

Geneva Lectures on Global Economic Governance

[Trade expansion is insurance against financial turbulences]

By Pascal Lamy (February 6, 2008)

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I am pleased to participate in these Lectures on Global Governance and to continue our co-operation with University College Oxford and the Graduate Institute of International and Development Studies.

The multilateral trading system is now 60 years old, which happens to be my age. So I speak from experience when I say this is an age at which it often makes sense to peer into the future by examining the lessons from the past.

Which is what we did in our 2007 World Trade Report when we took an in-depth look at the General Agreement on Tariffs and Trade (GATT) and its successor the WTO — the origins, the achievements, the challenges they faced, and what the future holds.

The story is one of remarkable change and adaptation of a system that has contributed much to post-war stability. But it is also the story of a system which has not yet delivered all it could and which still faces formidable challenges. The global trading system has been a source of prosperity, stability and predictability for six decades. It has underpinned an unprecedented period of economic growth and development, in which we have seen an amazing reduction in poverty.

Despite, some would say because of, an initial weaker institutional setting than the Bretton-Woods institutions, the GATT system was remarkably successful. Over time, the GATT conducted successive rounds of negotiations, embraced new members and gained additional responsibilities. It achieved an impressive record in trade opening, providing an expansion of trade and a security beyond even the most optimistic predictions.

Yes, trade expanded rapidly in the post War era and living standards rose in many countries as a result. But in spite of its successes, the global trading system suffered from notable shortcomings as well. Important areas of commerce, including agriculture and services, lay outside GATT rules. This exclusion rendered the trading system both less equitable and less relevant than it should have been; less equitable because agriculture is a

sector in which many developing countries are highly competitive and less relevant because services in those days accounted for about half Members' economic output.

These omissions, coupled with the rise in protectionism after the oil shocks of the 1970's and the de-industrialization in developed countries in the 1980's, required that the GATT re-invented itself. In 1986, Member countries responded to this challenge by launching the Uruguay Round.

Agreement on the round in 1994 led to the creation of the World Trade Organization the following year, a development which enabled governments — and the multilateral trading system they created — to better meet the challenges of the new millennium. Not only was the WTO given responsibility for new areas of trade like agriculture, services, textiles and trade-related intellectual property, but the creation of a binding new dispute settlement system assured members that their rights would be better protected.

With the launch of the Doha Round in 2001, the trading system has again tried to adapt to new geopolitical realities. Striking an ambitious development-oriented agreement would further strengthen a system which has done already much to make the world a better place.

As I see it, the lessons of 60 years, the challenges facing WTO and the system and shape of things to come can be explained best by focusing on five key elements that have been and continue to be crucial to international commerce — trade and growth, development issues, regionalism, globalization and what we can learn for global governance.

Trade and growth

Since 1950 world trade has grown more than 20 fold and has expanded three times faster than world output growth. International trade has been a great stabilizer for many countries, contributing to economic expansion even at times of slackening domestic demand.

Welfare and efficiency gains derived from international trade are considerable but are not easily perceived by the public. Import competition translates into improved consumer welfare by increasing choice and quality which leads to lower prices for goods and services. Local producers find cheaper and better quality inputs, which in turn allows them to produce more competitively for local or export markets. Today we know that the highest share of the gains from trade accrue to countries which open up their markets to foreign goods and services. In part this is true because better imports translate into better exports. Typically, gains are spread across the vast majority of silent consumers and input users.

All the economic evidence suggests that the vast majority of people benefit from trade. But there is no denying that there are losers too and often those who lose out are generally better-organized and more vocal about the costs of trade opening. In many of our societies

trade is the scapegoat for job destruction and declining living standards. On this point too there is general agreement among economists that it is not trade but productivity enhancements arising from technology improvements which are primarily responsible for a loss of manufacturing jobs. It is true that international trade contributes to a faster transfer of technology. The opening of services markets to foreign providers has facilitated the movement of ideas and persons enabling students to gain an education abroad, while making travel safer and more affordable. Medical diagnoses can now be made on-line by competent doctors in developing countries. For consumers this new range of options has been of tremendous benefit. The downside is that it has raised concerns among blue and white-collar workers in developed countries who worry that technology has exposed entire new sectors of the economy to world competition.

It is also clear that the economic growth resulting from the expansion of world trade has not been equitably distributed inside our societies, which have seen a rise in inequality and disruptions in their economic and social fabrics.

These issues, which are about fairness, draw our attention to what may be the most important lessons of these 60 years, which is that whether we speak of developed or developing countries, there must be a continuum in the articulation of trade and domestic policies. If we are to succeed in building on the achievements of the global trading system through more trade opening, it is essential that countries adopt necessary domestic reforms and sequence them properly. This means adequate social safety nets and widespread availability of education and training.

Trade also works best when domestic markets can support outward-oriented policies through reduced transaction costs. This implies a well developed and competitive infrastructure for transport, logistics, finance and distribution.

Faced with this “anxiety to change”, developed countries have much larger resources to anticipate and sequence the effects of trade policy changes: they can invest more and more quickly in public infrastructures, social safety nets, and worker re-training programs than poorer countries - a point we in the WTO and many of our partner agencies are trying to address with the Aid for Trade initiative.

Trade and development

If their growth and development programmes are to succeed, developing countries need capital. They can either attract it as foreign investment, borrow it or import it through international trade. The safest, cheapest and most sustainable way is to import it. Open

policies have considerably changed the face of emerging economies. China, India, Mexico, Korea, Thailand, Indonesia, Argentina, South Africa and Chile, not to mention countries in Central and Eastern Europe, have done extremely well in a range of manufacturing sectors. Trade is one important factor for their rapid industrialization.

All of these countries have used the WTO as an anchor for their integration in the international division of labour. New members, though accorded some flexibilities in the system, have been very straightforward about using WTO rules as a basis for the internal reforms they need to integrate into the global economy. There is no better example of this than Ukraine, which yesterday was formally invited to join the WTO. Comparatively, new WTO members take considerably larger commitments, but managed to spread their implementation over time, hence keeping “control” on their reform processes. In integrating these countries gradually into the global economy, the WTO has contributed to bringing some 1.5 billion people into the mainstream of world trade.

Technical assistance is critical for successful integration. Singapore often reminds us that not long ago it was a major recipient of international aid, as were many other middle-income countries. The evolution of Singapore as a world actor is a success story for technical cooperation. Under the Doha Development Agenda (DDA) we have established a strong technical assistance program — with over \$100 million spent so far - to enhance the capacity of WTO members to participate effectively in the multilateral trading system.

But technical assistance is not enough. Many developing countries also need to tackle supply-side bottlenecks which limit their ability to effectively respond to international demand. Lack of efficient logistics, poor public infrastructure and inefficient customs procedures hinder their competitiveness. Insufficient capacity to match public or private sanitary or phyto-sanitary standards or safety requirements can often limit export potential. Absent social safety nets, the costs of adjustment are further amplified.

For all of these reasons, we and our partners are developing the Aid-for-Trade Initiative. With many other development institutions we are trying to mobilise resources aimed at addressing these needs. This is also the aim of the Integrated Framework, focusing Aid for Trade on the least-developed countries.

But with the Doha Round, we are also going even further than that. The Doha Round is a “Development Round”, and the main goal of this ambitious negotiation is to rebalance the rules of the world trading system that have retained some bias in favour of developed countries. Previous Rounds did much to integrate developing countries into an improved multilateral trading system. But we now have the chance to address a number of remaining trade barriers which continue to disadvantage developing countries in areas such as tariff peaks on textiles, footwear and many agriculture products. Sharply rising tariffs on processed products (known as tariff escalation), trade distorting agriculture subsidies and

export subsidies, to name a few, further contribute to the impression in many developing countries that the rules of the game do not tilt in their direction.

This is why developing countries have such high expectations for this round. It is also why a successful conclusion to the DDA can only take place if they believe that it will bring them the authentic trade benefits to which they are entitled. And the benefits they seek, in agriculture particularly, cannot be obtained in bilateral or regional trade agreements.

Trade and regionalism

Which brings me to the issue of regional trade. Regional trade agreements — RTAs — are the flavour of the month, whether in Asia, in Africa in America or in Europe. Sure, the initiation of negotiations of a RTA delivers relatively easy political gains — a nice TV picture of two leaders shaking hands — but their economic benefits are not always obvious, given their more limited scope, generally focusing on manufacturing trade, where preferential margins tend to be small.

But there is an even greater systemic challenge involved in the proliferation of RTAs. They create preferences, whose proliferation makes it more difficult to liberalize trade multilaterally. Multilateralism is based on the opportunity for all members to trade off defensive against offensive interests. The lack of comprehensiveness of RTAs, which reflect the political difficulties in addressing market access issues, in agriculture, manufacturing or services, leave the WTO with an unbalanced agenda and reduced scope for trade-offs.

We need to ask as well whether regional integration efforts distract attention from multilateralism — not least because of the resources required to negotiate and implement such agreements.

The proliferation of RTAs, therefore, make it all the more necessary to strengthen WTO rules governing regionalism. It also calls for a rigorous monitoring of RTAs to ensure they “complement” and “foster” the multilateral system, rather than undermine basic WTO principles by erecting additional barriers to trade.

Trade and globalization

As globalization spreads into nearly all elements of our lives, people are asking how this phenomenon can be harnessed to bring the greatest benefit to the widest number of people. The question is not so much whether we want globalization or not — globalization of trade in goods has been a feature of modern economics since the industrial revolution, even if

interrupted between the two world wars — but how we want globalization to be governed, if at all, and under which rules, cooperative policies, and international institutions.

It is worth remembering that the world trading system, as much as the Bretton-Woods system, was built in response to nationalist and often internationally provocative policies stemming from the 1929 financial crisis and which quickly spread to the real economy, fuelled by competitive devaluations and the erection of trade barriers.

The solidity of this system was tested during the Asian financial crisis in the 90's. And it showed its resilience. The WTO's dense network of rules acts as a shock absorber against protectionist and discriminatory policies which, as we have seen, have a rather nasty tendency to multiply and spread.

The continuous expansion of multilateral trade is an insurance policy against market instabilities and financial turbulences. It allows unused resources linked to the fall of domestic markets to be exported. Trade opening can also be useful in increasing the efficiency of affected economies, bringing in fresh capital and opening new export opportunities. While trade expansion has been a visible part of globalization, the crisis of the financial economy demonstrates all too clearly that globalization should be accompanied by a strong set of agreed and enforceable international rules, which work for all countries as protection against cyclical developments. In this way, the WTO offers necessary elements of global governance to harness the sometimes harsh consequences of globalisation.

Trade and global governance

The current multilateral economic system remains heavily influenced by the outcome of the second world war, and the power of the founding nations. However, in the course of the past 60 years, the small club of 23 original GATT signatories has grown into much larger membership of 151 — soon to be 152. Today new powers have arisen more quickly than ever before through accelerated trade, growth and development. They are asking for their seat at the table in the decision-making process. This seismic shift in the geo-political balance of power is not only evident in trade. New challenges such as climate change will also require a rebalancing among stakeholders of globalisation.

The WTO's flexible structure is an asset for modern governance. Contrary to institutions where the voting structure is the measure of a country's power, decisions at the WTO are taken by consensus. We have no board of directors or Security Council. Or, looked at another way, we have a board of directors or a Security Council with 151 members!

In today's WTO, members work in coalitions which vary according to levels of developments and issues. Flexibility in the formation of coalition is engrained in the system, as these evolve according to the institution's agenda. Developing countries have formed influential coalitions such as the G-20, G-33, NAMA-11, African Group, ACP group or the LDC group. The existence of many and varying coalitions to some extent spares the WTO from having to search for the “perfect-G”, the ideal grouping, a pursuit which some inter-governmental organizations have undertaken, for the moment, in vain.

But to be truly inclusive we still need to improve the active participation of the poorest members, and in particular those with no resident status in Geneva. It is for that reason that we have set up a so-called “Geneva Week” where twice a year the WTO brings officials from all non-resident members in Geneva for intensive briefings on the state of play of the negotiations and on other issues of interest to them such as accessions.

This being said, we must acknowledge some of the arguments raised by civil society that the WTO still lacks transparency. Since the beginning of the new Millennium, non-governmental organizations have proliferated. In Seattle, the WTO received a stern warning that it ignores the concerns of civil society at its peril. Since then, the interests of civil society related to labour, business, poverty reduction, the environment or democracy, are represented in Geneva and dialogue with the WTO in various fora. We now also have an annual symposium for civil society. But it is more than just a dialogue. Civil society has been instrumental in bringing to the negotiating table issues such as subsidies to fisheries or cotton farmers and access to essential medicines.

And thanks to a comprehensive policy of access to WTO documents, more than 90% of all our documents, including negotiating documents, are put in our website in 3 languages. It seems now natural that Chair negotiating texts are delivered to the public at the same time as to WTO Members !

The real challenge of today's international governance is to create the conditions where a multiplicity of actors, public and private, work together, notwithstanding their different constituencies, objectives, cultures and expertise. The WTO does not shy away from this necessity and maintains working relations with more than 180 inter-governmental organisations.

The past has taught us the importance of multilateral trade cooperation. And as we look into the future, we can already see a number of areas for future work. Of immediate concern, I can see the question of how to address new forms of obstacles to trade, generally those that lie behind-the-border, which may include private standards, certifications or sanitary measures. There is also the question of how to run a more efficient organisation, one that achieves a better balance between the negotiation of new rules and how they are

monitored, surveyed and litigated. There is also the area of trade and energy which is gaining prominence.

But to meet all these future challenges, our ever growing WTO Membership needs to show leadership and cross the last mile to conclude the Doha Round in 2008. At a time when clouds are darkening over the world economy, the DDA is the one global initiative that may boost confidence of world businesses, workers and consumers. Such an agreement would send a powerful signal that more than 150 countries have the confidence to resist protectionism, to create a more just and balanced trading system and to lay sustainable foundations for growth and development in the 21st Century.