

RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical and contemporary issues. The authors' views are their own and do not represent the official position of the S. Rajaratnam School of International Studies, NTU. These commentaries may be reproduced with prior permission from RSIS and due recognition to the author(s) and RSIS. Please email to Mr Yang Razali Kassim, Editor RSIS Commentary at RSISPublications@ntu.edu.sg.

Osaka G20 Summit: Mixed Outcome

By Pradumna B. Rana and Xianbai Ji

SYNOPSIS

The G20 Summit at Osaka came up with a mixed picture on trade. The US and China struck a trade truce. But the summit failed to address issues related to WTO reforms.

COMMENTARY

ON 28-29 JUNE 2019, the Group of Twenty (G20) leaders representing two-thirds of the world population and 85 percent of the global output assembled in Osaka, Japan for their 2019 summit.

At the gathering of leaders, a wide range of topics including data governance, quality infrastructure, financial resilience, international taxation, gender equality and climate change were covered. But it was trade that preoccupied the leaders. At the conclusion of the two-day meeting, a mixed picture of relief and disappointment on trade issues emerged.

Relief: US-China Trade Truce

The Osaka Summit was held against the background of aggressive trade confrontations between the United States (US) and China which have roiled the global economy. According to the International Monetary Fund, global growth is expected to slow to 3.3 percent this year from 3.6 percent in 2018 and globally the economic losses from the US-China trade war could amount to US\$455 billion in 2020.

Much to the relief of the world, the US and China signalled a pause in mutual hostilities at Osaka. The US promised to withhold tariffs on an additional \$300 billion worth of Chinese goods and ease some, yet unspecified, restrictions on China's hard-pressed telecommunications giant Huawei.

China in return agreed to purchase a “tremendous amount of US farm goods”. Concessions on both sides have led to some relief. Top US and Chinese officials have spoken by telephone but face-to-face negotiations have yet to be scheduled.

There is, however, a sense of déjà vu among some. Presidents Donald Trump and Xi Jinping had struck a similar ceasefire agreement during the Buenos Aires G20 Summit of December 2018 that unravelled soon after. Whether the “Osaka truce” between the two superpowers will last is an open question given the structural nature of the competition between the US’ liberal market economic model and China’s coordinated state capitalism model that underlie the conflicts.

Perhaps the US and China are just kicking the can down the road yet again at Osaka. The détente could even be part of China’s filibustering strategy to sit Trump out.

Reason for Optimism

That said, there is a good reason to be more optimistic this time around because of the urgency on both sides to address the adverse impacts of the trade war. Farmers, manufacturers and other businesses with exposure to China have been badly hurt in the US. In June, the manufacturing Purchasing Managers’ Index dived to 50.1, the worst level in a decade.

Private investment on capital goods also continue to decline as corporate leaders brace themselves for the uncertainties ahead. With Trump seeking a re-election, resolving the multibillion-dollar dispute with China once and for all and turning the economic situation around could be a winning strategy.

On the Chinese side too, the economy is clearly deteriorating. In 2018, China registered the lowest economic growth in almost thirty years. Trade sanctions imposed by the US continue to weigh on China’s economy. Should the trade war drag, Beijing will almost certainly miss its target economic growth rate of 6.0 to 6.5 percent for this year.

Disappointment: WTO Reforms

At the Buenos Aires G20 Summit seven months ago, the leaders had committed “to improve a rules-based international order” and pledged to support the “necessary reform” of the WTO. This for the first time elevated the subject of WTO reforms as an agenda item for the G20.

After the summit, countries were encouraged to put forward proposals on how to make the global trade governing body fit for the purpose in today’s economic and political landscape. A number of proposals were forwarded to Geneva in the months leading up to the Osaka summit.

The US wanted to disqualify G20 members such as China from enjoying the lenient “special and differential treatment” at the WTO. China had proposed to save the adjudicative system now bordering on collapse. The EU and Canada had lobbied to write new global rules to enhance trade policy transparency and curb trade-distorting measures such as excessive subsidies.

As priorities differed significantly across major powers, the leaders ended up talking past each other at Osaka. Consequently, the G20 leaders' declaration while admitting that the WTO needed reform fell short of mentioning any specific steps to be taken to improve the functioning and governance of the WTO.

More worryingly, leaders appeared to have toned down the seriousness of the issue. An earlier draft of the statement had called for a "sense of urgency" to reform the WTO which was "facing unprecedented challenges", but this strong language was missing in the final version. This suggests that Japan did not want to repeat the experience of Papua New Guinea which hosted the APEC Summit last year failing to mediate the leaders' declaration in the context of US-China tensions.

Key Issues in WTO Reforms

Of particular concern is the Trump administration's veto on the appointment of new judges and its unwillingness to extend the terms of existing judges at the WTO's dispute settlement mechanism known as the appellate body. This body now has the minimum three judges needed to function. If the situation is not resolved by December, the enforcement mechanism and the "crown jewel" of the rules-based global trading system will cease to function.

The WTO's decision-making protocol based on full consensus of the membership (164 members) has meant that decisions are often taken at a glacial pace. To reverse this situation, in Osaka, Japan had proposed a "plurilateral agreement" among 50 WTO members on cross-border data movement and e-commerce.

Although 24 countries, including the US, China, the European Union and Singapore signed up to Tokyo's plan, large emerging economies like India, Indonesia, South Africa and Egypt opposed it on the grounds of multilateralism-centrality and the grouping's lack of legitimacy and universal representation on matters related to trade.

The Osaka Summit, together with the preceding Buenos Aires Summit, had been dominated by bilateral issues related to the trade war between the US and China. It is critically urgent that the forthcoming summits including the Riyadh summit next year focus on key issues in reforming the WTO including its governance system. Otherwise the effectiveness and clout of the most rules-based multilateral institution in the world will diminish greatly.

Pradumna B. Rana is a Visiting Associate Professor at the Centre for Multilateralism Studies (CMS) at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. Xianbai Ji is a Research Fellow at RSIS.

Nanyang Technological University

Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
Tel: +65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg