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Lamy looks at the multilateral trading system of the future*

Director-General Pascal Lamy, in his speech to CUTS in Delhi on 6 September 2011, said the multilateral trading system of the future will have to address a number of global challenges, including “the blurring of the edges between trade policy and others such as exchange rate policies, climate change policies, food security policies or energy policies”. But he said the more pressing challenge is to advance the Doha Round: “to find the political courage and the pragmatic steps which will lead our Members to have an honest negotiation”.

Excerpts from his speech:

I would not be exaggerating in saying that the world is going through a stormy period. The world economy, which was showing signs of recovery at the beginning of this year, is again being confronted by serious challenges. These range from rising sovereign debt problems to a loss of confidence in financial markets and the lack of a coordinated reaction of governments to address the structural problems that underpin weak growth, high unemployment and unsustainable fiscal deficits in many developed countries.

We have now moved from a financial crisis to a growth crisis. Many economies are not growing at a pace sufficient to achieve the fiscal consolidation needed after the extraordinary measures taken during the financial crisis and to reduce the socially destructive high unemployment.

The growth of international trade in 2010 led the recovery, particularly in emerging economies that were largely innocent casualties of the crisis. World trade volume grew by a record 14.5% in 2010 and it is projected to grow by 6.5% this year. Exports and imports of developing countries rose above their pre-crisis highs by July 2010, although developed countries reached that level only in the first quarter of 2011. The faster export growth of developing economies was supported by a particularly strong growth in south/south trade during the first half of 2010. But with demand weakening, later this month we are likely to be revising downwards the prospects for

world trade in 2011.

The financial and economic crisis of 2008 created a fertile ground for protectionism. Some predicted that this would lead to trade protectionism on a scale of the 1930s Great Depression. Fortunately, they were proved wrong.

At the end of 2008, the WTO set up a monitoring system of trade measures taken during the crisis. To the surprise of many, the picture was not too bad. There was some evidence of new tariffs and non-tariff barriers and of new trade remedy measures, particularly anti-dumping duties. But overall, most governments seemed to have successfully kept protectionist pressures under control.

Subsequent trade monitoring reports during 2009 confirmed this picture. The situation was kept under control and it remained that way throughout 2010. But, over the past six months, we have spotted some worrying developments.

To turn to protectionist trade measures in the current circumstances would be a huge mistake — one that could send the global economy back into deep recession. This is a time when governments need to act with determination, political courage and in a coordinated manner.

It is understandable that at a time of suffering we all run for shelter. We want protection. But the irony is that trade protectionism does not protect. One country's exports are another country's imports, and vice versa. One country's protectionism will lead to another country's protectionism. And everyone will lose. As Gandhi said “an eye for an eye and we will all be blind”.

The multilateral trading system of the future is likely to continue to feel the pressure of protectionist pressures. Trade protectionism would be a recipe for disaster. But continued support for more open trade will require other forms of protection, in the form of better social safety nets, investment in technology, in education and in infrastructure. These are issues outside the purview of the WTO, but they have to be part of the domestic policy mix to make trade opening viable at home.

The multilateral trading system of the future will also have to take better account of the growing importance of global value chains. The geographical fragmentation of the value chain is leading to a structural change in international trade, moving from the old theory of “trade in goods” to a new “trade in tasks” paradigm. What we have dubbed “Made in the World”. Old concepts such as “country of origin” or “resident versus

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non-resident" are losing part of their analytical relevance in international economics.

Defining and conducting trade policy in this context calls for a new measurement of trade flows based on value added, which will indicate the domestic content of exports, after subtracting direct and indirect imported inputs. The WTO is actively cooperating with other partners in order to build the required data sets and to define the most appropriate methodologies. The impact of this methodology is particularly significant when measuring bilateral trade balances, and calls for a revaluation of the effectiveness of traditional policy instruments such as exchange rates.

This is not just an academic exercise. Having the right tools to measure trade flows is essential in order to have a proper domestic debate about trade. Reading press headlines and listening to many public pronouncements on trade these days brings to mind Mark Twain's words: "never let the facts get in the way of a good story"!

Global value chains also require taking a closer look behind border rules and regulations. As tariffs are gradually reduced either unilaterally or by virtue of the numerous preferential trade agreements being concluded, divergences in domestic regulatory frameworks require greater attention.

This leads me to my third point. The multilateral trading system of the future will also have to face the challenge posed by the proliferation of complex preferential trade agreements. The 2011 WTO World Trade Report which we have just published shows that, while there is slow convergence on tariffs, the risk of divergences in regulatory frameworks in preferential trade agreements is growing. If preferential trade agreements are less about tariffs, this changes the nature of the relationship between the multilateral trading system and preferential trade agreements. The challenge is one of market segmentation. We will need to fashion a new framework more applicable to these preferential trade agreements.

Different ideas have been floated: fix deficiencies in the WTO legal framework; develop a set of non-binding good preferential trade agreement practices that members could follow; extend existing preferential arrangements in a non-discriminatory manner to additional parties; or accelerate multilateral trade opening through a more ambitious regulatory agenda. Food for thought for a much-needed discussion among WTO members.

The multilateral trading system of the future will also have to address a number of global challenges which are either not or are insufficiently addressed under the existing WTO rules. The blurring of the edges between trade policy and others such as exchange rate policies, climate change policies, food security

policies or energy policies will require the attention of WTO members. The same can be said of the expansion of the WTO Government Procurement Agreement. Or the unfinished task of integrating the world's poorest countries fully into the global economy in a far more convincing way than is the case at present. We need to better understand the issues at stake before discussing how to address them in the WTO.

And while we focus upon these future challenges, we have a yet more pressing challenge ahead of us: to advance the negotiations on the issues we agreed to act upon when we launched the Doha negotiations in 2001. As we all know, the negotiations are currently at an impasse.

Since 2001 the world has seen major transformations, whether in terms of WTO players, in terms of issues in the agenda or in geopolitical terms. And yet I do not think that the goals we set in Doha have become irrelevant. Curbing fishery subsidies which contribute to overfishing, disciplining trade-distorting agriculture subsidies, eliminating export subsidies, reducing industrial tariffs, cutting red tape at customs, expanding opportunities for vibrant services sectors or better integrating least developed countries in the trading system can hardly be seen as irrelevant to today's world. Nor do I think that these issues would disappear if we were to stop the talks and reboot.

The answer in my view is to be found elsewhere. Where? Many arguments have been raised. I would like to flag three which, in my view, need urgent attention. One, political leadership. Trade agreements need political leadership both at home and in Geneva. Trade agreements are struck by governments, not by wise men, think tanks or Director-Generals. Leaders must act to convince and spend political capital to make them happen. The time for technical work is long past. It is the hour of politics. Two, pragmatism and spirit of compromise. There has to be give and take. There has to be flexibility, and perhaps the way we have been pursuing the Doha deal has been too rigid and with limitations that do not help the politics. Smaller steps that show demonstrable progress might inspire the confidence and trust to weave all topics into a final package. And, three, there has to be a spirit of realism. Asking for the moon and using empty rhetoric is normal in any negotiation but we are now past that point. We must now seek realistic and creative solutions. To stand behind redlines waiting for others to move only breeds mistrust and stalls the negotiations, postponing benefits to the world economy.

In December, at the 8th Ministerial Conference, Ministers will have to talk turkey. The debate is not about whether we bury the round or whether we fix yet another artificial deadline to conclude it. If we are clear that the issues in the Doha Agenda need to be fixed, the challenge before us is to find the political courage and the pragmatic steps which will lead our members to have an honest negotiation.