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## Session 3

# Linkages and policy implications for sustainable development



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## Outline

- Trade policy in the SDGs
- General points about trade and sustainable development
- Link each SDGs and trade / trade policy

### Purpose of the session:

- Identify some links between trade policy and SDGs
- Discuss whether trade policy can, how should help achieving the SDGs.

**Footnote:** not well developed in the book, very much work in progress



# The Sustainable development Goals

Goal 1	End poverty in all its forms everywhere	Goal 10	Reduce inequality within and among countries
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 3	Ensure healthy lives and promote well-being for all at all ages	Goal 12	Ensure sustainable consumption and production patterns
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Goal 13	Take urgent action to combat climate change and its impacts
Goal 5	Achieve gender equality and empower all women and girls	Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 6	Ensure availability and sustainable management of water and sanitation for all	Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Goal 17	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation		

# Goals are to be achieving targets, which are then measured by indicators.

- Examples:

- **1.1** By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day
  - Proportion of population below the international poverty line
- **5.4** Recognize and value unpaid care and domestic work.
  - Proportion of time spent on unpaid domestic and care work, by sex, age and location
- **10.A** Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with WTO
  - Proportion of tariff lines applied to imports from least developed countries and developing countries with zero-tariff
- **14.6** By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, ...
  - Progress by countries in the degree of implementation of international instruments aiming to combat illegal, unreported and unregulated fishing
- **17.10** Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including DDA
  - Worldwide weighted tariff-average

# Some facts: Trade policy in the SDGs

In general there is **not much trade policy** in the SDGs besides Tariffs and general commitments to fair practices.

Not much **trade** either, but trade is explicitly a target for SDG 17

- Doubling LDCs exports

Still trade / trade policies related issues are mentioned in other goals, for example:

- **Goal 8** (decent work and economic growth) ...Aid for Trade support for developing countries, especially for the least developed countries
- **Goal 9** (industry, innovation and infrastructure) notes the need for ...regional and trans-border infrastructure and increasing the integration of small-scale industrial and other enterprises into international value chains.
- **Goal 10** (reducing inequality) emphasizes the importance of special and differential treatment for developing countries, in accordance with WTO agreements.

and because economic growth and efficiency gains trade is relevant for all SDGs.

# NTMs, trade and SDGs

Two linkages:

- **NTM -> TRADE -> SDGs**
  - Trade is very much about **economic gains and economic efficiency**
  - And trade policy is about resource allocations, redistribution, taxation.
  - As NTMs affect trade these affect also SDGs
- **NTM -> SDGs**
  - However, some NTMs are also directly related to many SDGs, because they are fundamentally domestic policies
  - (e.g. standards, subsidies)
- Also consider: SDGs are not only about economic efficiency (growth) but also about social development
  - **Basic needs** (water, food, energy)
  - **Quality of life** (labor, health)
  - **Fairness** (Inequality, gender parity)
- Trade policy effect to these other issue is not always positive, or negative, or neutral. It depends on a lot of factors. There is an increase emphasis to confront any possible negative implications of trade

# A controversial point: Trade policy to achieve non-economic goals.

- **Trade policy should be used directly to pursue the achievement of SDGs?**
  - Use of trade policy instruments to achieve not only commercial goals but possibly also issues related to some sustainable development objectives (environmental standards, labor standards - inequality).
  - Positive aspects
    - Some forms of trade policy can (directly, but mostly indirectly) positively contribute to SDGs
  - Negative aspects: Trade policy targeted to SDGs can result in negative spillovers:
    - Less economic efficiency -> lower growth ->less resources to achieve SDGs
    - Protectionism in disguise, not targeted to SDGs, but driven by lobbies.

Example, should trade policy directly target inequality?, or poverty? Would this be the best approach or efficient at all?



# Should trade policy (NTMs) contribute to “sustainable and fairer growth”? And how?

Not clear, but there is a lot of discussion on the interaction between trade and SDGs

- Debate on trade and inequality
  - Debate on trade and environmental pollution
  - Debate on trade and labor standards
  - Debate on trade and exploitations of natural resources
  - Debate on trade and the Blue economy
  - Debate on trade and policy space for development...
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- And also across countries (enforcing SDGs)?



# Multilateral trade rules and domestic goals

Trade vs Economic Development economists.

## Debate on POLICY SPACE

SDGs are mainly a domestic issue. So international constraints on the use of specific trade policy instruments (tariffs and NTMs) can be detrimental for the SDGs.

Reasoning:

- Trade agreements limits the use of policy instruments.
- Discrimination against foreign products (or support to local industry) can be appropriate/needed to achieve SDGs.
- Such discrimination may be called for to safeguard domestic natural resources or public health (e.g. to protect environment or health, labor, support green industries etc).
- Precluding government use of some policy instruments may negatively affects the SDGs.

**Outcome:** Trade policy (and trade agreements) needs to be rethought not only in terms of economic gains but also in terms of sustainable development.

# Links between SDGs and NTMs

## Sustainable Development Goals

## NTMs

Goal 1	End poverty in all its forms everywhere	Indirect
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	Subsidies
Goal 3	Ensure healthy lives and promote well-being for all at all ages	SPS
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Very Indirect (services, ITC)
Goal 5	Achieve gender equality and empower all women and girls	Indirect (labor standards)
Goal 6	Ensure availability and sustainable management of water and sanitation for all	Very indirect (SPS/TBT)
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	Very indirect (TBT)
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Indirect, Standards
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Investment measures
Goal 10	Reduce inequality within and among countries	Indirect
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	Very Indirect
Goal 12	Ensure sustainable consumption and production patterns	Very indirect
Goal 13	Take urgent action to combat climate change and its impacts	Indirect (Standards)
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development	TBT, Subsidies
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Indirect (environmental rules)
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Very Indirect
Goal 17	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	<b>DIRECT IMPLICATIONS for Trade and trade policies</b>

# SDG 1: Poverty

- SDG 1: Trade works for poverty reduction because opening up to trade increases a country's **economic growth**. Trade integration generates higher living standards through greater **productivity**, increased competition and more choice for consumers and **better prices** in the marketplace.
- Empirical evidence: trade creates **opportunities**, but it **does not guarantee** to poverty reduction.
- For poverty reduction, trade policy should be part of a larger **development strategy**
  
- Poverty is about economic growth and how this is distributed.
  - NTM that affect these two aspects are most relevant

Types of NTMs affecting this goal: **measures affecting domestic prices, factor returns, productivity, etc.**

# SDG 2: Zero Hunger

- **Agricultural policies**, productivity, availability of inputs.
  - Debate:
    - **Free market view**: International markets can guarantee food supplies. Eliminating distortions in agriculture markets will lead to fairer more competitive markets helping both farmers and consumers while contributing to food security.
      - Calls for more limits to the use of trade policy in agriculture (e.g. tariffs, subsidies)
    - **Domestic view**: food security requires agriculture support, development of agricultural sectors.
      - Increase of productivity of agriculture (investments, ag chemicals (TRIPS))
      - Require policy space allowing for support to agriculture and farmers (Tariffs, Subsidies).
- Types of NTMs affecting this goal: **Subsidies, investment. Measures affecting international markets (export measures).**

# SDG 3: Good Health and Well-being

- One of the main objectives under SDG 3 is to ensure access to **affordable medicines** for all.
  - **TRIPS Agreement:** makes difficult for countries to produce generic drugs for domestic use.
  - **TRIPS Amendment:** makes it easier to access affordable generic copies for countries relying on imports of medicine.
  - Many countries cannot produce even generic pharmaceuticals. Trade policy should facilitate (reduce trade costs) related to the trade of pharmaceutical products. But then import competition will hinder domestic pharma industry.
- Types of NTMs affecting this goal: **Intellectual Property, low barriers in pharmaceuticals.**

# SDG 4: Inclusive Education

- **Indirect link**: trade in services can provide quality education to people living in remote areas.
  - ITC goods and infrastructure development
    - **Government procurement** (public health)
    - Investment policies on **ITC**.

Types of NTMs affecting this goal: **Government Procurement**

# SDG 5: Gender Equality

Empirical evidence: Export sectors have been an important job provider for women in many developing countries. Job opportunities for women have increased significantly (e.g. apparel sectors).

But with some caveats

- True increase in female employment
- Not in all countries or sectors (commodities vs manufacturing).
- But many jobs are temporary jobs, informality increases.
- Exploitations and **Labor standards**

Does trade policy affect **only outcome or also opportunities?** (gender empowerment)

Types of NTMs affecting this goal: **Measures affecting relative prices across sectors. (Labor laws, standards).**

# SDG 6 and 7: Safe Water and Reliable Energy

- **Indirect** links to trade policy.
  - In general terms, **trade policy should be supportive** in providing access to goods and promote technology relevant for achieving these goals.
  - For example:
    - Limit trade restrictive policies on goods and services related to these goals
    - Allow for subsidies on green energy
    - Allow for trade restrictions on non-green energy (carbon tax).
- Types of NTMs affecting this goal: **measures affecting availability and prices of related goods** (subsidies, price mechanisms).



# SDG 8: Decent Work and Economic Growth

- Decent work: **labor standards** (but debate on whether should be trade related).
  - **Exploitations of workers**: Voluntary standards, corporate responsibility.
- Economic growth: Trade produces **efficiency gains**, and therefore enhances a country's income-generating capacity, which is one of the essential prerequisites for achieving sustainable development.
  - **Productive capacity**: Aid for Trade. SDG 8 contains a specific target for countries to increase support under this initiative.

Types of NTMs affecting this goal: **NTMs affecting trade costs (economic growth) labor standards, voluntary standards.**

# SDG 9: Industry, Innovation and Infrastructure

Trade linkages: **Learning by doing, technology transfers**. ITC development.

Measures related to **global value chains**.

- Standards (harmonization).
- Investment measures (Local content, joint ventures)
- IP regimes (technology transfers, lending)

Types of NTMs affecting this goal: **Intellectual properties, investments, local content**.

# SDG 10: Reduce Inequalities

- Inequality **between countries**
  - Special and differential treatment.
  - Flexibilities in the use of trade policy including many NTMs
- Inequality **within a country**
  - Largely a domestic issue.
  - Trade policy has redistributive effects and therefore does affect inequality.
    - Winners and losers
    - Ex ante assessments of trade policy
    - Employment links

Types of NTMs affecting this goal: **measures distorting trade (standards), implementation of NTMs under Special and diff treatment, measures affecting relative prices in the domestic economy.**

# Goals 11 Cities, 12 Sustainable consumption, 16 Institutions

## Very indirect links to NTMs

- Goal **11** – about Urbanization
  - No clear links to trade and trade policies (**but movement of people**)
- Goal **12** - Ensure sustainable consumption and production patterns
  - Trade of pollutants and exports of **toxic waste**
- Goal **16** - Promote peaceful and inclusive societies... provide access to justice... build effective, accountable and inclusive institutions
  - Trade/peace link, **institutions development** (RTA).

# Goal 13 - Take urgent action to combat climate change

- Links to trade policy:
  - Import tariffs and NTMs on **environmental goods**, barriers to trade in services.
  - **Support to green industries**: domestic policies (**subsidies** but also technical regulations) designed to support local low-carbon industry but which may be restrictive of international trade.
  - **Technology transfers** to support green production processes
  - NTMs to prevent pollution heavens
    - Use of trade policy to penalize polluters, by taxing/limiting imports.

Types of NTMs affecting this goal: **measures affecting availability and prices of environmental goods, IPR, Subsidies.**

# SDG 14: Life Below Water

- Measures that tackle environmental degradation of the oceans.
  - Avoid Overexploitations/illegal
    - Fishery **subsidies, quotas**
    - Possible specific trade restriction hitting countries which pursue illegal/over fishing.
- Types of NTMs affecting this goal: **measures affecting prices (Subsidies) and export supply (import quotas) of marine products.**

# SDG 15 – Life on Land

- Protect, restore and promote **sustainable use of terrestrial ecosystems**, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
  - Not directly related to NTMs
    - Prohibitions on the trade of animal species
  - **Voluntary sustainability standards** are important for this goal

# SDG 17: Partnerships for the Goals

SDG 17 Calls for **multilateral solution** to multilateral problems.

- Calls for international integration under multilateral rules.
  - to promote a universal, **rules-based, open, non-discriminatory and equitable multilateral trading system**;
  - the increase of developing countries' exports and doubling the share of exports of least-developed countries (LDCs);
  - and the implementation of **duty-free and quota-free market access** for LDCs with transparent and simple **rules of origin** for exported goods.
- Trade as a means of implementation for the 2030 Agenda.
- **Trade is** the economic aspect/outcome of the **multilateral cooperation**

So trade can be used to **forge, align or force** multilateral cooperation.



# An additional argument: NTMs as an enforcing mechanisms to pursue Sustainable development

## Very controversial issue

- “Punitive” trade barriers to deter imports from countries that do not address/pursue “global” SDGs.
- As now, soft law, but this argument is served by **voluntary sustainability standards**
- Argument for hard law (NTMs and bindings), to avoid free riding / rogue countries.

### In general

- NTMs may be more appropriate when liberal international markets produce cross-border negative externalities
  - Overfishing, pollution, green-house-gases, labor?
- NTMs not appropriate to enforce SDGs in areas of domestic competence
  - Poverty, inequality, gender, health.

# NTMs to address social negative externalities of trade

- **Social dumping** (Rodrik)

Consider another thought experiment: Suppose Harry and John own two companies that compete with each other. How do you feel about each of the following four cases?

1. Harry works really hard, saves and invests a lot, comes up with new techniques, and outcompetes John, resulting in John and his employees losing their jobs.
  2. Harry gets a competitive edge over John by finding a cheaper supplier in Germany.
  3. Harry drives John out of business by outsourcing to a supplier in Bangladesh, which employs workers in 12-hour shifts and under extremely hazardous conditions.
  4. Harry “imports” Bangladeshi workers under temporary contracts and puts them to work under conditions that violate domestic labor, environmental, and safety laws
- From a trade economist point of view these are the same: **Creates winners and losers**, there are productivity gains, and size of the world economic pie increases.
  - But gains are not distributed equally. Also public perceptions is different, 1 and 2 are acceptable, 3 and especially 4 not so. Still **in many cases 3 and 4 happens**.

**Question:** does scenario 3 and 4 grants the imposition of NTMs? (standard, prohibitions, tariffs) or creation of international standards? **Not yet.**

# Now instead of labor make it about a product

Say that Harry and John are in the **US cheesecake business**.

1. Harry works really hard, saves and invests a lot, comes up with a better cheesecake, and outcompetes John, resulting in John and his employees losing their jobs.
2. Harry obtains a better product by buying higher quality milk from Canada. John cannot compete.
3. Harry drives John out of business by outsourcing the production of cheesecake in a country where production of cheesecake is highly subsidized. And then imports them in the US markets and sell them at a lower price than John.
4. Harry “imports” tainted milk and produces cheesecake at a much lower price, driving John out of business.

**In most cases existing NTMs will preclude 3 and 4.**

# Trade policy: should care about losers or norms?

- The **issue a stake is not** that a change in trade policy creates **winners and losers**, and NTMs should therefore aim to minimize inequal outcomes.
  - A lot of economic policies have redistributive effects.
  - Surely there should be mechanisms to soften redistributive effects, but there is no reasons why these should be directly targeted to trade policy. Technology creates winners and losers, fiscal policy the same, etc.
- One better argument to regulate international trade with SDGs related NTMs could be that that **trade often violates norms embodied in our institutional arrangements**.
  - The suggestion here is that trade may undercut the social bargains struck **within a nation** and embedded in its laws and regulations. Many of these social bargains are related to the SDGs.
- As now we have some voluntary standards, but are enough to achieve SDGs?