

## Can the Osaka G20 summit resuscitate the rules-based trading system?

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Economists are fretting over the trade turmoil that currently roils the world economy. Worst case scenarios are now front and centre, including the prospect of a WTO minus one (the United States or China), or perhaps even the world minus the WTO. The [US–China trade war](#)<sup>[1]</sup> has significantly degraded the rules-based trading regime. The upcoming Osaka G20 summit over 28–29 June could send the global trade system either into intensive care or to the coroner.



We should not expect the [G20 to end the turmoil](#)<sup>[2]</sup>. The two largest members of the G20, the United States and China, are talking past each other. One may even walk out of the meeting to make a statement over their unhappiness at discussions not going their way. At a minimum, a success at the G20 would be to forge a common position in favour of supporting international trade for inclusive and sustained growth without losing anyone along the way. Of course, on the sidelines, the United States and China may have informal meetings to make progress on their dispute. But even so, a [bilateral deal that will still weaken the rules-based trading regime](#)<sup>[3]</sup> is likely.

In preparation for the G20, eight ministerial meetings have been held in various locations in Japan, including trade and digital ministers having their first joint meeting. What can be concluded from the 8–9 June [G20 Ministerial Statement on Trade and Digital Economy](#)<sup>[4]</sup> agreed in Tsukuba?

The Tsukuba Ministerial Statement selected its words carefully, particularly to avoid singling out any individual country for blame. The statement does not even directly challenge rising

protectionism. Instead, it states that ‘we strive to realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, to keep our markets open’.

Nevertheless, the need for WTO reform was explicitly referenced. Although the United States is not blamed for [blocking the appointment of judges](#) <sup>[5]</sup> to the WTO’s Appellate Body, the statement affirms that ‘action is necessary regarding the functioning of the dispute settlement system’. And even though China is not explicitly mentioned, the industrial subsidy issue is. Saving the WTO is particularly important for developing members of the G20. Their dependency on the non-discrimination principle is profound. But they still do not have an adequate sense of urgency over the prospect of a new trading ‘regime’ that will be dominated by power politics.

As a conceptual framework, ‘Data Free Flow with Trust’ (DFFT) is now being pushed, recognising the rising importance of data flow regulation. Targeting both domestic and cross-border data management is an important step in organising the still fragmented collection of policies in the flow of data, especially with respect to data multi-national firms. Analogous to the free trade of goods, it is logical to place the free flow of data as a starting point alongside achieving economic efficiency. Care must be taken in managing the economic and social concerns over the flow of data by introducing the proper supporting framework of policies.

This raises the question of whether economic efficiency or privacy is more important. But this is poor framing of the policy choices. Both issues are important and the dilemmas between these values must be reconciled properly. An analogy can be drawn from past experience as, for instance, in food safety standards with sanitary and phytosanitary clauses embedded into agreements in free goods trade. Cyber-security is important and should be pursued together with economic efficiency goals. By raising the profile of the free flow of data, values once seemingly at odds with economic efficiency can and should be harmonised.

It is also important to recognise the risk of market failure, particularly in global digital competition. Digital technology may generate network externalities or economies of scale. But if giant internet platforms abuse their market power, competition policy must be deployed to mitigate the harmful effects of market domination. Ultimately, large market shares by themselves are not necessarily a problem, so long as the potential for competition and further technological advancement are secure. Too often, restrictions are imposed with the hidden intention of protectionism; the logic of any policy in support of the flow of data needs to be clearly set out.

The Ministerial Statement also shows support for electronic commerce in the WTO among like-minded countries, even though not all G20 countries are party to it. In addition, the statement adopts a G20 Artificial Intelligence (AI) Principle, a non-binding commitment for the development of human-centred AI, which emphasises digital systems that extend rather than replace human intelligence.

This year’s G20 faces serious choices with much energy likely to be spent on just making sure it does not fall apart. Promisingly, some signs of commitment and cooperation beyond individual countries’ interests are in evidence, particularly with respect to WTO reform as well as in the

digital economy.

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[1] US–China trade war:

<https://www.eastasiaforum.org/2019/06/16/china-us-trade-agreement-now-harder-but-not-impossible/>

[2] G20 to end the turmoil:

<https://www.eastasiaforum.org/2019/06/18/will-japans-g20-deliver/>

[3] bilateral deal that will still weaken the rules-based trading regime:

<https://www.eastasiaforum.org/2019/05/20/dangers-of-a-g2-us-china-trade-deal-for-the-rest-of-us/>

[4] G20 Ministerial Statement on Trade and Digital Economy:

[http://trade.ec.europa.eu/doclib/docs/2019/june/tradoc\\_157920.pdf](http://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157920.pdf)

[5] blocking the appointment of judges:

<https://www.eastasiaforum.org/2019/05/28/triage-care-for-the-wto/>