIC CHALLENGES IN A POST-PANDEMIC WORLD

By Nicholas Woolley¹



¹ Nicholas Woolley is an economist specializing in financial macroeconomics and the economics of productivity growth and technology. A paper related to the subjects addressed in this article will be published by IISD in late 2020.

How can trade and investment government policy-makers access accurate, timely, and helpful economic advice at a time when structural relationships are changing quickly and accurate information takes time to collect?

In such an uncertain environment, using economic models to forecast variables like production in individual economies or markets will probably produce inaccurate and misleading results. After all, the assumptions and parameters used in such models are most likely not reliable in today's environment.

IISD recently conducted a study of trade market vulnerabilities leading into the crisis. The aim was to use readily available data and economic theory to quickly identify areas of exposure and draw policy-makers' attention to the potential areas of macroeconomic risk from pandemic-related trade shocks.

Instead of macroeconomic forecasting or following one or two high-frequency indicators, we focused on using professional judgement and official macroeconomic measures to anticipate challenges. This includes identifying negative propagation mechanisms: thinking about how a crisis in one sector or issue might evolve into other crises. Combined with a survey of official macroeconomic indicators, we believe such an approach is accurate and insightful in a changing environment.

Highlighting Macroeconomic Risk

One central theme in the study is the link between trade issues and macroeconomic environments. Trade, investment, foreign exchange, production, and standards of living are all closely connected. These complex interrelationships have become more evident in this time of crisis. Collapsing exports in one sector can lead to currency depreciation and lower returns for foreign investors. The resulting drop in investment and production across all sectors will lower wages, while imported food and basic supplies will become more expensive.

This is a real fear for many economies.

These mechanisms are well-known to macroeconomists, and our report highlighted ways in which mechanisms such as these can help anticipate trade policy debates in the coming years. The report describes mechanisms such as “sudden stops” and currency crises while giving an overview of select economic indicators to tie these theoretical scenarios into actual risk. We provide a series of macroeconomic risk scores for each country with an explanation of how individual indicators lead to higher risk for certain macroeconomic events.



Although the pandemic is almost certain to have an adverse economic impact on every country in the world, the losses and damage will be distributed unevenly. Our analysis spans a range of countries outside the “high-income” category. These economies have higher-than-average government debt and greater exposure to currency market fluctuations than high-income countries.

Before the COVID-19 pandemic, many recently received large amounts of foreign direct investment and were integrated into global supply chains, potentially making large portions of their export markets concentrated with a few trading partners. And many still rely on raw minerals for a large share of their export demand. The potential humanitarian cost is higher for most of these countries as well.

Confluence of Factors Raises Risk

The impact is even more pronounced when these factors are combined. For example, Mongolia has very high external debt stocks combined with high levels of trade and a considerable portion of exports in primary goods, including large shares of exports in coal (36%), copper (26%), and gold (11%). Such a composition of exports suggests strong integration with global value chains, and Mongolia relies heavily on a single trading partner, China.

Furthermore, Mongolia’s large current account deficit implies a reliance on imports from other countries to meet consumer demand, and its large amounts of government debt are likely to make foreign exchange markets more sensitive to shocks within the economy. As a result, a negative shock to trade could lead to large currency depreciation, causing the prices of many consumer goods to rise appreciably. With only one regional trade agreement, Mongolia would be especially vulnerable to sudden shifts in the terms of trade.

This would be particularly difficult for Mongolia, which has worked hard to reduce inflation levels in recent years and whose growth level was promising before the crisis.

Another example is Jamaica, which has high external debt stocks, depends greatly on sectors hit by COVID-19—such as tourism, hospitality, and transportation—and relies heavily on the United States as a trading partner. In addition, foreign direct investment and personal remittances account for roughly 20% of Jamaican GDP, meaning that longer-term investments and capital formation will likely suffer greatly following the pandemic.

Thus, wide-ranging international comparisons provide strong potential for helping policy-makers.

“Although the pandemic is almost certain to have an adverse economic impact on every country in the world, the losses and damage will be distributed unevenly.”

A Way Forward?

Focusing on key macroeconomic indicators to highlight known risks can provide insight into international trade. Currency crises, sudden stops, supply chain vulnerabilities, and food security are all trade-related issues that can be anticipated by macroeconomic variables and a good understanding of causal relationships.

When considering solutions to the many trade risks facing countries, special attention should be paid to the lasting implications. Political relationships and precedents, financial soundness, market regulations, and long-term strategic priorities such as combating climate change should not be sacrificed in the name of tackling the crisis.

The political independence of many civil service functions—such as data collection and monetary policy—is as important as ever. For example, any hint of political interference in numbers of virus-related deaths would undermine the public’s confidence in the government’s ability to handle the crisis. One particular concern to economists is central bank independence, as political interference in monetary policy can cause higher inflation because the perceptions of interference cause people to update their expectations.

Similarly, when emergency measures are put in place, people might question promises made by governments—such as keeping interest rates low for long periods of time to sustain a recovery or forgiving loans made to businesses during the pandemic.

Having politically independent processes for guaranteeing such promises, such as a strong legal system or independent financial authorities, can help assure the public that these promises are credible. This is especially important since the intuitive reaction for a government in a crisis is to expand emergency powers. Limitations to political powers can reassure markets that political considerations do not take precedence over policy.

We also expect public debt to become more of a central issue for the international community.² In addition to the implications for the budgets of government programs, debt has lasting implications on trade markets through foreign exchange rates, inflation rates, and domestic investment. High debt can also increase the likelihood of currency crises or hyperinflation. Developing nations, especially those with significant exposure to global markets, are especially vulnerable to these types of crises. Prior to the pandemic, the

² Private debt is also of particular concern. However, the prevalence of public debt also limits the government’s ability to engage in any private debt relief or to fill the gap in private investment markets with government-financed projects.



“Political relationships and precedents, financial soundness, market regulations, and long-term strategic priorities such as combating climate change should not be sacrificed in the name of tackling the crisis.”

International Monetary Fund had already warned that debt levels in lower-income countries were elevated, and it has expanded its emergency debt relief and supported the G20's Debt Service Suspension Initiative.³

One lesson from the 1997 Asian financial crisis was the potential for contagion of currency crises between countries. With government budgets stressed in many countries, the potential for such contagion is high. The mechanisms behind currency crises imply that the best way to avoid them is through political cooperation and commitment on an international scale,⁴ with many of the obligations falling to wealthy nations at a difficult time while less-wealthy nations disproportionately bear the risk.

Thus, now is the time for renewed commitment from the international community to support countries in economic crisis and to refrain from policies such as protective subsidies, tariff peaks, currency manipulation, and sterilization of capital flows by central banks in order to keep real exchange rates artificially low. The International Monetary Fund's spring and annual meetings should reflect the potential risk of these "beggar thy neighbour" policies and seek international commitment to refrain from such practices.

The international community should be concerned about bargaining power and access to markets. Key players will undoubtedly try to consolidate market power during this tumultuous period, and rising nationalist tendencies imply that the burden of ensuring fairness will fall more on international institutions.

This situation requires international cooperation, as governments cannot be trusted to unilaterally prosecute a domestic producer to help consumers in other countries. Furthermore, monopoly rights through intellectual property have been boosting their share of the value chain for years. The incoming director-general of the World Trade Organization (WTO) should have this firmly within her agenda.

"Now is the time for renewed commitment from the international community to support countries in economic crisis."

"The international community should be concerned about bargaining power and access to markets."

³ International Monetary Fund (IMF). (2020a). *The evolution of public debt vulnerabilities in lower income economies*. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/02/05/The-Evolution-of-Public-Debt-Vulnerabilities-In-Lower-Income-Economies-49018>; IMF. (2020b). Questions and answers on sovereign debt issues. <https://www.imf.org/en/About/FAQ/sovereign-debt#s2q1>

⁴ Eichengreen, B. (1992). *Golden fetters: The gold standard and the Great Depression, 1919–1939*. Oxford University Press. The international community can stave off currency crises with international guarantees to support the currency regime. International cooperation is also required to prevent "beggar thy neighbour" policies and to reduce the burden on any individual country of supporting a troubled currency.

Similar to the 2008 crisis, the response to COVID-19 also requires stress-testing our policies and institutions to a new set of challenges: identifying points of weakness and worst-case scenarios and moving to anticipate and prevent those scenarios. Finally, such stress tests should include preparing against low-probability extreme events, as the structural transformation resulting from the pandemic will undoubtedly affect such probabilities.

“The response to COVID-19 requires stress-testing our policies and institutions to a new set of challenges.”



NEWSROOM

WTO to get a female leader for the first time

Nigeria's Ngozi Okonjo-Iweala has been selected as the next director-general of the World Trade Organization (WTO), edging out South Korea's Yoo Myung-hee to become the first woman to head the WTO since its founding in 1995. However, with the U.S. indicating that it cannot join the consensus, the next steps remain unclear.

The next director-general will assume control of an organization that has struggled to prevent trade disputes among its members, particularly the United States and China. She will also be forced to grapple with the fallout from the coronavirus pandemic, which has slammed trade and triggered a deep global recession.

WTO members [narrowed the field](#) of candidates from five to two on Oct. 8, and then to one during the last week of October. The next step is for members to recommend Okonjo-Iweala to the General Council, which will choose the successor to former Director-General Roberto Azevêdo. The WTO had aimed to announce its new leader by November 7, and one of the top tasks for the new head of the trade body will be to ease tensions between Washington and Beijing, with U.S. President-elect Joe Biden set to take office in late January.

The United States said on October 28 that she lacked “real, hands-on experience in the field” and backed Yoo instead. Several African and Caribbean states had voiced support for Okonjo-Iweala in recent months and the European Union endorsed her on October 26. The General Council has been postponed indefinitely as consultations continue.

Okonjo-Iweala, a former Nigerian finance minister who also has U.S. nationality, spent 25 years as an economist at the World Bank. She rose to the position of managing director, essentially second in command at the institution. She is also chairwoman of the international vaccines alliance Gavi.

As finance minister, she negotiated a debt reduction deal. While No. 2 at the World Bank, she was responsible for securing more money for grants and soft loans to poor economies.

Unlike Yoo, Okonjo-Iweala is not a trade specialist. However, her work as a development economist and finance minister means she's frequently dealt with international trade, which she describes as a "mission and a passion." Not being a WTO insider is an advantage, she says, because the organization needs "someone who knows trade, but brings a fresh pair of eyes."

In an [interview](#) with The Guardian last month, Okonjo-Iweala said: "It can't be business as usual. It can't be more of the same. It can't be someone who just knows the issues and how the place works. We have tried that. Of all the challengers for the job, I have the right combination of skills."

Yoo, the first woman to serve as South Korea's trade minister, has been involved in some of her country's key trade talks, including with the United States and China. She renegotiated and oversaw the implementation of the "gold standard" free trade agreement in the amendment of the Korea–United States deal that began in 2017.

She began her career in 1995, when the WTO was created, and notes that she has "deep knowledge and insight into the details of various areas of trade agreements." Yoo has promised to act as a mediator if she is selected as director-general to ensure that the WTO provides a meaningful platform for Washington and Beijing to settle their trade spats.

Yoo has described the WTO as "being at a crossroads" and said its 164 members must work to rebuild trust and revamp the global trading system. Revitalizing the WTO is essential, she says.

"It would be naïve to expect that the WTO can resolve everything overnight," she told [Bloomberg News](#) in September. "But still, a well-functioning, revitalized WTO as a forum for negotiation and a forum for dispute settlement could be part of the solution."

United Kingdom signs first post-Brexit fisheries accord with Norway

The United Kingdom has clinched its first post-Brexit deal on fishing rights, signing a framework agreement with Norway that outlines how the two countries will cooperate on fisheries issues starting next year. It's the first fisheries treaty signed by Britain as an independent coastal state in four decades.

The accord, signed on October 1, is significant because it incorporates the same principles that Britain is seeking with the European Union. Indeed, German Chancellor Angela Merkel [said](#) the pact signalled that the United Kingdom was on a "constructive path" in its post-Brexit negotiations and showed that "agreements can be found."

The five-page document, [leaked electronically](#) just a week after it was signed, reveals that the two countries agreed to fix quotas and access to each other's waters annually. It doesn't contain precise details on potential fishing opportunities, which will be decided as part of yearly negotiations. The

United Kingdom reportedly secured the use of “zonal attachment”—a scientific method to calculate quotas based on where fish live.

This is also a key demand from Britain in its ongoing fisheries discussions with the European Union.

The accord with Norway will enter into force on January 1, after the United Kingdom has left the European Union’s Common Fisheries Policy. It will run until December 31, 2026, before being fully renegotiated for another four years. In the meantime, either side can end the agreement by giving notice to the other at least one year before the initial period expires.

This is a sticking point in the EU talks because coastal nations such as France are demanding a long-term solution.

Although “taking back control of British waters” is a politically charged topic in the United Kingdom, the sector is far [more important](#) economically to Norway than to Britain. The British fishing fleet lands GBP 32 million (USD 41.5 million, EUR 35.2 million) worth of fish from Norwegian waters every year.

Brexit gives the United Kingdom control of its 200 nautical mile Exclusive Economic Zone, making it a key player in managing fish stocks in the North Sea. Critics claim that the Common Fisheries Policy, which gives European boats access to British waters, has [decimated](#) the United Kingdom’s fishing industry.

Some pundits suggest that the United Kingdom’s efforts to carve out a better deal for its fishing fleet—and Europe’s staunch defence of the status quo—could lead to a no-deal scenario in which Britain loses tariff-free access to the destination of 43% of its exports.

Temporary arbitration mechanism for WTO appeals starts to crystallize

The new temporary mechanism for using arbitration to hear appeals in WTO disputes is taking shape, with an agreed pool of arbitrators confirmed in August and at least four cases set to use this approach should their cases proceed past the dispute panel stage.

The cases that may end up in arbitration are [DS537](#) between Canada and Australia over measures affecting wine sales, [DS524](#) between Costa Rica and Mexico over measures affecting avocado imports, [DS522](#) between Canada and Brazil over aircraft subsidies, and [DS591](#) between Colombia and the European Union over antidumping duties on frozen fries.

A fifth case [will also resort](#) to so-called Article 25 arbitration, the legal provision in the WTO’s Dispute Settlement Understanding that underpins the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), as the mechanism is known. In that case, [DS529](#) between Australia and Indonesia on antidumping duties on A4 copy paper, analysts note that there is no reference yet to the MPIA, given that [only one of the parties](#) is a signatory.

The MPIA emerged after the WTO's Appellate Body became effectively paralyzed last December due to a lack of sufficient judges to sign off on appeals. Since 2017, the United States has been blocking the start of selection processes for Appellate Body members, as well as the renewal of judges who would normally be eligible for a second four-year term.

The MPIA has [been in effect](#) since April, after which WTO members nominated candidates for the 10-person pool of arbitrators. So far, 51 members have signed onto the arrangement, including the European Union and its 27 member states.

The other signatories are Australia, Benin, Brazil, Canada, China, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Hong Kong, Iceland, Macao, Mexico, Montenegro, New Zealand, Nicaragua, Norway, Pakistan, Singapore, Switzerland, Ukraine, and Uruguay.

It is not yet known how long the MPIA will remain in effect, nor is it clear whether a change of administration in the United States would be sufficient to resolve the Appellate Body crisis. While David Walker of New Zealand held consultations (at the request of then-WTO Director-General Roberto Azevêdo) to find a solution, the [draft decision](#) put forward [late last year](#) on the functioning of the Appellate Body has not yet gained consensus.

At the Sept. 28 meeting of the WTO's Dispute Settlement Body, U.S. WTO Ambassador Dennis Shea reiterated past concerns about the Appellate Body not acting in line with the organization's dispute settlement rules, and that understanding the reasoning for this would be crucial before discussing solutions. He also [argued that](#) the MPIA would, "at best, perpetuate the failings of the Appellate Body" and divert attention from the Appellate Body situation.

João Aguiar Machado, the EU's WTO ambassador, [warned at the same meeting](#) that the recent U.S. decision to appeal a dispute panel report in Washington's dispute with Canada over countervailing duties on softwood lumber imports "illustrates the grave consequences of the blockage of Appellate Body appointments." Without a functioning Appellate Body or the use of Article 25 arbitration, the appeal of a panel report effectively leaves an ongoing dispute in limbo.

While stressing to WTO members that the MPIA is an available option to prevent such problems, Machado also restated the EU's "willingness to find a lasting solution to the current impasse, as a matter of priority."

Geneva Trade Week wraps up inaugural edition

The inaugural edition of [Geneva Trade Week](#) drew thousands of attendees over its five-day run from September 28 to October 2, 2020.

The [Geneva Trade Platform](#), a new organization housed within the Graduate Institute's Centre for Trade and Economic Integration, organized the virtual event. More than 70 organizations participated in Geneva Trade Week, which featured 54 sessions and set out to examine “trade, its impact, and its connection to the most pressing issues of our time.” Within that overarching framework, the event was structured around five overarching thematic pillars: sustainability, rethinking trade, “trade and...”, rebooting the WTO, and digital trade.

Geneva Trade Week was launched after the [cancellation of this year's edition](#) of the WTO Public Forum due to COVID-19. The Public Forum normally attracts thousands of attendees and speakers to WTO headquarters in Geneva in late September of each year for a series of in-person sessions, report launches, and plenaries. It's also streamed live online.

According to the Geneva Trade Platform, Geneva Trade Week will [continue in a revised form](#) in the years to come, as a complement to the WTO Public Forum once it resumes.

The [International Institute for Sustainable Development](#), Bertelsmann Stiftung, the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, and Global Trade Alert at the University of St. Gallen's Centre for Economic Policy Research served as Geneva Trade Week's thematic partners.

The Enhanced Integrated Framework at the WTO and the Trade Expertes network were the event's inclusivity partners. The week was supported by the Graduate Institute's Centre for Trade and Economic Integration, the United Kingdom's Department for International Trade, Konrad Adenauer Stiftung, and the Geneva Chamber of Commerce, Industry, and Services.

Joint Initiatives Roundup: Investment facilitation enters negotiating phase, e-commerce, and micro, small, and medium-sized enterprises eye next steps

The various Joint Statement Initiatives launched alongside the World Trade Organization's (WTO's) 2017 ministerial conference have transitioned over the past few months, after a lengthy period where meetings were largely on hold due to COVID-19.

A subset of the WTO's membership backs each initiative. As a result, there is significant interest—and controversy—over what these initiatives could mean in terms of substantive rules or other commitments, and what it will mean for the global trading system for groups of members to advance their respective ideas outside the multilaterally agreed negotiating agenda.

Investment facilitation talks kick off

The initiative on investment facilitation, for example, transitioned to negotiations in September. That happened after nearly three years of “structured discussions” to develop the early contours of a multilateral framework on investment facilitation.

These talks involve 105 WTO members, with Indonesia being the most recent to sign on. Governments have submitted proposals to include in an informal consolidated text that will eventually serve as the starting point for negotiations.

Proponents of the proposed framework suggest that it could draw in much-needed foreign direct investment, including for developing economies, and provide important clarity and consistency for investors. However, several WTO members and experts say this framework could impose onerous obligations, even with the provision of special and differential treatment, that could be difficult for developing and least developed country members to meet.

Another recurring concern is whether this proposed framework would create coherence problems with the wider regime of international investment agreements. There are also worries that the framework's obligations [could be imported](#) into investor–state arbitration under those investment agreements, even though investor–state dispute settlement is excluded from the scope of the framework.

E-commerce “stocktake” text

Seven negotiating rounds on the joint initiative on electronic commerce were concluded before the COVID-19 pandemic began. Although talks were then put on hold, trade watchers greeted the release of a “stocktake text” in August as an indication of what a deal on e-commerce among WTO members could look like.

The text itself remains a restricted document, as does the informal consolidated text in the investment facilitation negotiations. However, reports from [Borderlex](#) indicate that the text covers six overarching areas, namely enabling electronic commerce, openness and electronic commerce, trust and electronic commerce, cross-cutting issues, telecommunications, and market access.

Whether the negotiations on e-commerce will wrap up in time for the next WTO ministerial conference remains to be seen, and the date for such an event also remains in flux in light of the pandemic.

MSME working group fine-tunes draft recommendations, decisions

The Informal Working Group on Micro, Small, and Medium-Sized Enterprises (MSMEs) has [endorsed](#)

a package of documents that includes draft recommendations and declarations on selected items. The move follows years of thematic discussions to develop a better understanding of the challenges MSMEs face in trade and where international trade policy-making can provide support.

Endorsed on November 5, these documents include a [“cover declaration,”](#) as well as draft recommendations on the [voluntary collection and maintenance](#) of MSME-related information in the context of WTO trade policy reviews; the implementation of the [Trade Facilitation Agreement](#); the inclusion of [MSME interests and concerns](#) in domestic trade-related policy-making; and improved transmission of certain types of data into the WTO Integrated Database maintained by the Inter-American Development Bank.

Two documents, in the form of declarations, call for ensuring access to information within the context of the [planned Global Trade Helpdesk](#) and the [exchange of best practices](#) and experiences involving MSMEs' access to finance and cross-border payments, respectively.

These documents are not meant to create any new legal rights or obligations for WTO members, and the Informal Working Group confirmed that they are not a negotiating initiative. The group has said, however, that it would like to see a “multilateral outcome” on MSMEs at the next WTO ministerial conference and is seeking to bring on board more WTO members.

WTO members debate whether to ease intellectual property rules for COVID-19

An effort led by India and South Africa pushing WTO members to agree to waive some safeguards for intellectual property rights to accelerate efforts to prevent, treat, and contain the coronavirus failed to advance in October, with the EU and the United States among those [reportedly blocking](#) the move.

The initiative also aimed to ensure that developing nations aren’t left behind on COVID-19 drug production. The two countries said in a [joint submission](#) to the WTO’s Council for Trade-Related Aspects of Intellectual Property Rights on Oct. 2 that without a waiver, some economies—especially many of the world’s poorest, which have been “disproportionately impacted”—would struggle to access vaccines or medicines quickly.

“As new diagnostics, therapeutics, and vaccines for COVID-19 are developed, there are significant concerns how these will be made available promptly, in sufficient quantities, and an affordable price to meet global demand,” the two countries argued.

Some nations have begun to manufacture essential medical goods or are modifying existing products to treat COVID-19 patients. But India and South Africa noted that “there are several reports about intellectual property rights hindering or potentially hindering timely provisioning of affordable medical products to the patients. It is also reported that some WTO members have carried out urgent legal amendments to their national patent laws to expedite the process of issuing compulsory/government use licences.”

Oxfam International and other activist groups have warned that without greater efforts to hold political, pharmaceutical, and health leaders accountable, rich governments will hoard vaccines. Dozens of vaccines are being researched and some economies—including the [United States, the United Kingdom, and several European Union member states](#)—have already ordered [billions](#) of doses, even though it’s not clear that any of these vaccines are effective.

Poorer countries lack the means to place such orders. Many global health officials fear that inequitable access will cause further immeasurable suffering and that COVID-19 will not be contained.

Specifically, India and South Africa want the WTO to waive rules that govern patents, industrial designs, copyrights, and protection of undisclosed information—a reference to trade secrets. The waiver “should continue until widespread vaccination is in place globally, and the majority of the world’s population has developed immunity to COVID-19,” they said.

The submission came as the World Health Organization works with Gavi and the Coalition for Emergency Preparedness Innovations to establish Covax, a vaccine purchasing pool in which 172 nations exchange expertise. This international initiative to distribute COVID-19 vaccines across the globe aims to pool the economic resources of its member countries so vaccine developers can make high-risk investments and subsidize vaccine costs for lower and middle-income states. The United States has not joined Covax, but China said on October 9 that it would.

Despite the India–South Africa proposal not advancing at the WTO committee that deals with intellectual property rights, [media reports indicate](#) that the idea could resurface in the new year.

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