



Interjection

Borders

Cross-Border Cooperation: Now More Than Ever!

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Providing Considered Leadership: Germany and the G20 Presidency

Roman Herzog, the recently deceased former Federal President, warned us twenty years ago: “Isolationism and expansion are paths of the past, and that is where retreading those paths would lead.”¹ One can hardly repeat this admonition loudly enough today as concerns about a significant slowing of global trade, or even a “reversal of globalisation”, and the emergence of new political conflicts characterise the international climate.

During this period of major political upheavals, the Federal Republic of Germany assumed the presidency of the group of the twenty most important industrialised and emerging economies (G20). The federal government chose the motto “Shaping an Interconnected World” for its term, thereby clearly setting itself apart from polarising nationalist-populist movements, whose main purpose is economic isolationism. In view of an increasingly critical attitude toward globalisation, free trade and an integrative global economy in some G20 countries, it will take a great deal of negotiating skill and persuasion to effectively promote the motto chosen by the federal government and deepen international cooperation. Particularly the economic course pursued by the new U.S. President Donald Trump, the long-term economic and political repercussions of Brexit for the UK and for the European Union as well as the threats from populist movements in France and Germany are making this undertaking more difficult.

There is a great deal at stake for Germany as a trading nation because national-populist isolationism strategies could have a noticeable negative impact on prosperity. Furthermore, there is a risk of political damage if states are pitted against one another. Thankfully, the summits of the G20 countries, which have been taking place regularly since 2008, offer a platform for negotiation on these issues. Whether it will be possible to resolve them jointly will depend greatly on the willingness of countries to

compromise and their ability to find consensus on how to shape the globalisation process in the future.

This does not seem likely at the moment. Not only because protectionist measures between the G20 states have increased, but also because positions within the community of states that had been considered irrevocable for decades are undergoing change. While China’s President Xi Jinping, whose country normally stands out on account of its protectionist policy, took to the stage as a promoter of free global trade at the World Economic Forum in Davos, the governments of some important Western states have recently begun to favour politically motivated industrial policies or the creation of bilateral alliances. This was brought home by the fact that the meeting of the G20 finance ministers in March 2017 did not conclude with a consensus on future global trade relations. There was no mention of a commitment to free trade and against protectionism in the final document of the summit. It appears that Germany’s allies are repositioning themselves where trade policy issues are concerned. This “world turned upside down” urgently requires a more detailed analysis.

Globalisation – Yesterday’s Megatrend?

In industrialised countries with a relatively poor export base, such as the USA, the UK and France, the process described by the term “globalisation” has come under criticism as a significant driver of job displacement, deindustrialisation and the upsurge of some emerging economies, which is perceived as a threat. Even in the export nation Germany, globalisation critics have been remarkably successful in popularising their ideas, most recently with the intention of scuppering the negotiations over the Transatlantic Trade and Investment Partnership (TTIP). There is a certain irony in the fact that it is actually a Republican US president who has dealt a potentially fatal blow to the hate project of the Left. The regional mega-agreements of the TTIP and the Trans-Pacific Partnership (TPP) have been put on ice for now.

What geopolitical damage this US decision will have for the West is not yet clear, but it definitely has had a serious effect on the globalisation process.

There is no doubt that the international division of labour intensified by globalisation has accelerated the structural changes underway in the Western economies, which have entailed off-shoring and job losses and which have affected individual industrialised countries to very different degrees because of their domestic economic and social policies. At the same time, the integration of developing countries and emerging economies in global trade has initiated positive economic and political developments in those countries. Never before has the world's population as a whole experienced greater rises in living standards than in the last two decades.

But when one looks at the overall impact, it is not only the poorer countries of the world that have benefited from trade and the international division of labour but the industrialised countries as well. However, there are significant differences between the developed countries themselves as well as between individual industries and groups of the population. The economic change has produced both winners and losers – a development that represents a constant of world trade history. Whenever free-market processes take effect, whether they were triggered by stronger global competition, technical progress or changed consumer habits, the most urgent task of the political decision-makers is to devise appropriate economic and social policies in response to the changes and to make provision to compensate for any negative impact through education and social policies. Some industrialised countries' efforts in this area were obviously not effective enough. These failures on the part of the powers that be have generally reinforced the impression that governments have “lost control” and strengthened a counter-movement, which very explicitly aims at the illusory goal of regaining national sovereignty.

Donald Trump's election victory in the USA, the narrow decision in favour of Brexit and the support for the French Front National are to a large degree due to the existence of groups among the population that are feeling uncertainty, at least economically, that partly share a feeling of being left behind and that are demanding a change of course from their governments. They reject “globalisation” because they generally associate the term with structural change, a loss of identity and waves of migration, and they call for their governments to take measures to protect the domestic economy. Interestingly, technical progress receives little attention as a significant driver of global upheavals. The tendency is for people to put the blame on a nebulous concept such as “globalisation”.

The desire to keep jobs and capital within one's own national borders has led to numerous protectionist measures for quite some time now. This is a phenomenon that may well increase further in intensity. Recent statistics published by the World Trade Organization (WTO) indicate that the number of measures inhibiting trade has increased six-fold since 2010. By the autumn of 2016, there were close to 3,000 such measures in place around the world, either explicitly or implicitly giving preferential treatment to domestic manufacturers to the detriment of foreign suppliers. The isolationist measures sanctioned by the governments come in many forms. One way is to give preferential treatment to domestic suppliers in public procurement projects. There have also been increasing instances of domestic products receiving subsidies and of selective import or export duties being imposed. Frequently, unnecessarily complicated standards are introduced under the mantle of national security, public health or general consumer protection in order to disadvantage foreign competitors. Particularly for Germany as an export country, this is a dangerous situation as the introduction of such measures by one trading partner may provoke tit-for-tat measures by the other, prompting the risk of vicious circles of intervention and ultimately so-called trade wars.

The creeping change in the global trade situation that such measures produce resembles what happens in a crowded theatre. Because one person does not have a good view of the stage, they stand up. They may then have a better view for a time; but if all the others (are forced to) then stand up themselves, in the end no one has a better view than they had before, and everyone is forced to stand. The problem with these measures is therefore that they diminish overall economic activity and future economic growth potential. This would probably, like in the parable just described, set off a vicious circle. Germany's economy would be one of the hardest hit because it produces a huge trade surplus of around a quarter of a trillion euros and roughly every fourth job in the country depends on the export trade. To prevent this scenario, Germany should speak out against trade barriers and in favour of regulated globalisation.

Rather Global Regulatory Framework than National Bastion

Germany is integrated into the global value chain and goods flow more closely than most other countries and has therefore also been a clear beneficiary of globalisation. That said, the prevalent model of the international division of labour is currently being called into question in various countries. In this context, Germany's trade surpluses are regularly criticised without any mention whatsoever of the individual trading profits and benefits in terms of social prosperity that have arisen in other countries as a result. As many free trade critics see it, the era of cooperation based on the division of labour under the rules of the World Trade Organization is to give way to an epoch dominated by trade confrontation. Bilateral deals are to replace rule-based trading areas.

In collaboration with its partners, Germany must counter such endeavours and promote free global markets modulated by a global regulatory framework. The lack of regulation of the globalisation process is a legitimate cause for criticism, which has yet to be addressed. There need to be global rules for international

trade. This realisation had, in fact, crystallised among the G20 group after the financial crisis of 2007/2008 and was highlighted at the first meeting of this group of countries in November 2008, as was the rejection of protectionism. Work on producing a more robust global trade order has still not been completed, although progress has been made in some areas, such as financial market regulation, the fight against tax evasion and the battle against climate change. Instead of making efforts to consolidate what has been achieved so far, individual G20 states are now putting these goals into question.

Furthermore, the entire multilateral global trade order, which has been shaped substantially by the WTO, is under attack. Even relatively recently, the WTO had still been able to make the headlines with a diplomatic achievement. For the first time in over two decades, the 164 members had succeeded in agreeing on a multilateral deal, the Trade Facilitation Agreement (TFA), which envisages above all the elimination of bureaucratic barriers in cross-border goods trade. The measures are to do with reducing red tape, making national regulations more transparent and ensuring that the required infrastructure and human resources are in place to facilitate efficient trading activities that are as free from discrimination as possible. It remains to be seen whether this agreement can be implemented in full once the United States begin to tax imports and subsidise exports (Border Adjustment Tax), thereby embarking on a course of confrontation with WTO rules.

Conclusions and Recommendations

Germany's G20 presidency must aim at maintaining the results-focused dialogue among the most important industrialised countries and emerging economies and at encouraging measures to produce tangible results for the global regulatory framework. Any suggestions of renewed deregulation of the financial markets in particular should be rejected. A concerted effort will be required to prevent a potential dumping competition in the area of corporate taxation. Fighting tax evasion and profit shifting



← The world's number one exporter:
"Germany is integrated into the global value chains and goods flows more closely than most other countries and has therefore also been a clear beneficiary of globalisation."
Source: © Morris Mac Matzen, Reuters.

should be in the interest of all G20 states, but will require persistent pressure. Efforts should also be made to further strengthen the World Trade Organization and reiterate the commitment to a multilateral trading policy. Bilateral talks on the fringes of the summit should be used to advance European free trade initiatives with parties such as Japan, Mexico and Mercosur. The European Single Market is of great interest to these partners, and strengthening it and networking with partners must remain at the forefront for Germany.

Germany should also make the point that aggressive foreign trade policies are generally damaging to all parties involved. Such an economic approach would not only diminish consumer choice and purchasing power, but also minimise companies' profit and investment base, potentially endanger jobs and thereby weaken the state's revenue base. In view of the German trade balance surplus, one should go some way to appease the critics, bearing in mind the facts of the situation: monetary and exchange rate policy is no longer in the German government's hands, so there is little it can do in that area. Nor can the state enforce higher pay across the board because of free collective bargaining. Large-scale investments in infrastructure paid for from the trade surplus hold no great promise seeing that there is little spare (construction) capacity. The most promising measure would therefore be a modest reduction in income tax for companies and private households as this would strengthen domestic demand and stimulate the import of consumer and capital goods. And surpluses in certain social insurance sectors could be used to stimulate domestic demand through reductions in contributions. These measures could go some way toward reducing Germany's current account surplus.

Apart from these economic considerations, the following realisation of Federal President Roman Herzog, who was quoted at the beginning, still applies: "Because we are mutually dependent on each other – economically and ecologically, the 'young' and the 'old' industrialised countries, North and South, East and West – we must exercise greater global coordination and consideration in international politics as well – in our own and in the common interest."² It is time to remind people of this connection!

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- 1 Herzog, Roman 1997: Einführungsstatement zum Thema "Interkultureller Dialog" vor dem Bonner Gesprächskreis des Deutschen Industrie- und Handelskammertages, speech, 7 Jul 1997, Bonn, in: <https://goo.gl/d5gixS> [22 Mar 2017].
- 2 Herzog, Roman 1997: Ansprache anlässlich des 27. Management Symposiums "Globaler Wettbewerb, globale Werte, globale Verantwortung – Neue Herausforderungen für die Politik", speech, 28 May 1997, St. Gallen, in: <https://goo.gl/R3v0ht> [22 Mar 2017].