



GTIPA PERSPECTIVES: NATIONS' TRADE POLICY PRIORITIES FOR THE YEAR AHEAD

OCTOBER 2020



GTIPA PERSPECTIVES: NATIONS' TRADE POLICY PRIORITIES FOR THE YEAR AHEAD



Table of Contents

Introduction 3

Argentina 5

Australia 8

Bangladesh 11

Chile 14

Colombia 19

Germany 22

Italy (Competere) 24

Italy (I-Com) 27

The Philippines 30

Poland 33

South Africa 37

United Kingdom 40

United States 44

Conclusion 48

Endnotes 49



About the Global Trade and Innovation Policy Alliance

The Global Trade and Innovation Policy Alliance (GTIPA) is a global network of independent think tanks that are ardent supporters of greater global trade liberalization and integration, deplore trade-distorting “innovation mercantilist” practices, but yet believe that governments can and should play important and proactive roles in spurring greater innovation and productivity in their enterprises and economies. Member organizations advocate and adhere to research and policy consistent with a core Statement of Shared Principles.

The Alliance represents a network of like-minded think tanks who will have opportunities to collaborate on events, research, and reports while enjoying a platform that highlights and cross-pollinates member organizations’ work on trade, globalization, and innovation policy.

Think tanks interested in joining the Alliance should contact Stephen Ezell, vice president for global innovation policy at the Information Technology and Innovation Foundation, at sezell@itif.org.



Introduction

By: Yamel Sarquis, Information Technology and Innovation Foundation

The Global Trade and Innovation Policy Alliance (GTIPA) represents a global network of over 40 independent, like-minded think tanks from 27 economies throughout the world that believe trade, globalization, and innovation—conducted on market-led, rules-based terms—can maximize welfare for the world’s citizens. The Alliance exists to collectively amplify members’ voices and enhance their impact on trade, globalization, and innovation policy issues while bringing new scholarship into the world on these subjects.

This report provides GTIPA members’ perspectives on their nations’ three most-significant trade priorities for the year ahead. This document aims to deliver a succinct snapshot of what to expect in the coming year regarding trade policy priorities for these countries. The volume compiles briefs from Argentina, Australia, Bangladesh, Chile, Colombia, Germany, Italy, the Philippines, Poland, South Africa, the United Kingdom, and the United States. It also offers specific examples and recommendations that countries can seek to adopt to advance their trade policy agendas.

As stated in GTIPA’s Shared Statement of Principles, trade and cross-border investment are key drivers of global growth, which play a central role in increasing the social and economic prosperity of citizens worldwide. Whether it comes to improving health, protecting the environment, or ensuring Internet connectivity, trade in goods, service, and data enable countries’ GDP growth and improvements in quality of life and standards of living. If crafted effectively, trade policies can attract both foreign and domestic investment, spur innovation, foster competitiveness, and increase access to broader global markets.

The trade policy priorities of the countries listed in this report can be grouped as follows:

1. Promoting trade openness.
2. Bolstering programs to help exporters/importers.
3. Tending to domestic concerns/priorities.
4. Enhancing multilateralism and the global trade order.
5. Addressing country-specific trade priorities (such as with regard to the United States or China).

On the first topic, almost every country listed expanding trade agreements as a priority for the year ahead. From ratifying the CPTPP in Chile (and encouraging the United States to accede to it), to joining the AfCFTA in South Africa, to leading an open-market orientation in Germany, to confirming an agreement with the EU in Argentina, countries here reiterate their interest in deepening trade ties and taking advantage of the benefits afforded by free-trade mechanisms.

In the same context, efforts to help exporters and importers are also at the top of the list. The UK and Colombia support unilateral tariff liberalization, with Colombia expanding it to curtailing non-tariff barriers as well. Diving deeper into Latin America, Argentina proposes reducing withholding taxes on exports of goods and services, while Chile eyes diversifying its destination markets for exporters and

helping its firms identify new opportunities to export into international markets.

The report also includes policies focused on domestic considerations. For instance, Bangladesh proposes diversifying into new products and improving its labor-market conditions. Chile roots for modernizing its infrastructure and commercial offices, while Poland seeks to refurbish its trade diplomacy apparatus. Italy and the Philippines bet on strengthening their MSME and startup ecosystems. Lastly, South Africa registers protecting its investment act and securing property rights.

In addition, enhancing global trade regimes also occupies a key spot among next year's priorities. Italy and the UK would seek new opportunities to enhance multilateralism and plurilateralism. The U.S. submission focuses on reforming its strategic trade engagement with the WTO and with like-minded trade partners, as well as building a global digital trade framework through new trade policies and agreements. From a regional perspective, Poland and Italy raise the issue of the Digital Single Market and barriers to services trade within the EU.

Lastly, European nations such as Germany and Italy list confronting U.S. protectionist policies while containing China's aggressive trade policies as strategic priorities for the year ahead. Regardless of the outcome of the U.S. elections, the America-first approach and the China threat remain top-of-mind for countries from the old continent. Affected by Brexit, the UK would seek opening avenues with the United States via a bilateral agreement. It's worth mentioning that the effects of the COVID-19 pandemic underpin every issue highlighted in this report.

Most importantly, this series of briefs is intended to help global trade policymakers identify issues affecting countries' economic growth potential and to help them anticipate trends, adapt to changing legislation or regulatory frameworks, and promote common causes across countries.

Argentina

By: Franco M. López, Research Director, and Santiago Remón, Research Assistant,
Fundación Internacional Bases



The political and socioeconomic situation of Argentina is once again in the mist of its vast history of very bad conditions. The country's recurrent crises denote the lack of government organization that has existed for decades. The year 2020, which already had no expectations of being a good economic and financial year for the country, worsened with a pandemic that was inefficiently managed, and strikes an already damaged economy. Argentina had just experienced two consecutive years of decline in its gross domestic product (GDP): -2.5 percent in 2018 and -2.2 percent in 2019.¹ The estimates made by European Commission for Latin America and the Caribbean (ECLAC) for the year 2020 expect Argentinean GDP to fall by -10.5 percent with respect to the previous year, and predicts a poverty ratio of 37.5 percent of the population.² Most specialists believe these numbers will be even worse, with a GDP fall of 20 percent, and poverty reaching 50 percent. To this situation we must add the monetary and exchange crisis that the country is experiencing. The Central Bank of the Republic of Argentina (BCRA) has very low net reserves, and the fast availability reserves are not enough to cover the demand of the savers. The confidence in the national currency decreases and simultaneously the inflation increases. The inflation expectations for the year 2021 according to the Survey of Market Expectations of the BCRA are at 47.1 percent, a more-than-worrying figure that many think will be surpassed.³ The biggest international policy challenge for 2020 was the settlement of debt to foreign bondholders. Fortunately, after several months of negotiations, an agreement was reached after concealing the terms of the bondholders and pushing forward most payments, which means a relief in terms of debt commitments for the country in the coming years. From this point on, it is important to start planning future commercial priorities to overcome these problems, especially the low levels of investments and the chronic scarcity of foreign currency.

Argentina is a country that tends to close itself off from the rest of the world. Its foreign trade regulations are countless, and the tax burden it imposes on both exports and imports is enormous. Importing goods or services is a completely complicated act, full of confiscatory taxes, paperwork, and bureaucratic obstacles. When exporting, the Argentine state charges large taxes, which are known as “withholdings”; this, added to the existence of an artificially low official exchange rate that is applied over a forced transformation into pesos of all foreign income, constitutes a destruction to the necessary incentives needed to export and provide a genuine foreign currency income to the country.

Given this context one can identify three topics that are trade priorities for the next year and that can help correct these problems: sign a free trade agreement (FTA) with the European Union, join the Pacific Alliance, and reduce export taxes on goods and services. Each one of these points, if well applied, will allow Argentina to achieve a sustainable growth during the next years.

1. Expanding Mercosur by Confirming the Agreement With the European Union

The European Union is an extremely attractive trading partner for the region. With more than 500 million inhabitants and a high purchasing power, this economic sector constitutes about 20 percent of the world economy and one-third of global imports, making it one of the largest and most-sophisticated consumer markets in the world.⁴ Mercosur (the regional Atlantic coast South American trade block Argentina is part of) exports goods to the EU for a value of €43 billion (\$50 billion) and imports goods for a value

of €45 billion (\$51.2 billion); with respect to services, the numbers are €11,000 and €23,000 (\$12.8 billion and \$26.8 billion) respectively for exports and imports.⁵ The benefits of an agreement will be translated into increased exports of all types of goods from the agricultural, livestock, wine, fishing, and citrus industries, as well as industrial goods and knowledge-related services.⁶ It must be remembered that 80 percent of Argentina's imports from Europe are intermediate goods, capital goods, and capital goods parts used by its own industry to produce goods that are sold in the domestic market or exported to other destinations (for example, two-thirds of the vehicles manufactured in Argentina are exported). Only a small portion are automobiles and consumer goods directly consumed. The elimination of tariffs in this area will allow the import of industrial inputs and machinery and capital goods by expanding the current tools.⁷ Another important benefit of the implementation of the agreement will be increased investment. Today, the EU is the world's leading investor, and all the other countries that have signed this type of agreement have seen a huge increase in foreign direct investment (FDI), including Chile, South Africa, Morocco, Egypt, Israel, Turkey, and Mexico.⁸

2. Join the Pacific Alliance

The Pacific Alliance is a regional Pacific coast trade initiative formed by Chile, Colombia, Mexico, and Peru. This alliance has been successfully consolidated in its purpose of creating a regional integration mechanism where the free circulation of goods, services, capital, and human capital reigns. Some of its achievements were the implementation of the Latin American Integrated Market (MILA), the elimination of travel visas for its member countries, and the continuity of the integration process with changes of government in its member countries, among others.⁹ This proposal opens a market for Argentina of more than 226 million consumers with a per capita GDP of \$10,703. The incorporation to the Pacific Alliance would imply the signing of FTAs with the elimination of tariffs that would allow Argentina to export its agricultural, livestock, and industrial goods to member nations' markets. Considering the similarities between Mercosur and the Pacific Alliance regarding the removal of internal restrictions of human, goods, and capital flows, a future merger of both blocks into a continental one should be considered.

3. Reduce Withholding Taxes on Exports of Goods and Services

Exports of goods and services in Argentina generate the highest foreign exchange earnings that the country has: For the year 2019, that figure was equivalent to €58.2 billion (\$67.7 billion), and most of these exports belong to the categories of primary products, manufactured goods of industrial origin, and manufactured goods of agricultural origin.¹⁰ The Argentine government establishes different types of withholdings on the export of goods and services with, in some cases, such as soybean exports, the withholding figure reaching the abysmal value of 33 percent. This situation must be added to the exchange problem faced by the country, as described in the introduction: The lack of foreign currency and exchange restrictions result in a coexistence of multiple exchange rates, and particularly the official exchange rate is artificially low; that is, those who import, for example, soybeans, must quote a much-lower official dollar than the real market value, and in addition, 33 percent will be retained as export duties. In this way, the incentives to export goods and services that generate a genuine foreign currency inflow to the country are totally destroyed. Another great potential that the country possesses is related to the knowledge-based service industry (SBC). This sector is the third-largest export complex in the country (behind the soybean and automotive industries, with exports exceeding \$6 billion per year), generating more than 430,000 jobs. Therefore, reducing taxes on the export of services will allow this growing industry to develop its full potential.¹¹

Conclusions

Achieving progress on these three priorities would allow the establishment of relations with the rest of the world that will improve the country's competitiveness, provide greater institutional quality, promote regional integration, and add value to small and medium-sized enterprises (SMEs). Foreign investments are necessary, and these guidelines are the best way to achieve them. It is of utmost importance that these issues appear on next year's agenda, as weaving networks of international collaboration with the elimination of tariff barriers will impact positively on the economy and generate the wealth that the country needs, not only reducing goods prices but also expanding private profits with its subsequent correlation in larger incomes, greater investment, and job creation.

Australia

By: Hasan Tawfique, Asia Pacific Regional Head, The Institute for Policy, Advocacy, and Governance (IPAG) Asia-Pacific



The impact of COVID-19 on the global economy has prompted significant structural changes to the economy of Australia. The nation is currently undergoing its first recession in the last three decades, as its GDP shrank by 7 percent during the April–June quarter. Before the pandemic hit, Australia was already reeling from the bushfire tragedy that ravaged over 12 million hectares of land and cost nearly 1 million jobs. At the same time, the country’s relationship with China, Australia’s largest trading partner, has been extremely turfy in recent months. While Prime Minister Morrison has already injected more than USD \$147 billion, it’s clear that a more robust, comprehensive strategy is required with the COVID-19 crisis far from over. Australia needs to rapidly adapt and get accustomed to the evolving circumstances, focusing its attention on bolstering its trade strategy, with a number of issues taking priority.

1. Diversifying Trade and Investment Ties

Australia has an open and trade-exposed economy which is primarily dependent on China. Almost one-third of Australia’s exports, equivalent to \$120 billion, was with China in 2019. However, as global economies took a hit during the pandemic, China applied sanctions to several key items it imports from Australia, including barley, beef, education, and tourism. With the resultant trade conflict, Australia’s economy is facing the most-adverse external economic environment it’s faced in recent years.

As Australia’s economy is highly concentrated within certain sectors, the effects of these external shocks may get amplified by the lack of diversity in Australia’s trade and investment ties. In this regard, trade diversification must be accorded a much higher priority than in previous times. The country needs to diversify investment ties with other nations to instill resilience into the economy. To heighten the foundation for Australia’s economic engagement with the world, this diversification may involve a set of interlinked activities including those of government, such as trade negotiations and commercial diplomacy, as well as the-market development strategies of Australian businesses.

Additionally, implementing diverse policies according to regional preferences and priorities will help to develop new trade and investment relationships. The recent trade agreement with Indonesia and economic strategies aimed at India, Vietnam, and Association of Southeast Asian Nations (ASEAN) is a leading example in this regard. The global pandemic has strengthened economic relationship ties between Australia and Indonesia, with the landmark Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA) entering force from July 5, 2020. The agreement offers many opportunities for Australia across the agriculture, resources, and service sectors. Other than that, Australia should also tap into the potential of stronger partnerships with nations such as India and Vietnam. The recently concluded bilateral memoranda of understanding with India on critical minerals, cyber technologies, defense, science, and vocational training provides a foundation for such efforts.

Furthermore, some of the key trade capacities which Australia should reorganize to overcome its economic dependency and defeat the financial emergency due to the pandemic include:

- Making progress with regard to Australia’s vital global security and financial interests, including through deeper reciprocal, provincial/bilateral, and multilateral commitments between Australia and its key trade and security partners.
- Attaining and advancing a stable Indo-Pacific relationship, including by promoting deeper interaction and engagement with fellow South-Asian nations, such as through structured training, education, and the travel industry.
- Enhancing reciprocal associations with new ventures and policies across the Asia-Pacific.
- The assurance of and government assistance for Australians traveling abroad, including ensuring the availability of global travel documentation through opportune and responsive travel counsel, and providing effective consular and visa administration in Australia and abroad.

Despite many challenges, the ongoing conflict is offering important opportunities to bring more diversity and resilience to Australia’s economic relationships as it recovers and readies for a post-COVID-19 future.

2. Working to Promote a Stable and Prosperous Indo-Pacific in a Time of Change

The Indo-Pacific region has been a priority area for Australia in recent years, even before the pandemic, as Australia focused attention toward deepening its relations with its Pacific neighbors. The future of Australia is closely tied to the Indo-Pacific region, as it embraces closely neighboring countries, most importantly regarding economic and strategic relationships. Thus, calibration of Australia’s regional engagements, including responses to the ongoing impact of the COVID-19 crisis, is important in order to recover and to maintain stability of the regional order and strategic balance in a way that will benefit all countries. Alongside that, deepening alliance with the United States and advancing bilateral agreements through regional architectures with key partners such as Japan, India, Indonesia, the Republic of Korea, and Vietnam, while pursuing a mutually beneficial relationship with China, will help to expand trade and business opportunities for the country.

3. Providing a Secure and Effective Overseas Presence

Australia’s global diplomatic network has helped secure critical medical equipment such as personal protective equipment (PPE) during the ongoing pandemic through its diligent maintenance of open supply chains and markets for essential goods and services. Facilitating consular operation while recovering from COVID-19 has also played a vital role for Australian businesses and citizens. At present, Australia operates 112 posts around the world. The overseas network is a critical enabler in protecting and advancing Australia’s interests. Hence, by ensuring a secure Australian government presence overseas by providing security services, protected information, and communications technology infrastructure, and through efficient management of its overseas properties, Australia can leverage its strengths to facilitate trade with its counterpart nations under favorable terms and conditions.

4. Pursuing Free Trade Agreement Opportunities

International travel restrictions due to COVID-19 have inordinately influenced many services trades. With one in five jobs dependent on trade, the government should keep trading channels open and

accessible in the COVID-19 situation to support Australian exporters. It's also necessary to expand market access through various trade agreements, which will continue to support a global rules-based trading system. Furthermore, pursuing new free trade agreement opportunities around the world and boosting digital trade within the region will help the nation advance during the post-COVID-19 recovery phase. The ongoing free trade agreement negotiations with key trading partner including the European Union and the United Kingdom is helping to create a catalyst for prosperity, cultivating deeper business relationships, and producing enormous trade potential.

Bangladesh

By: Abdullah Ar Rafee, Senior Research Associate, The Institute for Policy, Advocacy, and Governance (IPAG)



As the coronavirus upends traditional forms of global trade, with much of them being irreversible, Bangladesh needs to rapidly reinvent its wheels to accustom itself to the changing scenario.

1. Exploring New Markets

Facilitating trade to open new markets: Improving trade communication will help reduce transportation delays and consequently encourage Bangladesh to achieve a stronger image in terms of global trade. This will further allow the country to expand into emerging markets. It will also support Bangladesh's mission to identify goods with lesser lead times and differentiate into new vertical markets such as high-end ready-made garments (RMG).

In this regard, some of the key objectives for 2021 may include:

1. Launching a National Logistics Strategy;
2. Developing existing internal waterway transport and trade;
3. Improving the efficiency of the Dhaka-Chittagong commute route;
4. Working closely with Bangladesh's largest neighbor, India, to boost the productivity of border-processing zones;
5. Reducing the expense of foreign exchange funds.

Increased economic integration in the region: Bangladesh is located in the world's fastest-developing region, and despite being so, the export earnings of Bangladesh are focused more on other regions of the planet. According to Export Promotion Bureau (EPB) data, the country's export earnings from Asian nations stood at \$4.96 billion in FY19, which is 12.23 percent of the total exports.¹ While around 60 percent of the world's population resides within Asia, Bangladesh is missing out on tapping into the regional growth train, due to a lack of diversification of trade in the region. Given the geography and conceivably lower exchanging costs, the opportunities for gaining more prominence in Asia are gigantic. Thereby, granting some rebate on trade volumes, and easing on transit rights with countries such as Bhutan, Myanmar, and Nepal would encourage regional exchange to enhance Bangladesh's prospects for future growth and a better diplomatic stance in Asia.

Despite growing recent rumors about China's interest in Bangladesh, financial relations with India can be broadened. Bangladesh can reform tariffs to India through Mutual Recognition Agreements (MRAs), commit to a mutual decrease in nontariff barriers, harmonization of border flexibility, easing of interstate travel, and by proposing a new design at the International Road Transport (TIR) Convention.

China and Japan are gradually turning into better hubs for Bangladesh to raise exports. Alongside this, Bangladesh can increase its ability to attract foreign direct investment by leveraging the current performance of Bangladesh in the global RMG arena and by including certain duty-free market access and cash incentives.

2. Diversifying into New Products

Updating trade policy: Rationalizing trade taxation and seeking to eliminate the counter export propensity should be a key focus moving forward. For example, high and changing rates of viable insurance would mean that more-neutral tariff policy is appreciated. Basic activities will include reducing tariff insurance and disassociating the import charge mechanism with the ultimate goal of reducing cross-part tariff expressions and suppressing or disposing of para-tariffs on domestic production in a similar manner. Such targets can be accomplished without risking projected revenue generation.

Logically, ensuring competent domestic production and exports would make the export choices of the private sector less sensitive to the accessibility of localized data sources. Practically speaking, the most intellectual solution seems to be ensuring improved stockroom imports that are accessible to all sectors and high-performing managers at a fundamental level, given the underutilized operations due to duty disadvantages. These plans were crucial in the case of the underlying achievement of South Korea in import-export. It would likewise be beneficial to examine a better arrangement to ease the basis of imports for Bangladesh.

Furthermore, formulating and implementing an independent trade administration strategy would help provide better understanding of foreign administrations, trends, and markets in terms of trade governance and could be helpful to boost information technology-enabled services engagement and investment.

Improving domestic and foreign investment environment: Increasing competent foreign direct investment is a reliable strategy to help in progressing innovation and improving market linkages for Bangladesh, while building up new opportunities. To achieve this, keeping alignment with the Export Processing Zone Act of 2010, Bangladesh needs to improve the allotment of workable land for business use. Current rules and regulations need to be revised to include a standardized policy framework through implementing norms that facilitate foreign investments the same it does for local firms. At the same time, these norms would help overcome any barrier between the domestic and foreign business sectors.

It is critical to consider the influence of COVID-19 over FDI and exchange rates, as many of the world's economies are facing an unpredicted backlash. Specifically, in the case of a newly enlisted developing nation like Bangladesh, it is imperative to balance the amount of FDI to keep on par with projected GDP growth and reduce the risk of inflation rates getting out of control. Moreover, expanding investment options into Asian countries would allow a better counter-opportunity, which also provides an option for future major hubs.

Apart from being a major driver of attaining sustainable development goals (SDGs), settling energy requirements would assist all parts of the economy and provide a big boost in attracting foreign ventures. The actualization of realistic arrangements that can offer unsubsidized power at affordable costs will be fundamental for Bangladesh. These activities will help redirect the consideration of foreign investors as well as that of local government. They will help in reshaping the focus to have a better grasp of both short and long-term investments; at the same time, involving more FDI would be helpful to uplift the current standard of local investment.

3.Improving the Labor Market:

Skills, training, and capacity building: Improving skills and education would allow for improved worker efficiency, wage growth, and a decreased level of waste. In addition to other things, this will empower the production of better products. It will require formulating a complete vision for the development of

skills, reskilling the current labor force, admitting to non-formal learning and assembly of skills, and enhancing the nature of critical training.

Developing enhanced labor and work security rules: Limiting the possibility of unfortunate incidents in Bangladesh's RMG and other export areas has become a precondition for promoting the growth of exports and ensuring reliability for foreign investors. Establishing a strong and legitimate government operations unit could lead to a better solution in this regard, which will operate independently at the private, public, and global levels. It will help to strengthen trade relationships with the European Union and the United States, and at the same time protect the interests of local businesspersons.

Effective safety nets during trade shocks: Building a safety net and a labor strategy that perceives potential exploiters and sufferers in trade advancement could help minimize resistance to an unbiased trade strategy. The main element of this approach, aside from capital inflow, should be to coordinate the creation of resources that connect helpless safety net beneficiaries with more advantageous business openings with a particular emphasis on youth. The growing youth population provides opportunities and adds a dynamic viewpoint of conquering challenges. Interest in proper advancement of skills to meet global and domestic needs will likely deliver accommodating globalization additions, while labor planning and retraining can help to ensure their flexibility to trade shocks.

4. Building a Supportive Environment for Trade Proliferation

Ensuring a stable macroeconomic climate: Bangladesh's quick, consistent growth in recent decades has been supported by stable macroeconomic fundamentals which have held stability through multiple global economic shocks. In the midst of the unprecedented changing global trade conditions, Bangladesh needs to ensure that these macroeconomic fundamentals remain in control as new policies are implemented.

Focus on institutional development: Through an engagement between the secretarial cabinet subcommittee on trade, redesigning a multi-segment intensity plan would require solid cooperation between stakeholders. This committee can likewise adopt a more progressive foundation cycle to guarantee that organizations are working rationally and in a planned way. Important strides here will incorporate the National Board of Revenue and Ministry of Commerce (MOC) together detailing the tariff strategy, reinforcing the in-house financial limit of MOC, and connecting MOC's activities coherently with the strategies from think tanks and other stakeholders.



Introduction

Since 1990 and over the ensuing three decades, Chile has negotiated and agreed to multiple protocols, agreements, and treaties with countries on almost every continent. As a matter of fact, Chilean foreign affairs policy is every day a more-important means to favor the internationalization of our economy. Those agreements and treaties have managed to 1) amplify, diversify, and densify our external relationships; 2) widen cooperation horizons and; 3) advance the development of working agendas, of mutual or common interest, as applicable, among the countries and economies involved. Hence, Chilean foreign affairs policy and international trade policy have played a complementary role in the effort to re-insert Chile into the international community.

Together with broadening access to a variety of goods, free trade agreements (FTAs) have also opened access to a wide variety of services, investment opportunities, and governmental purchases opportunities, and carried along new responsibilities and commitments that Chile has assumed in terms of labor, environmental, antitrust, transparency, intellectual property, and internal regulation and standards, among others. Thus, they have implied an important improvement in our internal regulation and the establishment of more-sophisticated regulations, processes, and nets, as well as new coordination systems among the multiple relevant governmental agencies, together with establishing agile controversial resolution systems. Hence, Chile's commercial opening has brought along other advantages and benefits, other than access to new products and services, that must be taken into consideration when evaluating the positive impact for Chile of international trade liberalization, among which includes the improvement in Chile's competitiveness. Likewise, trade agreements have provided juridical certainty and a long-term horizon relationship with other countries and economies, both indispensable conditions to developing a progressive strategy based on Chile's insertion into the global economy and its negotiating alliances with bigger scale economies than ours.

The continuous exposition of Chilean companies to higher international standards became and has been, to date, a decisive variable for the adoption, within the private sector, of new productive technologies; has promoted the proliferation of clean production; and, in line with more demanding norms, has granted Chile a worldwide recognition that has facilitated the development of a qualified labor force that delivers specialized solutions in the relevant productive sector. According to the Tenth Innovation Survey conducted by the Ministry of Economy, published in February 2018, Chilean companies that were exporting their products innovated in a greater proportion than those with less sales abroad. Innovations were made in connection with the goods exported, and in the organization, marketing, and productive process.

Free trade agreements have amplified Chile's opportunities in terms of exports, improving the competitive position of Chilean companies, whether in direct or indirect exports. In 2018, there were 8,080 Chilean exporting companies which, together, generated more than 1.2 million jobs, representing 13 percent of the country's labor force.

Chile's international trade, which represents a very important fraction of its GDP, is determined by the international economic situation, the appreciation of the U.S. dollar, and the price (fall) of several products, which has diminished Chile's export dynamism and the imported volumes. Hence, Chile must

insist on the diversification of its exports of goods and services and on the modernization of current agreements. The following are Chile's top-three trade priorities for the year ahead.

1. Ratification by the Chilean Congress of the Transpacific Partnership Agreement (CPTPP, or TPP11)

Chilean government efforts must continue to achieve ratification, by the Chilean Congress, of the TPP11, a process that has been interrupted due to questioning by progressive sectors regarding the effects of the agreement. This treaty for plurilateral economic integration with the most-dynamic region of the 21st century involving 11 countries aims to boost economic growth and to create new opportunities for companies, workers, agricultures, and consumers. By the execution of this agreement, Australia, Brunei Darussalam, Canada, Chile, Malaysia, México, Japan, New Zealand, Peru, Singapore, and Vietnam evidence their conviction regarding the benefits of an open economy to their countries. More than 3,000 new products would become available for the Chilean population at 0 percent custom tariffs or with a tariff reduction in the forest, fishing, dairy, and meat industries that would enter with a 0 percent custom tariff to Japan, Vietnam, and Canada, benefiting especially the agricultural, fishing, and forest regions of Chile. Nine-hundred products destined to Japan, Chile's third-largest commercial partner, would improve its situation especially in aquaculture, fishing, fruits and meat, honey, dairy, forest, and agro-industrial products, varieties of which are excluded from the current agreement with Japan. TPP11 will also positively impact the levels of employment generated around export activities. Nowadays, 44 percent of the export companies of the country destine their products to the countries within the agreement, generating 800,000 jobs in the export sector at a national level. The treaty also contains the cumulation of origin, which means that independently of the origin of the raw materials, manufactured products in Chile will be able to bear the insignia "Made in Chile" to the world, opening opportunities for our SMEs. One such regard the TPP11 is the first free trade agreement to incorporate a chapter regarding SMEs, whose purpose it is to expedite the internationalization of these companies in the Asia-Pacific zone. These companies, due to their size, productive weaknesses, and elevated costs, have not been able to participate in its maximum potential in international trade. The agreement provides for new SME committees, whose purpose will be to learn from one another, exchanging experiences and information (i.e., origin rules, tariffs, commerce service) to better facilitate the capacity of Chilean SMEs to export. This will facilitate SMEs' bid awards and electronic commerce activities.

In the current context and in a post-pandemic one, few countries will have the option to count with an "insurance" for their exports and international trade and commerce like the one provided by the TPP11. Notwithstanding the fact that Chile has bilateral agreements signed with almost every country included in the TPP11, participating in the plurilateral TPP agreement provides for a series of matters and benefits, including special dispositions for SMEs that are not regulated in current bilateral agreements. In the interest of stimulating economic recovery and employment, it's urgent to conclude Chile's incorporation to the TPP11.

2. Diversification of Chile's Destination Markets and the Export Supply and Modernization of Current Free Trade Agreements

Chile is very well inserted into the global economy, with more than 4,500 goods exported to be further used as raw materials or supplies for the elaboration of final products. In the latest years, such products represented 80 percent of the total shipments of the country. China is the main purchaser of the same, with a 38 percent participation in the total shipments sent by Chile. This high exposition to the Chinese markets justifies the efforts performed by the newly created Undersecretariat of International

Relationships (SUBREI) to diversify destinations. Chile's commercial relationship with China is important and must be maintained, but diversification also must be achieved.

Currently, focus is placed on how to promote the export potential of SMEs and in supporting those companies that provide or may provide them services for their internationalization. The SUBREI has created an Implementation and Promotion of Free Trade and Commercial Agreements department, which will focus its task on SMEs, promoting a greater degree of incorporation of SMEs in international public purchases, service exports, and the incorporation of women to the export sector, along with providing information to Chilean citizens regarding the benefits of free trade agreements.

In terms of broadening the scope of our commercial partners, Chile is expecting to finalize in January 2021 negotiations with New Zealand and Singapore regarding the Acuerdo de Asociación de Economía Digital (DEPA), which aims to favor innovation and the further development of the same in Chile. Likewise, DEPA aspires to be a model for future negotiations in terms of digital economy, creating a friendly frame for individuals and SMEs to export their digital products and services, and to explore new technological fields promoting economic inclusion

Modernizing current FTAs, as well as in the execution of new agreements, with a special emphasis in the South Pacific Area are also important priorities, specifically with regard to India and Indonesia (entrance door to the Association of Southeastern Asian Nations (ASEAN) and so, important to countries such as Malaysia and Thailand).

Improving access to markets in the EU, South Korea, Pacific Alliance, and the European Free Trade Association (EFTA) is also relevant to Chile's economy. With regard to the EU, the Chile-EU agreement—which has been in force for 17 years since its execution and which is composed of a commercial pillar, a cooperation pillar, and a political pillar—is currently in the process of being modernized. The EU is the main foreign investor in Chile and is an especially important commercial partner. In January 2017, the EU finalized a scoping paper containing the terms of reference regarding the process of modernization of the commercial pillar of the agreement. Later, in November 2017, the EU External Affairs Council approved the mandate so that the relevant commission could negotiate an updated agreement with Chile. The aforesaid is necessary considering commercial models, investment models, technology and innovation, and the competitive environment have changed since 2003 when it was originally executed. Important demographic changes have also taken place, along with geo-political ones, and new international issues are emerging on the global agenda. The objective of the modernization process is to unlock all the unexpected untapped potential—in digital and electronic commerce for example—and to counteract a certain erosion tendency in the bilateral relationship given by the fact that, in relative terms, newly and modern agreements provide greater advantages to other countries. Likewise, new disciplines will be incorporated to the commercial pillar to incent sustainable commerce, gender equality, and the fight against corruption. Modernization will also improve access for SMEs because of the reduction of non-tariff costs, simplification of customs regimes and provisions of origin, and the incremental regulatory cooperation and convergence to international norms. Likewise, the current agreement has obsolete norms in terms of origin provisions, customs, and commerce facilitation; it has limited liberalization in agricultural and alimentary products, limited access to public purchases, and limited dispositions in terms of intellectual property. Different rounds of negotiations have taken place to date.

In the Latin America (LATAM) region, given the broad net of FTAs that Chile has subscribed to (29), the establishment of regional value chains offers an opportunity to diversify our exports by sealing alliances with countries of the LATAM region. The FTAs are an asset for the country to become an export

platform for other countries of the region, having them exporting their products from Chile to the world. Brazil, being the eighth-largest economy in the world and the first destination of Chilean investments in the region, is a priority, especially considering the agreement that Congress has to ratify includes chapters regarding regional value chains, as it happens with the commercial integration agreement with Ecuador. These efforts relate to those being performed with Costa Rica and Argentina to identify investment opportunities to take advantage of value chains.

3. Modernizing Chilean Infrastructure and Commercial Offices

Countries' competitive advantages, in terms of international commerce, are not only given by production costs, but also by inventory management and shipping costs of products to global markets. These costs not only involve transportation and fleet costs (ad valorem), custody costs, and warehouse costs, but also plenty of bureaucracy at the origin and the destination. This bureaucracy involves fix costs (per transaction, independent of the exported value) and is directly affected by the regulations, norms, and well- or mal-functioning of the relevant authorities at the relevant customs offices and other applicable departments and services. Countries such as Chile, with high fixed costs to export, make fewer big transactions, while countries with lower fixed costs make a lot of small transactions. The problem in the first case is that the cost in inventory is substantial since accumulation of production is necessary to perform for the transactions. These inventory costs increase with the value of what is produced. Thus, countries with high bureaucratic and fixed costs tend to produce and export cheap goods of lower quality. In this sense bureaucracy is a tax being imposed on the sophistication of the export basket. These costs, for a group of countries and in average, are the equivalent of a tariff of 28 percent. In this regard, Chile needs to study and promptly implement policies that lower per-shipment costs, which can lead to significant welfare gains, mainly due to induced quality upgrading. Modernization of Chile's air and ground transportation infrastructure, as well as its port infrastructure, is of major importance.

Likewise, Chile needs to modernize its commercial offices abroad, endowing them with the necessary capacities to promptly adapt to the new environment post pandemic and to satisfy the needs of the different markets.

Conclusions

As mentioned, Chile's international commercial opening, together with the execution and ratification of Free Trade Agreements and Complementary Agreements have had a considerable and important positive impact for our country. Chile has currently a net of 29 FTAs with more than 65 countries that connect us with 65 percent of the world population and with 88 percent of global GDP. The FTAs are the basis of intense bilateral and multilateral relationships with several countries and economies in a world which has allowed economic prosperity for Chile. In other words, Chilean goods and services have a potential market of 4.7 billion people, among which we can count the most-populated nations, such as India, China, the EU, United States, Brazil, Japan, and South Korea. During 2018, 98 percent of Chilean exports, coming from the northern regions of Chile of Arica y Parinacota, were destined to our commercial partners. The same situation was registered with 99 percent of the shipments coming from the city of Coquimbo, in the center north of Chile; 96 percent of the exports from Aysen, in the south of Chile; and 92 percent of the sales abroad of companies located on the southern region of Los Ríos.

As a matter of fact, in 2018, 95 percent of our international commercial trade was made with economies with which Chile had subscribed an FTA. Thanks to the successive unilateral, bilateral, and multilateral international commercial openings, Chile's dynamic export sector, which once represented 13 percent of the GDP (1960), has grown to 29 percent in 2018. Exports have certainly dynamized our economy. Industrial shipments have grown 9 percent, based on annual average, between 1990 and 2018;

and agricultural shipments have grown 7 percent annually in the same period and Chile's exports of minerals 8 percent.

Chile's economy is oriented to exports, specifically industrial exports (cellulose, methanol, chemical products, and agro-alimentary). The salmon, forest, and wine industries of recognized international prestige have acquired major importance in the last decade, as have mining products and agricultural ones (fruits and vegetables).

Aside from the priorities previously listed, and in light of the riots and violent events that took place in Chile at the end of 2019 and the probable constitutional process that will be initiated as of October 2020 (if Chile decides at the national referendum to enter into it), it will be essential that an adequate climate of business (characterized by political stability, serious and well-founded macroeconomic policies, the continuing liberalization of international commerce, high levels of connectivity, and high disposition of qualified human resources to position Chile as a platform to export goods and services and technology to the world), continue to prevail.

Colombia

By: Michael Sepúlveda, Research Analyst, TicTac



The disruption in international trade, particularly in global value chains, as a result of COVID-19 and the measures adopted to counteract its impact on health, has unleashed a great debate about the advisability of taking advantage of the situation to seek greater internationalization or, on the contrary, to move toward more protectionism.

Colombia, a country with historically low levels of trade openness, as reflected in the country's low and stagnant trade exposure, contrasts with the dynamics observed in most advanced and emerging market economies, where the role of trade has gained considerable importance over the last 50 years.¹² Colombia should make progress toward a strategic liberation of trade policy, overcoming barriers while deepening and taking advantage of its trade agreements. The following are the three most-significant policies Colombia could undertake to advance its trade environment in the year ahead.

1. Road to Internationalization

Colombia is a country with low levels of trade openness, especially compared with the rest of the world. Even after a timid trade opening in the early 1990s, imports (as a percentage of GDP) have not changed substantially. Twenty-six years ago, they reached 21 percent, while in 2019 the indicator was 22 percent. In other words, almost 30 years later, there were practically no changes in this critical indicator. Likewise, the degree of export trade in the country has remained at an average of 35 percent in the last 28 years, well below the average for Latin America (45 percent).¹³

Having a productive and competitive agenda that creates the conditions for companies to compete in a resilient and sustainable manner in any environment, nationally or internationally, is vital for any country. However, in the Colombian case, 65 percent of the total productivity of a company comes from internal management, which partly depends on access to knowledge and technology, that under certain conditions allow digital transformation, including reconversion of people, if necessary, into an innovative ecosystem.¹⁴ In addition to the high cost that poor labor flexibility exacts on companies, Colombia ranks 88th out of 141 countries in Global Competitiveness Index of the World Economic Forum (IGC), highlighting the low position obtained in the hiring and firing practices (position 117).

2. Eliminate Tariff and Non-tariff Barriers

According to the IGC, the country ranks 125th out of 141 countries in terms of the prevalence of non-tariff barriers, which is not surprising, since 80 percent of the goods and services have some quantitative or qualitative barrier. Not to mention that the tariff rates for raw materials and intermediate goods far exceed those of Chile, Peru, and other Organization for Economic Cooperation and Development (OECD) countries.

Historically, the protection of local production has been a stimulus not to innovate. García, Montes, and Giraldo have highlighted how the most-productive sectors are the least protected, which also have greater competition from imported products than larger companies and those that use more imported inputs have higher productivity growth.¹⁵ This has been the case in the manufacturing sector, which has grown only because the capital inventory has increased, not because the sector's productivity has, as it has been stagnant in recent decades due to the lack of innovation and technical improvement.

Under these circumstances, moving toward more rigorous protection would be a severe mistake, since it would go against the general productivity of the economy and especially of companies, which at the end are the ones who compete in the market.

3. Deepening and Taking Advantage of FTAs

Currently, Colombian FTAs in force only represent 64.5 percent of total exports, with the United States (\$11.3 billion), the European Union (\$4.6 billion), and the Andean Community (CAN) (\$3.4 billion) standing out as some of Colombia's most-significant trade partners with which the country has an FTA in force. At the same time, these same FTAs represent 65.4 percent of total imports, with the United States (\$13.2 billion), the European Union (\$8.1 billion), and Mercosur (\$4.3 billion) standing out.¹⁶

In 2019, the balance of the degree of export penetration at the FTA levels and productive sectors in Colombia improved in crucial sectors such as mining, metallurgy, agriculture, and automotive, but worsened in petroleum refining and chemicals.¹⁷ Furthermore, Colombia registered trade gains in 6 of the 13 FTAs signed (Northern Triangle, EFTA, EU, G3, Panama, and Israel) and presented deterioration in five (CAN, Chile, United States, Canada, and Mercosur).

Diversification of Colombian exports is essential for the deepening of Colombian trade and FTA relationships. The high concentration in traditionally exported goods, where the vast majority are commodities, represent 70 percent of the export basket. The biggest problem is that this share has remained practically unchanged since the end of the mining-energy boom of 2008 to 2013 (when exports reached peak levels of \$60 billion)—in addition to the fact that the Venezuelan market, which was one of the country's main trading partners, has not been replaced. External sales to that country, which were around \$7 billion a decade ago, became practically nil because of the economic and widely known political conditions. Notably, most of those \$7 billion exports were non-traditional export products.

The information and communications technology (ICT) sector has been the greatest bet of the current administration in Colombia, aiming at consolidating the sector as the engine of the Colombian economy. Precisely the current situation of COVID-19 has allowed the acceleration of digital transformation processes in the country, which has also meant the acceleration of the facilitation and digitization of foreign trade processes, which imply savings in time and costs of transport and logistics.

Furthermore, Colombia's government has made the strengthening of promotion instruments and repowering of free-trade zones a key objective in terms of promoting Colombian enterprises' insertions into global value chains, investments in technology, enhanced innovation, ensuring of qualified employment, and compliance with international standards.

Conclusion

Colombia urgently needs to increase productivity to grow at high and sustainable rates, reverse the damage caused by COVID-19, and moving toward enhanced economic development. Advances in the deepening of its trade agreements will allow a more-complete insertion of the country and its enterprises into global value chains in content and scope.

Germany

By: Jürgen Matthes, Head of the International Economics and Economic Outlook Unit,
German Economic Institute



As Germany has delegated trade policy to the European Union, the focus is put on highlighting strengths and weaknesses of EU trade and investment policy. Where possible, German policy positions are included.

1. Signalling a Continuous Open-market Orientation by Concluding FTAs

The European Union has continued to conclude free trade agreements with important trading partners such as Canada, Japan, Mercosur, Singapore, and Vietnam. This strategy opened the door for more bilateral trade liberalization and signals the EU's strong commitment to open market orientation at a time when protectionist policies have gained ground. The basic framework agreement with Japan on the conclusion of bilateral trade negotiations was deliberately and intentionally announced during a G20 meeting in the presence of the U.S. president. The European Union is to be praised for its global leadership in forging many and varied new free trade agreements.

On the flip side of this, however, for years civil society groups have lobbied to use trade agreements (and thus the lever of the large EU market) to induce trading partners to adhere to stricter labour and environmental standards even though trade policy tends to become overloaded and trading partners sometimes alienated. While recent EU FTAs do include sustainability chapters, stricter enforcement of the respective rules is requested. In reaction to these demands, the new European Commission plans to put a larger focus on enforcement. However, more caution is needed in order to prevent lest sustainability rules are misused as protectionist instruments that unduly reduce the competitiveness of developing and emerging countries. Moreover, proposals that EU firms should better monitor their global value chains for possible violations of sustainability standards need to be proportionate to the induced bureaucratic costs and the technical and legal ability to control more remote suppliers in value chains.

2. Confronting U.S. Protectionist Policies With Retaliatory Measures

The EU has signalled that even the United States cannot intimidate the Union. In retaliation for U.S. tariffs on EU imports of steel and aluminium products (which the United States justified on questionable grounds of national security violations) the EU countered by raising tariffs on a broad portfolio of U.S. goods imports. Brussels also brought the case to the World Trade Organization's (WTO) dispute settlement body together with several other countries, signalling that multilateral trade rules should be abided by—in writing and in spirit. Moreover, the EU has clearly indicated that it would also retaliate if the United States raised trade barriers on automotive imports, as continually threatened by the Trump administration.

At the same time, the former EU Commission President Juncker managed to negotiate the so-called “Rosegarden” deal with President Trump by leveraging the large potential of the Single Market. This included, among other issues, a standstill agreement on new tariffs and the common objective to negotiate a trade deal on industrial goods (apart from automobiles).

3. A, Somewhat, More Aggressive Trade Policy Approach Toward China

The EU has begun to change its trade policy toward China in view of the increasingly negative impact of rising Chinese market distortions on world markets, (e.g., by industrial subsidies and Chinese state-owned enterprises (SOEs)). Brussels has done so along various lines: At the multilateral level, the EU cooperates with the United States and Japan in the so-called Trilateral Initiative and proposes to change WTO's rules on industrial subsidies and SOEs. Unilaterally, Brussels has also become more assertive and will continue to do so. For example, the EU has reformed its trade-defense instruments to give them (a bit) more bite. Moreover, the European Commission has proposed an International Procurement Instrument which, if adopted by the Council, would allow the EU to reduce access to its largely open public procurement for countries that have not sufficiently opened their procurement markets. On top of this, the EU has rapidly implemented a new FDI Screening framework which allows for a broader interpretation of the national security exemption to the general free movement of capital for non-EU countries. Germany will change its legal framework in line with this new framework and will look more critically at takeovers that could lead to a transfer of sensitive technologies.

At the same time, the EU is seeming to achieve equidistance between China and the United States, both being highly important trading partners. While it is true that the Trump administration has alienated the EU with its aggressive trade policy stance, the world trading system is put under immense pressure due to the increasing market distortions from an ever-larger Chinese economy. Therefore, the EU clearly needs to cooperate (even) more with the United States in order to put pressure together on China to change its market distortions or to agree to new multilateral rules to ring-fence the spillovers of Chinese distortions to the world market. The European Union, and particularly Germany, must realize that, from the U.S. perspective, Europe and Germany side too much with China. Brussels' more assertive trade policy stance toward China still has to be communicated more rigorously to Washington. Moreover, recent signals of a (small) EU-U.S. trade deal (including the airline subsidy issue) are promising and should be followed up in order to pave the way toward more cooperation in facing the China challenge.

Lastly, it's important to note that the EU has been negotiating a bilateral Comprehensive Agreement on Investment (CAI) with China for years, without a real breakthrough in Chinese commitments, which need to be disproportionately larger because access to the Chinese market is more restricted. The German Council in the second half of 2020 aims to crown its presidency by concluding the CAI at the EU-China Summit in Leipzig in September. However, despite new proposals by China, progress is still far too limited. The Leipzig Summit deadline implies the danger that the EU becomes a demandeur and that the German presidency induces the EU to settle with too little ambition. Instead, content is more important than timing.

Italy (Competere)

By: Pietro Paganini, Co-Founder and Curiosity Officer, Giacomo Bandini, Director General, and Stefano Sartorio, Research Analyst and Project Manager, Competere



Trade Priorities in a Multilateral World

Italian exports have been affected by the generalized decline in economic activity (GDP estimates range from a 9 to 13 percent decrease for 2020) because of the COVID-19 pandemic and restriction measures to contain it. The drop in both exports and imports (respectively 24.8 percent and 21.8 percent in the first two quarters of the year) has been mainly a consequence of the contraction in global trade, and especially in value chains in the European countries, caused by the worldwide pandemic. Economic activity contracted most sharply in Italy's main sectors, and consequently Italian exporters have been more severely hampered by production and logistical difficulties, so exports are expected to fall by the end of the year in excess of the global average. There are substantial downside risks here as well, because a longer and more widespread international lockdown on activity could cause world trade to collapse on a similar pace as in 2009.

Moreover, foreign competitors might take advantage of the difficulties of Italian manufacturers to poach market shares. Italian firms, in fact, might also be more affected by the downturn due to characteristics of the national economic systems. First of all, the weight of SMEs in the domestic economy, which represent a dominant share of the Italian industrial structure, in terms of number of firms (over 99 percent) and employees (over 65 percent). In addition, obstacles remain to credit access for families and companies, and many of the main financial institutions still need capital from public funds. Finally, a lack of logistic management and adequate infrastructure systems are among the main weaknesses of the Italian economic system.

Beyond the contestation of economic globalization and the pandemic, and the previously mentioned systemic peculiarities, Italy's trade policy faces a series of challenges and an international political framework to which it will have to adapt.

Italy's Trade Challenges

These are the three biggest trade policy challenges Italy faces:

1. Multilateral Order

Beyond the harsh reaction to globalization, opposition to the multilateral approach has emerged, including within the European Union and its member states. The post-WWII liberal order has entered a phase of crisis, affecting the global trade exchanges system where WTO is threatened by stalemate. This development affects Europe in particular, since it has been built on the rule of law and has always supported rules-based international relations.

2. "America First" Approach and New Protectionism Order

The debate on protectionism, which the pandemic has momentarily overshadowed, has been the main source of global economic tensions over the last two years. Even now, the blockage of trade is playing a major role by aggravating the impact of interruptions along international supply chains. The

“America First” approach adopted by the American administration is a key issue in terms of the United States’ historical role in the global governance of trade. The Trump administration’s approach rests on a preference for bilateral action, in which it hopes to achieve the best results by exercising pressure on its partners, even with protectionist measures.

3. China’s Emerging Status

In the last decade, China has showed greater confidence in international affairs, taking advantage of open markets, globalization, multilateral institutions, and the WTO system. However, Chinese strategy has turned out to be different from that of the United States after World War II. Xi Jinping is not surging as champion of world free trade, nor does he want to impose his vision to the entire world. China’s approach to international trade, including with Italy, and the multilateral system is to “choose” what interests it, and pursue it. The Belt and Road Initiative (BRI) is a perfect example of China’s way to increase its power and influence, using multiple tools: investments, trade, and infrastructures.

Italy’s Trade Opportunities

As Italy slowly walks through the pandemic it needs to engage with the international system in order to plan its future actions. Due to the intertwined bond between politics and trade, Italy has been one of the most important countries in the EU regarding international relations on the European continent. Due to its diplomatic and geographic position, the country is starting in a favorable position amid one of the worst pandemics in history. But Italy needs to be ready to deal with the new challenges. The most important steps Italy can take to advance its trade policy environment include the following.

1. Regulating Chinese Investments and Grasp Advantages in the BRI

Italian priorities on Chinese issue should be twofold: the country shall never break the united front with the other EU countries, and should always try to find a balance between its internal economic constraints and its position as one of the founding members of the European Union. Italy, with the EU’s support, needs to recalibrate Chinese investments in its strategic sectors, while diminishing dependence on Chinese FDI. The European investment screening activating this October is a step toward a more strategic and safeguarding reception of such. Moreover, Italy needs to increase the pressure fostering the reciprocity principle between its relations with the Asiatic economic giant. Only in this way, will it be able to soon invest in Chinese strategic sectors as well. The Italian SMEs need a developed Country System (i.e., a national innovation and competitiveness strategy) to promote their products along the Eurasian continent, focusing not only on Italian traditional excellences but also on other high-quality national outputs in the pharmaceutical and the manufacturing sectors. These may have the chance to build a more comprehensive and sustained competition with Italy’s European allies in the markets involved. It’s important also to keep in mind the Made in China 2025 strategy aimed at speeding the country’s technological development, it being a watershed between China as a client and China as an exporter or a competitor. Second, to prompt trade along the BRI, Italy needs to assure its citizens and companies that a common, balanced intellectual property regime and regulations exist. Italy must establish ways of regulating the “Made in Italy” label and other intellectual properties.

2. The Digital Single Market in the EU

To achieve trade innovation, the country needs to enact support programs for structural investments to ensure the interoperability of the systems and technologies used, as well as to develop the potential of e-commerce, which represents a new frontier for businesses, especially for Italian SMEs. On connectivity, Italy has to encourage public and private investments in digital infrastructures and to develop ultra-

wideband Internet, considering the objectives of the EU 2020 agenda as minimum development targets for all countries. On research and development (R&D) and innovation regarding production, the country must favor the evolution of traditional production systems toward a broad “digital manufacturing” system. As stated, it is fundamental to then guarantee a powerful Country System able to promote Italian interests in the EU and internationally. It is then highly advised to improve the accessibility of the funding for start-ups and innovative companies. In fact, they are a technology transfer front between academic research and the production system, driving innovation as well as being a powerful engine of employment even in non-high-tech sectors. The 2012 “Decreto Crescita ‘bis’” government decree moved the first shy steps toward a national response regarding start-ups and innovative enterprises. To succeed in this race to trade development and implementation the country needs to develop special physical and fiscal areas where to promote this kind of innovation.

3. The United States of America: Less Tariffs for Post-COVID-19

The United States represents one of Italy’s most important trade partners, although Italy is represented by the European Union during trade negotiations with the United States. The last trade agreement on tariffs, made between the EU and the United States, officially communicated on the August 21, 2020, is a small step toward a more-comprehensive partnership taking the place of the failed Transatlantic Trade and Investment Partnership (T-TIP). Italy’s preeminent position during the G20 Abu Dhabi (starting on the December 31, 2020) will be a unique opportunity to influence the political and commercial direction of the body. Thus, the country must favor the creation of a new international agreement for trade liberalization between Europe and the United States. Aside from the difficult negotiation, the country must push toward greater liberalization in the pharmaceutical and manufacturing sectors especially.

4. Toward Bilateral Negotiations and Free Trade Agreements

In order to establish a prominent role in the world arena and take advantage of a full liberalization of trade, Italy should also pursue the creation of new trade alliances. How? By carrying forward bilateral negotiations with like-minded countries, especially the developing ones, and eliminating trade barriers (including bureaucratic burdens and constraints). The last free-trade agreements entered into force in 2019, such as the JEFTA (Japan-Europe Free Trade Agreement) and CETA (Canada-Europe Free Trade Agreement), which achieved the removal of nearly €1 billion (\$1.16 billion) in customs duties, the opening of public procurement, and greater access to the services market in Japan and Canada, as well the protection of geographical indications of typical products. New bilateral agreements would foster the expansion of trade relationships with new merging markets, and generate benefits for the Italian manufacturing and service sectors, which need to be supported after the pandemic crisis.



Statistical Background

The year-end data attests that in 2019 Italian exports achieved robust results. The export of goods recorded an annual growth of 2.3 percent, and services of 4.1 percent. Overall, Italian exports stood at €585 billion (\$692 billion), 31.7 percent of GDP.¹⁸ The trade balance was 2.96 percent of GDP, up 0.8 percent. Italy maintained its market share of world trade, being stable at 2.84 percent, positioning Italy as the 9th-leading exporter in the world (13th for imports). This was not an insignificant result, as it was achieved during a turbulent period for world markets, particularly for European countries, due to the U.S.-China trade dispute, the pressure of American tariffs on many goods exported from Europe, and the uncertainty about Brexit timing and terms. The result of Italian exports sees the important contribution of the system of SMEs. In Italy, in 2019, there were almost 136,000 export operators, with half resulting from SMEs. France and Germany registered approximately 20 percent. In addition, 20 percent of the value of Italian exports came from companies with fewer than 50 employees, double compared with the rates in France and Germany.

Furthermore, looking at the destination markets, growth mainly concerned Japan (+19.7 percent), due, at least partially, to the free trade agreement with the European Union effective since February 2019, and Switzerland (+16.6 percent), which represents an international sorting hub. Italian exports also grew (+7.5 percent) to the United States, despite the duties imposed at the end of 2019 on some categories of goods. Germany (12.2 percent of total Italian exports), France (10.5 percent), and the United States (9.6 percent) remained the top-three outlet markets. Overall, 56 percent of Italian exports are destined for European Union markets, with machinery (17.2 percent), fashion (11.9 percent), and agro-food products (9.1 percent) being the three main contributing sectors.

Following the spread of the COVID-19 epidemic, in the second quarter of 2020, exports fell by 26.4 percent, compared with the previous quarter. From early signals (estimates on trade flows and the business confidence climate), it seems there could be a significant rebound in the second half of the year, provided the pandemic is contained in Italy and its most important destination markets.

These are the three most significant trade policies Italy introduced over the prior year:

1. Payment of Grants in the Form of Vouchers to SMEs for the Purchase of Temporary Export Manager Services

In order to support the internationalization of Italian companies, the government has activated several editions of a non-refundable voucher support measure for the acquisition of temporary export manager (TEM) services. It was launched for the first time in 2017, aimed at spreading specific managerial skills in order to accompany the growth of Italian companies on international markets. The measure has aroused great interest, with the resources available amounting to €43.1 million (\$51 million), resulting in the granting of 2,379 vouchers to the same number of companies nationwide. The financial envelope was expanded by using European funds from the PON Enterprise and Competitiveness funds, resulting in also financing companies based in the less-favored regions of Southern Italy. Therefore,

two of the four regions that have benefited most from the incentives are from Southern Italy (Puglia and Campania). There were two types of vouchers:

Early-stage vouchers, equal to €10,000 (\$11,800) against a service contract with a TEM company with a minimum value of €13,000 (\$15,400); and

Advanced-stage vouchers, equal to €15,000 (\$17,800), which can be increased up to €30,000 (\$35,500), against a service contract with a TEM company with a minimum value of €25,000 (\$30,000).

The latter typology rewards the real performance of the beneficiary companies as they will have to demonstrate the growth in overseas sales volumes following the use of the voucher and the structuring of a valid foreign market penetration project following the support of TEM. The overall commitment of resources was 30 percent for early-stage vouchers, while 70 percent was allocated for advanced vouchers.

2. Extraordinary Training and Information Initiatives on the Opportunities Offered by Foreign Markets to Companies

The Ministry of Economic Development, in agreement with the Italian Trade Agency, has launched some important initiatives to promote the penetration of companies, especially SMEs, into international markets. These include a set of training and promotion projects to increase the number of Italian SMEs capable of exporting through online channels. Priority was given to the “Digital Export Academy” project, aimed at developing the potential of and opportunities for SMEs, through training focused entirely on the digital world regarding internationalization. This will allow for developing strategic skills to access digital channels, which can be successfully applied in promotional projects carried out with some of the main international e-commerce players, in order to develop an incisive presence in digital distribution channels. In addition, “vouchers for digitization” have been provided for micro, small, and medium-sized enterprises, to adopt initiatives for digitizing business processes and technological modernization. Overall, these are measures to support the digital economy, promoting access to digital platforms, fostering e-commerce, and strengthening the use of digital technologies in relations with customers and clients. There was also the first 14-stage itinerant course (Export 360°), which trained companies on digital marketing issues and strategies for accessing foreign markets, including providing personalized assistance. Courses on transport, international contracts, customs regulations, digital marketing strategy, classification, and origin of products have also been set up. Also worth highlighting is the Scale Up & Sale Lab project, reserved for start-up owners of patents that are not yet present on international markets. This measure includes both specialized training to develop technical-managerial skills and an internship abroad to encourage business opportunities and the search for investment partners. This tool expands the offer of services for the consolidation of enabling skills for companies oriented toward international development.

3. Measures for the Promotion of Made in Italy and Support for SMEs

The Ministry of Economic Development has launched numerous projects in the field of internationalization and support for foreign trade, focusing on both promoting the world of “Made in Italy” products and supporting SMEs. These initiatives have also included the launch of experiments in the application of the blockchain for the traceability and certification of Made in Italy products in the textile sector, which will later be extended to the agri-food sector.

The textile and agri-food sectors, typical of Made in Italy, are at the core of various measures of the government and government agencies. There have been, for example, partnership agreements with large-scale distribution chains for the shelf insertion of Italian products in some of the most-important retail chains operating in the main foreign markets (United States, Canada, and Europe). In addition, promotional actions were launched in collaboration with online retailer department stores and with global marketplaces for the fashion, personal, home design, agri-food, and wine sectors in the United States, Canada, and China. A Made in Italy showcase launched together with Amazon is included.

At the same time, communications and training were introduced to protect sales abroad in the agri-food sector, aimed at promoting Italian production and countering the phenomenon of “Italian sounding” (creating images, colors, and names of products very similar to their Italian equivalent), which is widespread in many countries around the world.¹⁹ The internationalization projects of Italian companies and, in particular, SMEs can rely on the support of a system of 37 “desks” found in foreign countries. They are the result of a close connection between the Italian Trade Agency and the diplomatic and consular network, and are support structures for foreign branches with specialized and sectorial limited tasks. They carry out local market studies, scouting of demand and analysis of the Italian offer and matching of opportunities, and the promotion of the country system and Italian products.

Italian Trade Policy Priorities for the Year Ahead

To improve its performance in international trade, Italy is called upon to rationalize and strengthen its promotion and incentive policies. The governance system of foreign trade support policies is made up of numerous actors, including ministries, government agencies, regions, and business organizations, often leading to a duplication of interventions and an overlapping of measures, with a consequent waste of resources.

Therefore, it would be important to review the system as a whole, in order to create positive synergies between the various actors and to adopt more-effective promotional and financial tools to back the projection of Italian companies on international markets, especially SMEs that make up the backbone of the Italian economy. A particular effort must be made to promote production and exports in the most-technologically advanced sectors—for example, biotech, nanotechnologies, advanced digital technologies, mechatronics, green economy chains, and aerospace—so as to increase the presence of Italian companies in global value chains with greater growth prospects.

Overall, a commitment by the Italian institutions at the European level is necessary both to encourage the completion of the single market in all its aspects and to support the European commitment to relevant multilateral organizations, such as WTO, OECD, and UNCTAD, and to regional, bilateral, and multilateral commercial agreements, including FTAs with third countries. Italy should support multilateral trade enforcement directed toward facilitating the access of products to foreign markets, eliminating tariff and non-tariff barriers, and preparing shared anti-dumping, anti-subsidy, and intellectual property protection measures and safeguard clauses.

The Philippines

By: Dr. Francis Mark A. Quimba, Senior Research Fellow and Director of APEC Study Center Network; and Dr. Ramonette B. Serafica, Senior Research Fellow, Philippine Institute for Development Studies (PIDS)



The Philippines' Three Most Significant Trade Priorities for the Year Ahead

According to the World Trade Organization, world merchandise trade is expected to fall somewhere from 13 to 32 percent in 2020 alone.²⁰ The Philippine government has devised a trade strategy to help face the challenge of a global recession and the slowdown in international trade brought about by the COVID-19 crisis, the closure of establishments and businesses, and the uncertainties in the global health and geo-political environment. This would involve ensuring the free flow of essential goods and agricultural products; supporting the trade activities of micro, small, and medium enterprises (MSMEs); and building on the strengths of services and digital trade.

1. Ensure Free Flow of Essential Goods and Agricultural Products

With reports that a vaccine won't be available at the earliest until mid-2021, businesses, establishments, and households will continue to require the use of essential health items such as face masks, face shields, and personal protective equipment (PPE).²¹ Hospitals will still need to be on constant alert and require a steady supply of these as well. The government still needs to continue ensuring the supply of essential health products and medicines. The following trade strategies have been identified: first, providing incentives and reducing the cost of the importation of products not domestically available; second, working with regional partners to ensure the availability of global supply of essential health products; third, supporting the domestic manufacturing of essential products by providing incentives and supporting the importation of key raw materials; and fourth, supporting importation of agricultural products to augment the domestic supply.

To support the importation of essential health products, the Philippine congress has passed Republic Act (RA) 11469, or the "Bayanihan to Heal as one Act," empowering the president to adopt measures necessary to facilitate and minimize the disruption to the supply chain of essential goods.²² In turn, the president has authorized the secretary of the Department of Finance to exempt critical or needed equipment or supplies from import duties, taxes, and other fees, and to simplify the release of these goods. Essential goods would include medicine, medical equipment and devices, PPE, surgical equipment and supplies, laboratory equipment and supplies, medical supplies, tools, and consumables and other support and maintenance for laboratory and medical equipment.

While the country reserves the right to impose emergency measures to control the supply of essential products in the country, it assures WTO and trade partners that such measures are temporary and will not create barriers and disrupt trade flows. The Philippines commits to maintaining a free, open, fair, non-discriminatory, transparent, and predictable trade and investment environment.

In line with the second strategy, The Philippines has committed to working with ASEAN on the establishment of the ASEAN regional reserve of medical supplies and the formulation of a standard operating procedure (SOP) for public health emergencies responses. The ASEAN member states will be more effective in responding to future crises by developing the regional stockpile of essential goods. The SOP for public health emergencies response would strengthen the regional response by including

a logistics trade flow plan for the movement of essential items within the ASEAN region to reduce the region's vulnerability to supply constraint.

The domestic manufacturing of essential products, particularly the PPE, shall be strengthened. RA 11494 has provided for incentives for domestic manufacturers that would engage in the production of PPEs. The restriction for export-oriented manufacturers of medical and essential goods to sell domestically has been lowered from 70 percent to 50 percent. The Department of Trade and Industry (DTI) commits to assisting in securing approval of new sources/supplies of active pharmaceutical ingredients to domestic manufacturers. In addition, DTI has committed to simplifying the approval process for companies diversifying supply sources. Leveraging technology to simplify processes and reduce trade costs is another strategy under this priority. The Philippines is working with International organizations to utilize business-matching platforms that would link together manufacturers, raw material suppliers, and consumers, thereby reducing search and trade costs.

Aside from these, there is a need to ensure that the supply of agricultural and basic food products is available in all markets and regions. This may require the importation of basic food products to augment production in the country. Related to this would be the need to support the domestic supply chain and logistics services to ensure a seamless flow of goods.

2. Support the Recovery of MSMEs Adversely Affected by the Global Economic Slowdown Due to the COVID-19 Pandemic

Recognizing the need to support MSMEs, the Philippines was among sponsoring nations of the statement "Highlighting the Importance MSMEs in the Time of COVID-19," which was submitted to WTO in May 2020. The Philippines has committed to assist MSMEs' involvement in international trade and ensure that supply chains remain open and connected. Furthermore, the Philippines has committed to working together and sharing good practices to facilitate and accelerate trade and improve MSME's access to finance. To achieve this, the country has identified strategies to ensure that domestic supply chains are functioning, existing trade agreements are utilized optimally, and new markets are explored.

ICT-driven innovations have been formulated to strengthen the country's supply chains. One of the priority actions identified by the National Economic and Development Authority (NEDA) is the implementation of TradeNet.²³ TradeNet would help reduce the transactions cost of engaging in trade through online submissions and processing of documents and inter-agency certification that ensures the authenticity of digital documents. In addition, the TradeNet can also be linked to online payment systems, easing payment procedures for trade documents. Aside from TradeNet, the Philippines would pursue the completion of an online registry or database of importers' and traders' needs for the easy issuance of permits and passes. It will be useful for the national government, local government units (LGUs), and the private sector to have an integrated website that tracks real-time information related to cargo release, availability of supply, production, and inventory.

To support export-oriented MSMEs, the Philippines can capitalize on the preferential treatment of Philippine products and assist companies in jump-starting production for these markets. Establishing a crisis communication management system among exporters, importers, and the government to ensure seamless movement of cargoes would be an essential step in avoiding confusion in the movement of cargo during emergency situations.

The country should optimize utilization of existing trade agreements with ASEAN and East Asia to create a more-resilient supply chain in the region. To this end, the following activities would be implemented the following year: aggressive promotion of Philippines products to high-value markets (e.g., European Free Trade Association countries, Australia, New Zealand, Japan, EU, and the United States), and assistance in supply chain management and sourcing of raw materials to ensure preferential market access of locally manufactured products.

DTI is supporting exporters by identifying new export markets (e.g., Russia, Kazakhstan, Mexico). As outlined in the Philippine Development Plan 2017–2022, the Philippine government would actively promote Philippine products where the country may achieve competitive advantage. In addition, DTI will continue to embark on trade promotion activities that would deepen the participation of Philippine enterprises in global value chains.

3. Build on Services and Digital Trade

The role of digital trade and e-commerce in developing high-value-added, competitive, and sustainable sectors is recognized in the development plan. Moreover, e-commerce and Information Technology-Business Process Management (IT-BPM) are among the priority industries identified in the government's Inclusive Innovation Industrial Strategy (i3s), which aims to deepen backward and forward linkages among key sectors and with the rest of the world through increased participation in global value chains.

In January 2020, the Philippines officially joined the Joint Statement Initiative (JSI) on E-commerce during the Informal WTO Ministerial Meeting in Davos. As a JSI member, the Philippines aims to contribute constructively toward a possible plurilateral agreement on the trade-related aspects of e-commerce and promote the interests of MSMEs. Domestically, the E-commerce Roadmap is being updated to ensure that more MSMEs are included in and benefit from e-commerce. Legislation is also being proposed to strengthen consumer protections involving electronic transactions to help build trust in online activities.

The COVID-19 pandemic has underscored the need to hasten digitalization, which will be reflected in the mid-term update of the Philippine Development Plan. With the adoption of various technologies, the aim is to strengthen the services sector and expand the digital economy more broadly. Reviving the tourism and travel industry, one of the worst-hit industries, will also be a priority. Continued growth of the IT-BPM sector, the main driver of the Philippines' services exports, will be pursued with an emphasis on shifting to higher-value-added, non-voice services. Finally, plans are also underway to harness the potential of the country's creative sector in a more strategic and cohesive manner. In addition to generating jobs, the sector, which encompasses goods and services, could become an important source of export revenues through digital trade.

A major impediment to the growth of e-commerce and digital trade is the Philippines' restrictive FDI regime in relevant sectors such as telecommunications, transport and logistics, retail trade, education, advertising, and mass media (which has been extended to Internet-based businesses such as e-commerce and other digital platforms). Liberalizing these sectors will not only enhance physical and digital connectivity but also improve the competitiveness of both the digital and non-digital sectors of the economy. While not sufficient, relaxing the various restrictions is urgently needed for the economy to thrive in the new normal. Thus, amendments to relevant laws are among the legislative priorities identified in the Plan.



Giving Polish International Trade a Boost: Three Areas of a Positive and Proactive Trade Policy

The following are the top-three recommendations to bolster Polish trade policy in the year ahead.

1. Trade Diplomacy

Despite the paramount importance of trade diplomacy to modern international trade, Polish efforts in this area have been fragmented for years, with relatively frequent institutional shifts and insufficient collaboration between the Ministry of Economy (currently the Ministry of Development) and the Ministry of Foreign Affairs (e.g., Molendowski, 2017). Since 2017, promotion of trade has resided with the Polish Investment and Trade Agency (Polska Agencja Inwestycji i Handlu, or the PAIH). The operations of the Agency, which coordinates 70 foreign trade bureaus (Zagraniczne Biura Handlowa), have been reported to suffer from a lack of transparency (cf. Grzegorzczak, 2020; Ptak-Iglewska, 2020) and are isolated from national diplomacy.²⁴ The separation of commercial and national diplomacy undoes the underlying synergies, including, on the one hand, those that are business-expertise related (Villanueva Lop, 2017), and on the other hand, those that are credibility related (Ptak-Iglewska, 2020).

An example of inefficiency in Polish trade diplomacy is the lack of a long-run strategy of national branding. First and foremost, not only are the country's promotional logotypes poorly or at best moderately impactful (e.g., Florek & Jankowska, 2012), but their sheer multitude undermines the coherence of the country brand, which is supposed to lend credence to the national products.²⁵ In line with conventional marketing wisdom, it would instead be desired that relatively few graphic symbols are in circulation, used consistently across time, and shared, where possible, between sectors and functional areas (e.g., tourism, trade, non-economic diplomacy), especially as Poland is yet to develop an established country image (cf. Kleppe et al., 2002). Moreover, despite the crucial importance to national branding of online media (e.g., International Trade Centre, 2019), the website poland.pl, run by the Ministry of Foreign Affairs, is unpopular and infrequently updated. Likewise, the social media associated with it can boast only very meager numbers of followers, while their graphic designs are rather raw and involve few Poland-specific references.

Considering all this, it would be desired to reintegrate commercial diplomacy and national diplomacy, restore the transparency of the Polish Investment and Trade Agency, and reformulate national branding in a way that will make it more internally coherent while increasing its online exposure.

2. Barriers to Services Trade Within the Single Market

As the recent analysis, "Integration Within the European Single Market," carried out for the Polish Ministry of Foreign Affairs by CASE (Kowalski et al., 2019) revealed, significant barriers to trade persist in the European Single Market for Services. These barriers take the form of administrative regulations such as licensing requirements, restrictions on the movement of personnel, and insufficient mutual recognition of qualifications. These barriers often prove prohibitive from the perspective of services providers, in particular SMEs, who are considering foreign expansion. While some of these restrictions

can be understood to follow from the considerations of social policy (as in the case of posted workers) or safety and professional standards (as in the case of foreign certifications), effort should be made to minimize their restrictive effect on intra-EU trade in services. For example, the underlying procedures should be simplified and digitized, where possible (including in the area of public procurement); the principle of proportionality should more extensively guide the certification requirements and other similar requirements (cf. *ibid.*), and information on the relevant regulations should be communicated in a clear manner, preferably in all official EU languages, through dedicated online channels.

If progress is made toward meeting these objectives, the economic rewards can be expected to be substantial. As one study finds (Muller et al., 2017), an additional 0.6 percent of GDP and 1.3 million jobs could be created EU-wide by a further integration of the Single Market—especially in the services sector (for Poland, these figures stand at 0.5 percent and 80,000, respectively). Another study, recently published under the aegis of the European Parliament (Pelkmans, 2019), estimates €369 billion (\$434 billion) in untapped potential from a further integration of the Single Market for Services.²⁶

3. Sectoral Specificity of the European Union’s FTAs

Given the sheer number and economic heterogeneity of EU Member States (MSs), both with regard to sectoral specificity and size, it does not seem ungrounded to ask to what extent the FTAs concluded by the European Commission benefit those MSs equally. It might be, for example, that countries with more economic weight and a longer history of EU membership could use their political clout to strike deals that benefit their economies to a larger extent than the economies of more-recent accessors such as Poland. To test this hypothesis, we calculate the so-called revealed comparative advantage indicator (RCA; also known as the Balassa index), using the World Bank’s World Integrated Trade Solution, for:

1. Fourteen “old” EU MSs;²⁷
2. Poland; and
3. External trade partners in selected EU FTAs.²⁸

We then compare the number of sectors that present potential trade “matches” for the EU; that is, that show simultaneously a comparative advantage (the Balassa index above unity) for a given MS and a comparative disadvantage (the Balassa index below unity) for the partner country. Such use of RCA indicators to measure the sectoral specializations of the respective economies and to compare them across countries is an established method of identifying trade opportunities (e.g., Cheong, 2010).

Our analysis shows that, rather than being at a disadvantage, Poland is actually among the MSs with the highest number of RCA matches, at 92 out of 261 on average per partner, behind only Italy, at 94, and compared with the EU average of 71. In particular, Poland has the highest number of RCA matches of all the MSs under analysis with two highly industrialized FTA partners, Japan and Korea (85 and 98, respectively), while at the same time having the second-highest (after Italy) number of RCA matches with the three South-American developing countries of Columbia, Ecuador, and Peru (see annex 1 for full results). Indeed, Poland’s balanced and recently developed economy allows it to reap benefits both from exporting agri-food products to the first group of countries and from exporting manufactured goods, machinery, and transport equipment to the latter group. The cross-sectoral variability of RCA matches also suggests that the EU’s FTAs, taken as a whole, avoid unduly benefiting select sectors of the Polish economy at the expense of others, which is precisely in line with the European Commission’s

goals (cf. Hartwell & Movchan, 2018). All this suggests that Poland is among the top beneficiaries of the EU's external trade policy. Moving forward, it may however be advised to explore closer trade opportunities with regions that show similarly promising RCA matches but have remained further away from the European Commission's radar, such as Kazakhstan and other Central Asian economies willing to open up (cf. Głowacki & Bieliej, 2018).

Table 1: RCA Sectoral Matches for Selected EU FTAs (SITC Rev 4)

EU MS/ FTA Partner	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxembourg	the Netherlands	Poland	Portugal	Spain	Sweden	EU14 average
Canada	76	74	65	33	77	74	47	26	94	42	66	79	76	75	51	63
Colombia	97	92	79	52	86	87	54	33	102	50	82	101	88	87	70	76
Ecuador	100	96	81	52	92	96	59	34	111	51	85	104	94	92	71	80
Indonesia	89	78	71	47	85	86	49	27	95	41	69	91	71	76	62	68
Japan	59	80	74	35	65	48	59	31	73	30	78	85	80	76	48	60
Korea	85	83	84	42	89	73	54	33	87	36	82	98	85	82	60	70
Mexico	80	90	74	50	77	69	57	28	90	45	83	82	79	86	58	69
Peru	99	87	80	52	90	96	56	33	104	53	81	101	89	82	69	77
Vietnam	94	96	73	54	90	89	54	33	88	43	86	91	68	83	73	73

Source: Own calculations based on World Bank (2020).

Note: Data is for 2017, at a group level (3-digit). The total number of groups is 261.

References

Cheong, D. (2010). Methods for Ex Ante Economic Evaluation of Free Trade Agreements. Access: <https://www.adb.org/sites/default/files/publication/28526/wp52-ex-ante-economic-evaluation.pdf>.

European Commission (2017). Highlights of the Trade Pillar of the Association Agreement Between Central America and the European Union. Access: https://ec.europa.eu/commission/presscorner/detail/en/MEMO_11_429.

European Commission (2017). CETA Overview. The 7 Main Parts of the Agreement. Access: https://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156056.pdf.

Florek, M. & Jankowska, M. (2012). Eye on Poland's Promotion. The Promotion and Image of Poland in the Eyes of International Place Marketing Experts. Access: <http://bestplaceinstytut.org/www/wp-content/uploads/2012/02/raport-Best-Place-nt.-promocji-Polski-ang.pdf>.

Głowacki, K. & Bieliej, S. (CASE - Center for Social and Economic Research) (2018). Poland and Central Asia Since 1992 in Krasznai, M. & Rosta, M. (Ed.). Political and Economic Relations Between the V4 and Central Asian Countries After 1991. Access: <https://case-research.eu/index/?id=d220b363fa173729b6b2851776d4e6db>.

Grzegorzczak, M. (Puls Biznesu) (7.1.2020). Zagraniczna sieć się rwie. Access: <https://www.pb.pl/zagraniczna-siec-sie-rwie-979280>.

Hagemejer, J., Michalek, J. Michałek, T. (2014). Liberalization of Services in Europe: Polish Perspective on Economic Implications of the Services Directive. Journal of Policy Modeling, 36, 211-225. Access: <https://www.sciencedirect.com/science/article/pii/S0161893814000246>.

Hartwell, C. & Movchan, V. (CASE - Center for Social and Economic Research, Institute for Economic Research and Policy Consulting, Bournemouth University) (2018). Finding the Right Balance Across EU FTAs: Benefits and Risks for EU Economic Sectors. Access: [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU\(2018\)603881](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU(2018)603881).

- International Trade Centre (2019). A Guide to Commercial Diplomacy. Access:
http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/Commercial%20Diplomacy_English_WEB.pdf.
- Kleppe, I., Iversen, N., & Stensaker, I. (2002) Country Images in Marketing Strategies: Conceptual Issues and an Empirical Asian Illustration. *Journal of Brand Management*, 10, 61-74.
- Kowalski, P., Malinowska, A., McKenzie, M., & Głowacki, K. (CASE - Center for Social and Economic Research) (2019). Integration Within the European Single Market: Accounting, Computer, and Construction Services. Access:
<https://case-research.eu/en/report-integration-within-the-european-single-market-accounting-computer-and-construction-services-100997>.
- Molendowski, E. (2017). Dyplomacja gospodarcza Polski: organizacja, główne zadania w okresie transformacji. Access:
<https://bg.uek.krakow.pl/e-zasoby/inne/2168319723.pdf>.
- Muller, P., Julius, J., Natraj, A., & Ho, K. (LE Europe) (2017). The EU Single Market: Impact on Member States. Access:
http://www.amchameu.eu/sites/default/files/amcham_eu_single_market_web.pdf.
- Pelkmans, J. (2019). Contribution to Growth: The Single Market for Services. Delivering Economic Benefits for Citizens and Businesses. Access:
[https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631054/IPOL_STU\(2019\)631054_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631054/IPOL_STU(2019)631054_EN.pdf).
- Ptak-Iglewska, A. (Rp.pl) (16.2.2020). PAIH ukrywa swoje biura handlowe. Access:
<https://www.rp.pl/Handel/302169952-PAIH-ukrywa-swoje-biura-handlowe.html>.
- World Bank (2020). World Integrated Trade Solution. Access:
<https://wits.worldbank.org/WITS/WITS/Restricted/Login.aspx>.
- Villanueva Lop, G. (2017). Commercial Diplomacy in a Globalized World. *Przegląd Strategiczny*, 10.

South Africa

By: Chris Hattingh, Project Manager, Free Market Foundation



Introduction

South Africa, Africa's second-largest economy, and a founding member of the BRICS group of nations, plays a major role in trade on the continent. In 2018, South Africa exported and imported goods to and from the rest of Africa to the value of \$25 billion and \$11.5 billion, respectively.²⁹ While the country's trade performance has been commendable as compared with other African countries, there are definitive broad policy aspects where the country could make the right decisions and set in motion the kind of recovery, and more importantly growth, needed in a post-COVID-19 world.

Here is presented one step South Africa should take to advance a liberalized trade agenda, and two steps where the country should consign bad ideas to the trash can of history, never to be talked about again.

The first, the African Continental Free Trade Agreement (AfCFTA), is crucial both for liberalized trade in South Africa and most especially for improved trade across the African continent. The second step involves the damage being caused by the Protection of Investment Act, specifically to the property rights of foreign investors in South Africa. The third step regards the constitutional protection of property rights in South Africa. If the country is to play any significant role in trade in the coming years, the policy of expropriation [of property] without compensation (EWC) should be abandoned forever. Secure property rights are necessary both for a country's international trade potential, and for capital accumulation and investment inside the country itself. The following are the top-three trade policy recommendations for South Africa for the year ahead.

1. Join AfCFTA

The AfCFTA stands out as one of the potentially greatest-ever developments in trade on the African continent. The AfCFTA was due to be implemented on July 1, 2020, but final discussions and implementation were delayed after COVID-19 arrived in Africa and governments subsequently locked down their economies.

When discussing trade, a lot of the focus tends to be on trade between countries on different continents; but intra-country trade on the same continent should also receive attention, particularly the barriers that inhibit such trade. The AfCFTA, if ratified and implemented in good faith, will put Africa on the right and necessary path of more liberalized trade, and most importantly of greater economic freedom and growth.

In 2018, Alexander Hammond, policy advisor at the Institute of Economic Affairs in London, wrote,

If all 55 African Union [AU] nations ratified the proposed agreement, AfCFTA would create a trading area with 1.2 billion people and a cumulative GDP of \$2.5 trillion. It aims to improve trade within the continent by immediately removing tariffs on 90 percent of goods, with the remaining 10 percent of tariffs on "sensitive goods" phasing out over time.³⁰

Once implemented, the AfCFTA will effectively be the largest free trade area in the world. According to CNBC, the AfCFTA will "unite 1.3 billion people in a \$3.4 trillion economic bloc."³¹

Many governments around the world have displayed a desire to turn inward, to lessen their ties with the outside world and limit some of their trade connections and interactions. For continued economic prosperity, developing countries should not follow the isolationist route. Given its already massive trading potential, and the added fact that other countries are looking toward isolationism, Africa could truly stand out as an ideal trading partner. But only if the AfCFTA is implemented, and quickly. Given the myriad tariff and other trade differences and preferences between African countries, implementation itself will take a few years, but the right tone could be set now heading out of COVID-19.³²

The president of South Africa, Cyril Ramaphosa, represents South Africa in the Chair of the African Union. With that position he holds much influence in terms of pushing the AU in certain policy directions. It was thus deeply gratifying that he, representing South Africa, handed over South Africa's instrument of ratification of the AfCFTA in February 2019.³³

As the world emerges from the COVID-19 lockdowns, Ramaphosa, and South Africa as a nation, exerting massive influence on the African continent as a whole, must place the final ratification and implementation of the AfCFTA at the very top of the agenda. Increased trade between countries will be vital for economic growth after the devastation caused by harsh government lockdowns that brought to a standstill much trade all around the globe. Boosting trade across the African continent must be a matter of absolute urgency—the final ratification and implementation of the AfCFTA is needed now more than ever.

2. Protection of Investment Act

In 2018, the South African government signed into law the 2015 Protection of Investment Act (PIA). Before the Act was brought into operation, foreign investments in South Africa were afforded special protections. But the Act only affords foreign investors those rights and protections afforded to South African companies and individuals, which are being watered down and weakened by the day. Tying in with the third recommendation below, the PIA further highlights potential dangers for property rights, for citizens and foreign investors, in South Africa. If section 25 of the South African Constitution is changed, as envisioned, it will ensure little to no foreign investment in the country—something South Africa needs more than before, for the purposes of capital formation, business growth, and job creation.

To encourage capital accumulation, infrastructure development, and the other tools necessary for adequate trade to take place, the South African government must re-examine, and consider appealing completely, the PIA. Its presence adds to the environment of concern over long-term building and investment in the country as a whole.

3. Security of Property Rights

In December 2019, the South African Parliament published the draft Constitution Eighteenth Amendment Bill. This amendment proposes to change the Constitution to allow for “nil compensation” to be “paid” in certain undefined circumstances, which Parliament may itself define in legislation as it deems fit. If enacted, this amendment will undercut the very conception of individual property rights in the country. In such an environment, no one, whether a citizen or a foreign investor and trader, would want to risk their money and goods. For South Africa to remain a viable trading option for other countries, the government must abandon any talk of EWC.

According to the latest World Investment Report from the United Nations Conference on Trade and Development (UNCTAD), FDI inflows to South Africa decreased by 15 percent to \$4.6 billion in 2019.³⁴ The COVID-19 pandemic will no doubt restrict FDI further, as foreign investors narrow down their options

for investment, and only pursue those countries they think are safer bets than others. EWC makes South Africa an exceedingly problematic destination for foreign investment.

Earlier this year, the Free Market Foundation's head of Legal, Martin van Staden, wrote for the Foundation for Economic Education:

Secure property rights are a necessary precondition for prosperity. Private property rights incentivize owners, who want to maximize their material welfare, to invest in and develop that property. This, in turn, leads to the economic activity that stimulates growth, job creation, and the satisfaction of consumer wants. To a developing economy like South Africa's, capital formation and investment are crucial.

South Africa currently has more than 10 million people unemployed as of June 23, 2020, the official unemployment rate for Q1 2020 stood at 30.1 percent.³⁵ South Africa needs serious, concentrated capital formation in the country, from as many sources as possible, if businesses are to grow and employment is to be created. Further, without FDI inflows and capital formation, the growth of small and medium enterprises here is a moot dream—and with that would go the customers and links in the chain necessary for robust trade relationships between companies and customers, and foreign trading entities and partners.

In summary, the biggest single step the South African government can take, to send the right signal to investors and traders, is that their property will be secure in the country. Further, the country has a leading role to play in pushing the final implementation of the AfCFTA, to the increased trade and benefit of the entire African continent.

United Kingdom



By: Dan Dalton, Fellow at the Initiative for Free Trade, London and Former Member of the European Parliament for West Midlands, United Kingdom; and Philip Stevens, Executive Director of Geneva Network

Introduction

As the United Kingdom develops its trade policy outside of the EU, it would be a mistake to base its future approach on the one it inherits from the EU.

Rolling over existing EU deals with third countries may be fast and convenient; however, many of them don't fit the specific interests of the British economy. There are significant opportunities for Britain to forge a different approach. There are three areas where this approach could be particularly beneficial: adopting a unilateral tariff-liberalization approach—ideally eventually to all, but certainly immediately with the poorer countries in the world; using “concerted open plurilateralism” to forge trade alliances with groups of like-minded countries; and negotiating a free trade agreement with the world's largest market, the United States. This deal in particular would allow the United Kingdom to become a powerful driver of future trade liberalization and shaper of rules around important new areas such as data governance.

1. Unilateral Tariff Liberalization

The EU's trade policy with developing countries is often portrayed as benevolent, as it offers significant tariff-free access to the EU market, yet on closer inspection it is also increasingly protectionist, with both developing countries and the EU itself suffering from the graduated barriers to trade included within it. These Generalized System of Preferences (GSP) schemes give developing countries preferential access, but the level of openness the EU grants is based on how poor the country is and how much it sells to the EU.

The poorest countries in the world benefit from the Everything But Arms (EBA) scheme, where they get unilateral tariff-free access to the EU for virtually all goods. Richer developing countries access the GSP or GSP+ scheme. At each level, the country has progressively less EU access. In addition, there are thresholds within the schemes governing how much a third country can export to the EU. A country risks losing some or all of its preferences if the thresholds are breached. As a result, the EU effectively offers tariff-free access only where a third country doesn't pose a competitive challenge to European products.

It is therefore far from unilateral tariff liberalization and offers some perverse incentives as countries that successfully use their preferential access will ultimately lose them as they get richer and increase their exports to the EU.

If the United Kingdom replicates the scheme, including the existing thresholds for the U.K. share of the market, it risks penalizing countries that currently sell mainly in the United Kingdom. Their exports could go well over a United Kingdom-only threshold carved out of the EU GSP. This would be bad not only for developing countries, but also for British consumers, as goods produced in these countries would become more expensive.

As well as simplifying the United Kingdom’s most favored nation (MFN) tariff rates, and removing them across all sectors over time, there is also an opportunity to forge a more-open GSP scheme.³⁶ It should offer EBA (duty-free, quota-free) access to all developing (GSP-eligible) countries. A new, more-open GSP scheme could also help the United Kingdom in its approach to the Commonwealth, given that Commonwealth members make up a large proportion of the developing world.

2. Concerted Open Plurilateralism

The United Kingdom can also sharply diverge from the EU trade approach in digital trade. The United Kingdom is a services superpower and a key incubator for tech start-ups. With the advent of technologies such as artificial intelligence (AI) and 3D printing, and with the world lacking a framework to govern digital trade, the United Kingdom has a unique chance to shape the trade rules in these areas, which now account for 25 percent of global GDP.

In this context, the United Kingdom should work with smaller and middle-sized nations to create common rules and approaches in specific areas.³⁷ This “Concerted Open Plurilateralism” approach would allow nations to create partnerships and design them in such a way that other nations can join at a later stage. It is a bottom-up approach to building expandable trade alliances in an era when WTO hasn’t been able to deliver a global deal. New Zealand has been exemplary in this regard and was involved in spearheading the recently completed Digital Economic Partnership Agreement (DEPA) covering digital trade as well as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)—both of which the United Kingdom should seek to join.³⁸

The United Kingdom should also take a proactive and strategic role in initiating plurilateral agreements. It could start with other advanced, English-speaking economies such as Australia, Canada, Israel, New Zealand, Singapore, and the United States—not forgetting the overseas territories. In 2018, the Initiative for Free Trade collaborated with the Cato Institute in drafting the legal text of an ideal U.S./U.K. FTA.³⁹ This includes a regulatory coherence chapter facilitating mutual recognition of equivalence; free movement of workers (conditioned upon job offer); removal of tariffs; mutual recognition of professional qualifications; and more. The text was purposefully written such that other countries might join in the future.

3. Bilateral Deals: Prioritize the United States

The United States is the single-largest country market for U.K. businesses, with the United Kingdom exporting a total of \$121.5 billion of goods and services to the United States in 2018. Despite repeated attempts over the years, the EU has not negotiated a free trade deal with America. As a result, many U.K. sectors have the potential to gain significantly from an agreement with the United States.

Although U.S. tariffs are generally low, some British industries such as ceramics face a 28 percent tariff, and the United States has recently increased tariffs on a variety of products in an apparent attempt to force partners to the negotiating table. A U.S./U.K. FTA could remove the vast majority of these new and existing tariffs. As U.K. tariffs are higher than U.S. ones, the United Kingdom will be expected to move to reduce its tariffs further; automobiles for example attract a 10 percent tariff in the United Kingdom and only 2.5 percent in the United States. However, a deal that removes the vast majority of tariffs for both sides is within reach and would significantly benefit consumers and companies on both sides of the Atlantic.

A bigger challenge is standards, as the EU and United States have followed different regulatory paths and neither side has been prepared to make the concessions needed to recognize those from the

other side. As a result, many agricultural products are banned by both sides. Haggis, chicken, many cheeses, and until very recently British beef are not allowed into the United States because of its food regulations. In return, the United Kingdom bans American chicken and beef. The EU and United States have not been able to bridge these differences, despite numerous attempts and the fact that food is safe in both countries. A U.K./EU trade deal offers the opportunity for this impasse to be broken, with substantial benefits beyond food. Automobiles also face similar challenges, as the United Kingdom and America have different seatbelt, emissions, and fuel-efficiency standards, which means cars need two sets of testing, and manufacturers separate production lines.

A U.S./U.K. deal that streamlined these and other standards could bring substantial benefits to both sides. This is what T-TIP, the proposed U.S./EU FTA, tried but ultimately failed to do.

A tariff deal and some recognition of each other's standards would greatly increase the transatlantic market in goods, with many industries benefitting, including automotive, ceramics, and agriculture. However, the greatest potential benefit from a U.S./U.K. trade deal is that it would solidify the trade element of the transatlantic relationship, opening the door for further trade liberalization in the future. This would be particularly beneficial in services, as both the United Kingdom and the EU are services superpowers and have the potential to shape the future global trade system in this area. With both the United States and United Kingdom unlikely to retain their existing data adequacy agreements with the EU, a comprehensive digital agreement which includes the ability to transfer data across the Atlantic will greatly strengthen British digital industries and will put the United Kingdom in a position to shape the global approach to data transfers.

Conclusion

The United States is the single-largest country market for U.K. businesses, with the United Kingdom exporting a total of \$121.5 billion of goods and services to the United States in 2018. Despite repeated attempts over the years, the EU has not negotiated a free trade deal with America. As a result, many U.K. sectors have the potential to gain significantly from an agreement with the United States.

Although U.S. tariffs are generally low, some British industries like ceramics face a 28 percent tariff and the United States has recently increased tariffs on a variety of products in an apparent attempt to force partners to the negotiating table. A U.S./U.K. FTA could remove the vast majority of these new and existing tariffs. As U.K. tariffs are higher than U.S. ones, the United Kingdom will be expected to move to reduce its tariffs further; automobiles for example attract a 10 percent tariff in the United Kingdom and only 2.5 percent in the United States. However, a deal which removes the vast majority of tariffs for both sides is within reach and would significantly benefit consumers and companies on both sides of the Atlantic.

A bigger challenge is standards, as the EU and United States have followed different regulatory paths and neither side has been prepared to make the concessions needed to recognize those from the other side. As a result, many agricultural products are banned by both sides. Haggis, chicken, many cheeses and until very recently British beef are not allowed into the United States because of its food regulations. In return, the United Kingdom bans American chicken and beef. The EU and United States have not been able to bridge these differences, despite numerous attempts and despite the fact that food is safe in both countries. A U.K./EU trade deal offers the opportunity for this impasse to be broken, with substantial benefits beyond food. Automobiles also face similar challenges, as the United Kingdom and America have different seatbelt, emissions, and fuel efficiency standards which means cars need two sets of testing and manufacturers separate production lines.

A U.S./U.K. deal which streamlined these, and other, standards could bring substantial benefits to both sides. This is what T-TIP, the proposed U.S./EU FTA, tried but ultimately failed to do.

A tariff deal and some recognition of each other's standards would greatly increase the transatlantic market in goods, with many industries benefitting, including automotive, ceramics, and agriculture. However, the greatest potential benefit from a U.S./U.K. trade deal is that it would solidify the trade element of the transatlantic relationship, opening the door for further trade liberalization in the future. This would be particularly beneficial in services, as both the United Kingdom and the EU are services superpowers and have the potential to shape the future global trade system in this area. With both the United States and United Kingdom unlikely to retain their existing data adequacy agreements with the EU, a comprehensive digital agreement that includes the ability to transfer data across the Atlantic will greatly strengthen British digital industries, and put the United Kingdom in a position to shape the global approach to data transfers.

United States

By: Nigel Cory, Associate Director, Trade Policy, Information Technology and Innovation Foundation; and Sean Randolph, Senior Director, Bay Area Economic Council Institute



1. Reform Strategic Trade Engagement at WTO and With Like-Minded Trade Partners

U.S. President Donald Trump and U.S. Trade Representative Robert Lighthizer should be credited for recognizing and pushing for overdue changes to global trade, but with the tools and strategy they've followed thus far—bilateral, tariff-focused, ad hoc, and targeting friend and foe alike—has not and will not lead to the strategic changes that create a growing economy and well-paying jobs for Americans.⁴⁰ The United States cannot address strategic trade challenges—whether it's foreign innovation mercantilism or reforming WTO—on its own; doing so effectively requires partners.

But first, the United States needs to remove key barriers that stand in the way of closer cooperation on these two strategic trade policy goals. The United States should remove the tariffs it has enacted and stop trade-dispute cases against its like-minded trading partners as they relate to steel, automotive, and other issues, especially with regard to ongoing efforts to link these sectors to national security concerns. Likewise, the EU should commit to dropping retaliatory tariffs and associated trade disputes if the United States indicates it will reverse course.

A trilateral framework for closer trade policy cooperation between the European Union, Japan, and the United States is the clearest mechanism to pursue shared strategic trade policy outcomes. A broader agenda would expand beyond trade ministers and their respective portfolios to include ministers and officials involved in foreign investment screening, export controls, data governance, and setting standards for new and emerging technologies.⁴¹ The trilateral framework has shown promising signs of progress that point toward its potential value as the venue for broader discussions. For example, the three parties are working toward new rules they'd each use in their own trade agreements that would strengthen prohibitions on forced technology transfers and market-distorting subsidies.⁴² Such cooperation largely nullifies the ability of China to divide and conquer on a bilateral basis and water down multilateral reforms. Any trilateral outcomes would essentially represent new global norms and rules on issues that would constrain mercantilist economic models and trade practices.⁴³ Likeminded partners such as Australia, Canada, Singapore, and South Korea could also be brought in on parts of the agenda.

The European Union, Japan, and the United States could use the trilateral framework to engage in a constructive discussion about how to reform WTO. The fact that modern trade policy is not dependent on WTO, but based on the variable geometry of bilateral, regional, and plurilateral deals, reflects the lamentable state of affairs at WTO. While the expanded trilateral agenda overlaps considerably with areas of reform at WTO, thus meaning the initiatives are mutually supportive, they're both needed, as success at WTO is far from assured given it involves China and other countries that oppose genuine reform. Key WTO-specific issues that need to be resolved include the dispute settlement body and how to deal with differential obligations for developing countries. Therefore, the goal should be to use the trilateral framework as an alternate vehicle to push for the type of rules that the broader WTO membership would ideally also agree to in terms of rebuilding a transparent, innovative, enforceable, and market-driven global trading system that reflects the modern nature of global trade.

2. Join and Encourage an Expanded CPTPP

The United States should join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and work with partners to encourage other like-minded partners to do the same, with the goal to build it out as a world-class framework for open, rules-based, and modern trade and investment.

The United States has a vested interest in rejoining an initiative it played a large role in building. The United States led the (then-called) Trans-Pacific Partnership (TPP) negotiations, achieving important advances ranging from economic reforms in Vietnam to the opening of agricultural markets in Japan (in addition to the following). The U.S. withdrawal in January 2017 delivered on a campaign pledge by then-presidential candidate Donald Trump, but left the initiative and the other 11 Asia-Pacific countries in the lurch. Thankfully, the remaining parties chose to capitalize on the considerable time and effort that had gone into the agreement and decided to proceed with it, rebranding it as the CPTPP. The 11 members are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The agreement entered into force on December 30, 2018. While a number of signatories have yet to ratify the agreement, several new countries (including Indonesia, Taiwan, and Thailand) have expressed an interest in joining the agreement.

The CPTPP incorporates the vast majority of the TPP's key obligations (rules and market access outcomes) that the United States had agreed to as part of the original TPP agreement, except for some whose application was suspended due to U.S. withdrawal. In addition to eliminating tariffs on most products, the CPTPP advances open-market principles and U.S. interests in a number of key areas:

- **Technical Barriers to Trade:** The CPTPP encourages the use of internationally recognized standards as well as regulatory alignment to reduce the use of standards as barriers to trade. To increase regulatory transparency and predictability, disciplines are included for seven specific sectors.
- **Investment:** CPTPP prohibits trade-distorting “performance requirements” such as forced technology transfer or requirements to buy local products. It also prevents conditions from being placed on covered investments that would favor domestic industries.
- **Service Trade:** Core WTO obligations are affirmed, with all sectors open except those specified on “negative lists.”
- **Data and E-Commerce:** The parties commit not to apply duties to products transmitted electronically. The free flow of data across borders is protected, and data localization requirements are barred subject only to compelling national interests. The agreement also prohibits governments from demanding access to enterprises' proprietary software source code as a condition of market access.
- **Subsidies and State-Owned Enterprises:** Rules seek to ensure that state-owned enterprises and designated monopolies don't secure advantages that unduly impact the free flow of trade.

These measures reflect the values and interests of the United States and other partners that are committed to open markets for modern trade and investment. By not being a member of CPTPP, the United States has forfeited opportunities on at least two levels. Competitively, U.S. companies are at a disadvantage to firms in CPTPP member countries. More broadly, the CPTPP reflects an agreement among its parties on goals and standards that advance free markets and minimize the impact of policies—such as data localization, forced technology transfer, and the misuse of subsidies—that would harmfully restrict them. Joining the CPTPP provides the United States with an opportunity to reassert its commitment to work with key partners to establish advanced trade and investment standards based

on market principles. This would help U.S. companies in Asia-Pacific markets. Rejoining the agreement and supporting its expansion would also help establish the CPTPP as the leading model for trade in the Asia-Pacific region and beyond.

3. Build U.S. Global Digital Trade Through New Policies and Agreements

The United States set a new “gold standard” in terms of new and stronger digital trade rules in the United States-Mexico-Canada Trade agreement (USMCA), which has formed the basis for subsequent trade negotiations with the United Kingdom and at WTO.⁴⁴ New digital trade rules are needed to prohibit and roll back the growing range of barriers to digital trade, yet these alone are insufficient on their own to support greater digital trade and data-driven innovation.⁴⁵ The United States should complement new trade rules with collaborative agreements between policymakers and regulatory agencies in its most ambitious trading partners to proactively build interoperability between new data-related laws and regulations—thus preventing policies from becoming inadvertent barriers to digital trade—much as Australia, Singapore, and others have already done. Doing so would help firms engage in seamless digital trade and data-driven innovation across borders, even as technology and regulations change.

Whether it’s data privacy, data security, AI, financial regulations, or some other digitally related issue, the United States and many of its trading partners are all dealing with the challenge of adapting laws and regulations to technological innovation, while also seeking to maximize their use in trade.⁴⁶ This is why U.S. digital trade policy needs to expand beyond its focus on new rules to include memorandums of understandings (MOUs) or other legal text and meeting agreements to bring its key policymaking officials and domestic regulatory agencies together with counterparts in key, similarly ambitious trading partners. This would ensure that officials work together on shared data-related concerns during the early stages of policy development. Proactive engagement between countries to build interoperability is preferable to the alternative in terms of engaging after the fact to retrospectively revise policies that become a well-established (and thus difficult-to-remove) barrier to digital trade.

Australia, Chile, New Zealand, and Singapore are showing how this can be done through digital economy agreements that often don’t include new binding trade rules, but instead include various MOUs and agreements to cooperate on data innovation, AI, e-invoicing, e-certification, trade facilitation, data privacy, and digital identity issues.⁴⁷ These countries are using digital economy agreements and MOUs to build a better understanding about respective approaches to new issues, to provide confidence and clarity around current arrangements, and to forge connections between regulators as rules and technology evolve. The end goal is to ensure their respective approaches are interoperable—thus ensuring firms are able to work as seamlessly as possible across borders in conducting digital trade.

Singapore is an example of one country leading the way in how its central bank (the Monetary Authority of Singapore (MAS)) is pursuing agency-to-agency fintech MOUs with key counterparts in Australia, the United Kingdom, and the United States in order to support cross-border data flows, innovation, and digital trade in the sector. At the heart of these MOUs is the important recognition that however fintech evolves, the free flow of data and regulatory access to it will remain critically important to trade and innovation. Singapore sees a future wherein these types of “data connectivity agreements” among countries become as important as today’s FTAs.⁴⁸ The U.S. Department of Treasury is already heading in a similar direction in agreeing to the MOU with MAS and flagging its interest in the issue more broadly.⁴⁹

However, the United States should develop and pursue a broader whole-of-government strategy to support global digital trade and data-driven innovation. The United States Trade Representative, the Department of Commerce, the National Institute of Standards and Technology, the Federal Trade Commission, and other agencies need to come together to develop a comprehensive approach to building better connections with trading partners on key data and digital trade-related issues. This cooperation would complement the United States' ongoing pursuit of new legally binding outcomes on digital trade in creating a better, more responsive rules-based global digital economy.

Conclusion

Over the past several decades, economic globalization has increased the level of trade and economic integration across nations. Cross-border trade, globalized supply chains, and ever-expanding digital trade and e-commerce activity today constitute the backbone of the world economy. The arrival of the COVID-19 pandemic tectonically disrupted the global economy and world trade, but at the same time it has reiterated the importance of advancing cross-border interactions. In this context, this report, by highlighting trade policy priorities for a variety of nations in the year ahead, paints a path to sustain a positive vision of trade and globalization, and their potential to improve livelihoods for all the world's citizens.

Endnotes

1. Datos Macro, “Argentina, el PIB cae respecto al trimestre anterior,” December 2019, <https://datosmacro.expansion.com/pib/argentina>.
2. Alicia Bárcena, “Dealing with the growing effects of COVID-19 for a reactivation with equality: new projections,” Economic Commission for Latin America and the Caribbean (ECLAC, July 2020), https://www.cepal.org/sites/default/files/presentation/files/final_200714_version_revisada_ab-ppt_informe_covid_5_15_julio.pdf.
3. Fernando Meañes, “The consulting firms that the Central Bank relies on reduced their inflation forecast to 37.8 percent for this year,” Infobae, September 4, 2020, [https://www.infobae.com/economia/2020/09/04/inflacion-2020-los-analistas-economicos-reducen-su-pronostico-al-378/#:~:text=Para percent202021 percent2C percent20la percent20inflaci percentC3 percentB3n percent20prevista,Banco percent20Central percent20correspondiente percent20a percent20agosto](https://www.infobae.com/economia/2020/09/04/inflacion-2020-los-analistas-economicos-reducen-su-pronostico-al-378/#:~:text=Para%202021%20percent2C%20la%20inflaci%C3%B3n%20prevista,Banco%20Central%20correspondiente%20a%20agosto).
4. Argentina’s National Government, “MERCOSUR – European Union (EU) 2019,” <https://www.argentina.gob.ar/produccion/acuerdos-internacionales/conoce/tlc/suscritos/ue>.
5. European Commission, “In Focus: EU Mercosur,” <https://ec.europa.eu/trade/policy/in-focus/eu-mercosur-as>.
6. Argentina’s National Government, “Strategic Partnership Agreement Mercosur – EU” (July 2019), https://www.cancilleria.gob.ar/userfiles/prensa/resumen_acuerdo_mcs-ue_elaborado_por_gobierno_argentino.pdf.
7. Ibid.
8. Argentina’s National Government, “MERCOSUR – European Union (EU) 2019.”
9. Iván Alejandro Trujillo Acosta, “Sobre las ventajas de la Alianza del Pacífico para Colombia,” *Revista Prolegómenos, Derechos y Valores* Vol. 17, Issue 33 (June 2014): 159–172, <http://www.scielo.org.co/pdf/prole/v17n33/v17n33a11.pdf>.
10. Datos Macro, “Argentina - Merchandise Exports” (2019), <https://datosmacro.expansion.com/comercio/exportaciones/argentina>; National Institute of Statistics and Census (NIOSC), “Argentine commercial exchange” (2019), https://www.indec.gob.ar/uploads/informesdeprensa/ica_02_19.pdf.
11. Argentina’s National Government, “MERCOSUR – European Union (EU) 2019.”
12. Organization for Economic Cooperation and Development (OECD), “Data on Colombia” (accessed June 14, 2020), <https://data.oecd.org/colombia.htm>.
13. World Economic Forum, *The Global Competitiveness Report 2019*, “Geneva: World Economic Forum, 2019,” http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.
14. Rosario Córdoba, “Internacionalización vs. proteccionismo,” *Portafolio*, July 13, 2020, <https://www.portafolio.co/internacionalizacion-vs-proteccionismo-opinion-rosario-cordoba-garces-542672>.
15. Jorge García, Enrique Montes-Uribe, and Iader Giraldo-Salazar, “Comercio exterior en Colombia: política, instituciones, costos y resultados,” Banco de la República (July-December 2019), <https://ideas.repec.org/b/bdr/bdrlib/2019-isbn9789586644068.html>.
16. Asociación Nacional de Comercio Exterior, “Informe de Comercio Exterior Colombiano enero-diciembre 2019.2020.”
17. Mauricio Santamaría and Carlos Felipe Prada, “Retos y reflexiones sobre el comercio exterior en Colombia,” *La República*, March 10, 2020, <https://www.larepublica.co/analisis/mauricio-santa-maria---anif-2941063/retos-y-reflexiones-sobre-el-comercio-exterior-en-colombia-2975068>.
18. Source: Italian Trade Agency, 2020.

19. SFDoodle.com, “What is the Italian Sounding Phenomenon,” <http://www.sfoodle.com/what-is-the-italian-sounding-phenomenon/>.
20. World Trade Organization, “Trade set to plunge as COVID-19 pandemic upends global economy,” April 8, 2020, https://www.wto.org/english/news_e/pres20_e/pr855_e.htm.
21. CBS News, “WHO makes grim prediction of no widespread vaccine until mid-2021,” September 6, 2020, <https://www.cbsnews.com/video/who-makes-grim-prediction-of-no-widespread-vaccine-until-mid-2021/>.
22. Superseding RA 11469 is the Republic Act 11494 or the “Bayanihan to Recover as One Act” which continues to provide tariff exemption on essential goods provided that these are not available domestically.
23. South African Inter-agency Task Force Technical Working Group, “We Recover As One” (202), <http://www.neda.gov.ph/wp-content/uploads/2020/05/We-Recover-As-One.pdf>.
24. This ranges from missing contact details on all of the Foreign Trade Bureaus to instances of unclear flows found in the PAIH’s financial statements.
25. While the report was published eight years ago, at least two out of the four logos analyzed there are still used in Poland’s promotional activities.
26. Yet another, slightly more dated study estimated a GDP effect of up to 0.4 percent for Poland in case of abolishment of all barriers to services trade within the EU (Hagemejer et. al. 2014).
27. I.e. such that joined the EU in 1995 at the latest (and excluding the UK): Austria, Belgium, Germany, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden.
28. I.e., Canada, Colombia, Ecuador, Indonesia, Japan, Korea, Mexico, Peru, Vietnam.
29. Tralac Center, “South Africa: Intra-Africa trade and tariff profile” (June 2018), <https://www.tralac.org/resources/our-resources/13142-south-africa-intra-africa-trade-and-tariff-profile.html>.
30. Alexander Hammond, “Africa’s revolutionary new free trade area could lift millions out of poverty,” CapX, July 6, 2018, <https://capx.co/africas-revolutionary-new-free-trade-area-could-lift-millions-out-of-poverty/>.
31. Elliot Smith, “Africa’s free trade area is delayed by the coronavirus, but experts say it’s vital to recovery,” CNBC, May 26, 2020, <https://www.cnbc.com/2020/05/26/afcfta-is-delayed-by-the-coronavirus-experts-say-its-vital-to-recovery.html>.
32. Asmita Parshotam, “A 2017 WTO deal aimed to improve trade in Africa - but there’s still much work to do,” World Economic Forum, October 9, 2019, <https://www.weforum.org/agenda/2019/10/how-to-facilitate-trade-in-africa>; Dr. Mukhisa Kituyi, “Africa has phenomenal potential for intra-continental trade,” Africa Renewal, August 27, 2018, <https://www.un.org/africarenewal/magazine/august-november-2018/africa-has-phenomenal-potential-intra-continental-trade>.
33. Tralac Center, “President Ramaphosa deposits SA’s AfCFTA instrument of ratification,” February 12, 2019, <https://www.tralac.org/news/article/13899-president-ramaphosa-deposits-sa-s-afcfta-instrument-of-ratification.html>.
34. Terence Creamer, “After fall in FDI flows to South Africa in 2019, report warns of big pandemic-induced slump,” Creamer Media’s Engineering News, June 16, 2020, <https://www.engineeringnews.co.za/article/after-fall-in-fdi-flows-to-south-africa-in-2019-report-warns-of-big-pandemic-induced-slump-2020-06-16>.
35. BusinessTech, “South Africa’s unemployment rate climbs to 30.1%,” June 23, 2020, <https://businesstech.co.za/news/government/409897/south-africas-unemployment-rate-climbs-to-30-1/>.
36. Initiative for Free Trade, “Future UK Global Tariff Policy,” http://ifreetrade.org/pdfs/Tariff_Consultation_FINAL1.pdf.

37. Initiative for Free Trade, “Joint Statement on UK participation in DEPA, and COP strategy,” http://ifreetrade.org/publication/joint_statement_on_uk_participation_in_the_depa_and_cop_strategy.
38. Initiative for Free Trade, “A Roadmap for UK Accession to the CPTPP,” http://ifreetrade.org/publication/a_roadmap_for_uk_accession_to_cptpp.
39. Initiative for Free Trade, “An “Ideal” US-UK Free Trade Agreement,” http://ifreetrade.org/publication/an_ideal_us_uk_fta.
40. Robert Lighthizer, “How to Make Trade Work for Workers: Charting a Path Between Protectionism and Globalism,” *Foreign Affairs*, July/August 2020, <https://www.foreignaffairs.com/articles/united-states/2020-06-09/how-make-trade-work-workers>.
41. Nigel Cory and Robert Atkinson, “Why and How to Mount a Strong, Trilateral Response to China’s Innovation Mercantilism” (The Information Technology and Innovation Foundation, January 13, 2020), <https://itif.org/publications/2020/01/13/why-and-how-mount-strong-trilateral-response-chinas-innovation-mercantilism>.
42. “Joint Statement of the Trilateral Meeting of the Trade Ministers of Japan, the United States and the European Union,” European Commission website, January 14, 2020, https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158567.pdf.
43. Cory and Atkinson, “Why and How to Mount a Strong, Trilateral Response to China’s Innovation Mercantilism.”
44. Nigel Cory and Stephen Ezell, “Comments to the U.S. International Trade Commission Regarding the United States-Mexico-Canada Agreement” (The Information Technology and Innovation Foundation, December 17, 2018), <https://itif.org/publications/2018/12/17/comments-us-international-trade-commission-regarding-united-states-mexico>.
45. Nigel Cory, “Cross-Border Data Flows: Where Are the Barriers, and What Do They Cost?” (The Information Technology and Innovation Foundation, May 1, 2017), <https://itif.org/publications/2017/05/01/cross-border-data-flows-where-are-barriers-and-what-do-they-cost>; Nigel Cory, “Testimony to the U.S. Senate Subcommittee on Trade Regarding Censorship as a Non-Tariff Barrier to Trade” (The Information Technology and Innovation Foundation, June 30, 2020), <https://itif.org/publications/2020/06/30/testimony-us-senate-subcommittee-trade-regarding-censorship-non-tariff>; Nigel Cory, “Response to the Public Consultation for the European Commission’s White Paper on a European Approach to Artificial Intelligence” (The Information Technology and Innovation Foundation, June 12, 2020), <https://itif.org/publications/2020/06/12/response-public-consultation-european-commissions-white-paper-european>.
46. In contrast to the EU’s approach to data governance and digital trade, which consistently fails to take the international impact into consideration during the development phase. See: Cory, “Response to the Public Consultation for the European Commission’s White Paper on a European Approach to Artificial Intelligence”; Nigel Cory, “Response to European Commission Consultation on Transfers of Personal Data to Third Countries and Cooperation Between Data Protection Authorities” (The Information Technology and Innovation Foundation, April 29, 2020), <https://itif.org/publications/2020/04/29/response-european-commission-consultation-transfers-personal-data-third>.
47. For example: “Australia-Singapore Digital Economy Agreement: summary of key outcomes,” Australia’s Department of Foreign Affairs and Trade website, <https://www.dfat.gov.au/trade/services-and-digital-trade/australia-singapore-digital-economy-agreement-summary-key-outcomes>.
48. “Singapore FinTech: Innovation, Inclusion, Inspiration. Presentation by Mr. Ravi Menon, Managing Director, Monetary Authority of Singapore at Singapore FinTech Festival 2018,” Monetary Authority of Singapore, November 12, 2018, <https://www.mas.gov.sg/news/speeches/2018/singapore-fintech>.
49. In 2018, MAS and the U.S. Commodity Futures Trading Commission (CFTC) signed a similar MOU. https://www.cftc.gov/sites/default/files/2018-09/cftc-mas-cooparrgt091318_16.pdf. Under Secretary McIntosh stated: “Data connectivity facilitates financial regulators’ access to the financial risk-related data needed to fulfil their mandates in ensuring safety and soundness.... When data connectivity is impeded, firms, consumers, regulators, and the economy as a whole are all worse off, and we risk losing out on many benefits of today’s digital economy. “Address by Under Secretary McIntosh at the Sim Kee Boon Institute for Financial Economics at Singapore Management University,” Press Release, U.S. Department of the Treasury, February 6, 2020, <https://home.treasury.gov/news/press-releases/sm900>.



**GLOBAL TRADE & INNOVATION
POLICY ALLIANCE**

**700 K STREET NW, SUITE 600 | WASHINGTON, DC 20001
UNITED STATES OF AMERICA
SEZELL@ITIF.ORG**