

ICC Sweden Trade and Investment Policy Priorities 2022

The continued negative impact of the COVID-19 pandemic, increasing rivalry between the US and China with the risk of a technology decoupling, an EU prioritizing strategic autonomy and defensive trade measures, and now the war in Ukraine have been major shocks to the international trade system. It has exacerbated current protectionist tendencies and underscored a paradigm shift from the increasing openness, cooperation, and globalization of the past three decades to a zero-sum game of geopolitical rivalry and beggar-thy-neighbour policies.

At this moment, the ICC not only remains one of few well-functioning multilateral organizations but also has a unique responsibility to work for the preservation and strengthening of multilateralism in general and to serve as a reminder of what is at stake for the global community without open and free trade. Thus, this is the moment for ICC to really prioritize. All efforts should be concentrated on the core purpose of ICC – to strive for good opportunities for companies worldwide to do business across borders and to strengthen an already strong voice for free trade, while being very clear about why this is so important in the current worrying and difficult situation initially described.

To support the ongoing work of ICC globally, we would therefore like to take this opportunity to share our input and priorities in relation to the current state of international trade. In doing so, we also emphasize the importance of ICC looking at and discussing these intertwining issues holistically.

This paper has been prepared in close coordination with our Trade and Investment Committee, comprising senior Swedish business representatives.

Countering Protectionist Trends and the Risk of Decoupling

The trend toward increasing protectionism predates the COVID-19 pandemic and the war in Ukraine but has become more pronounced by these systemic shocks. While most companies are addressing supply chain disruptions by looking to diversify rather than onshore supply and production, politicians and decision-makers are increasingly turning to active industrial policy and protectionist measures, making so called autonomy, near-shoring or even friend-shoring the guiding lights. While the continuation of this trend, resulting in less globalization and a more fragmented trade system, will be costly to all advanced economies, its consequences for developing countries will be immense, threatening to close the door to world markets and their prospect of economic integration and development. Furthermore, in times of unprecedented global challenges in the form of climate change, economic regionalization, as opposed to globalization, would have an adverse effect on global cooperation in general and the possibility to address issues that require common solutions.

A related issue is the increased rivalry between the U.S. and China, which in recent years has made the risk of a technology decoupling between the West and China a real threat to global business. It will come with huge costs to businesses, further fragment the global trade system and have a very serious effect on innovation, R&D, and technological development, while in turn making it increasingly difficult for multilateral cooperation in general. Considering these long-term challenges to the global trade system, the ICC should:

- Continue to work for a reformed and strengthened WTO at the helm of the global trade system that can deliver on both its core purposes of trade liberalization, effective dispute resolution and increased market access, while also updating its rules to ensure that trade can fully contribute to e.g. digitalisation and solving common global challenges such as climate change.
- As a parallel track, draw on the local presence of ICC in different jurisdictions to take a more active role in FTA negotiations, recognising among other things their importance in liberalizing trade and diversifying export and import opportunities as companies develop their resilience strategies. That way the ICC can also promote harmonization between different bilateral and regional agreements, which in turn would help facilitate future multilateral negotiations.
- Analyse and highlight the cost of protectionist measures, both in monetary terms and in terms of innovation and development in general, with a special focus on the consequences for developing countries. This could also entail looking closer at the costs and effects that a technology decoupling would have on the global real economy and innovation.
- Play an active role in regional regulatory developments that will have extraterritorial effects and can set the regulatory standard for other jurisdictions, e.g. EU Carbon Border Adjustment Mechanism, to ensure alignment with WTO rules and avoid unintended consequences for the global trade system.
- Promote open, global standards that meet WTO TBT requirements in order to avoid technology fragmentation as well as fragmentation of rules and standards in other sectors.
- Monitor the ongoing discussions in the EU-US Trade and Technology Council and provide business input. The council has the potential to improve regulatory harmonization between the two markets, but there is also a risk that it could serve to prepare the EU and US for a potential decoupling from China.
- At the same time, emphasize the importance of maintaining and intensifying regulatory cooperation between the West and China, both in order to avoid trader barriers and to ensure continued dialogue and cooperation in general. Speaking for the global business community, ICC has a unique opportunity to be a constructive voice in this regard, highlighting distortive and harmful trade and regulatory practices on both sides as well as recognizing constructive contributions, such as e.g. China's contribution to the successful outcome of MC12.
- Be a strong voice against so called strategic autonomy, near-shoring or friend-shoring, emphasizing that such policies will hurt both the global trade system and the countries which seek to apply them. By trading only with like-minded nations, countries will also lose the positive effects of trade in terms of soft diplomacy and cross-border relations and economic integration that help promote peace, stability, sustainable growth and global cooperation. Rather than restrict trade to like-minded

countries, decision-makers should strive to ensure open global markets, a rule-based international trading system, and a level playing field free from distortive subsidies.

War in Ukraine and Sanctions Regimes Against Russia and Belarus

We welcome the interventions made by the ICC Secretariat so far in relation to the war in Ukraine, both in condemning the Russian invasion, facilitating humanitarian aid from the public sector, supporting the Ukrainian business community, and addressing the practical issues that global business is faced with in light of the war and the sanctions imposed on Russia and Belarus.

During the spring meeting of the ICC Global Trade and Investment Commission, the question was posed whether the ICC should take a clear position concerning the new sanction regimes. While economic sanctions as a geopolitical instrument are at odds with the purpose of the ICC to promote and facilitate international trade, we believe that it would be inappropriate for the ICC to take a position on the sanctions as such. Instead, the ICC could and should continue to address the practical implications and economic fallouts for businesses by for example:

- Continuing to highlight and bring to the attention of decision-makers the secondary effects of sanctions and the need to address the issues they cause. This includes, as ICC has been vocal about over the past months, unintended consequences for sectors in developing countries with big exposure to the Russian and Belarusian markets, but also unintended consequences for companies in the EU who find themselves facing increasing costs and reduced competitiveness globally, but where the negative effects for Russia and Belarus are very limited. One example is European air freight carriers which, due to sanctions and counter-sanctions, are banned from using Russian airspace when carrying cargo from Europe to Asia, forcing them to take a longer and costlier route, while Asian competitors benefit from still being able to fly the shorter route.
- Highlighting the need for e.g., the EU to provide further guidelines on the applicability of sanctions, including positive listings of transactions that would not fall under sanctions regimes. Currently, the lack of certainty leads to over-implementation by businesses and *bona fide* trade being hindered or stopped. Individual businesses can send questions to the EU regarding sanctions, which has proven to be an important instrument for businesses in navigating the current situation, but the rate of reply from the EU is slow. If questions were to come collectively from the ICC instead of from individual companies, this could increase the response frequency. The ICC helpdesk, which is already in place for trade finance-related issues, could be extended to collect issues related to sanctions in general.
- Initiating or financing research about the adaptation, implementation, and effect of sanctions in general. This could examine the use of sanctions by analysing their usefulness, i.e., do they achieve the intended result and what are the unintended consequences, how sanctions could best be designed to avoid collateral economic consequences, how sanctions hold up in court when disputed, the need for future sanctions regimes to come with clear and transparent conditions for their removal etc., with the aim of minimizing spill-over effects and increasing certainty for businesses worldwide.

- Supporting projects that map and collect information on existing sanctions regimes in the vein of the Global Trade Alert in order to help companies navigate the increasingly complex patchwork of international sanctions.



Henrik Blomqvist

Acting Secretary General