

WTO NEWS: SPEECHES — DG PASCAL LAMY. 1 October 2010

## **Lamy: “The Doha Round marks a transition from the old governance of the old trade order to the new governance of a new trade order”**

In a speech he delivered today (1 October 2010) at the occasion of the 10th anniversary of the World Trade Institute in Bern, Director-General Pascal Lamy outlined the profound changes which have occurred in the last decades in the **patterns of world trade**, as well as the **challenges this dramatic reshaping pose to the governance of multilateral trade**. This is what he said:

### **“The changing patterns of world trade”**

My congratulations to the World Trade Institute on your 10th birthday — and my thanks for this invitation. It is customary on anniversaries like this to say “After all these years, you haven't changed a bit”. I somehow doubt this is true for the Institute, and I know it is not true for the subjects you research and teach.

**The global trade landscape has changed profoundly in the past decade** — more profoundly, I suspect, than we fully understand. These changes are being driven partly by market opening, but mainly by **transport, communications and information technologies**. It now costs less to ship a container from Marseille to Shanghai — half way around the world — than to move it from Marseille to Avignon — 100 kilometres away. A phone call to Los Angeles is as inexpensive as a phone call next door. Multinationals routinely organize their activity around three “shifts” corresponding to the three main times zones — Europe, North America and Asia — and deliver on-line services — data inputting, software writing, help-lines — from practically anywhere in the world.

One result of these changes is the **continuing globalization of trade**. Despite the recent crisis, world exports were 30 per cent higher in 2009 than in 2000 — and 150 per cent higher than in 1990. Not all sectors are expanding at the same pace: manufactured exports are surging; raw material exports are growing steadily; and agriculture exports are largely static. But overall the trend is towards accelerating growth. And with the exception of East Asia, **trade between regions is growing faster than trade within regions**. Never before has **the world economy been as inter-linked by trade as it is today**.

Another result is the rapid shift in economic power East and South, as developing countries harness globalization to “catch-up” to the industrialized West. Developing countries' share of world trade has grown from a third to over half in just fifteen years — and China has just passed Japan as the world's second biggest national economy, and Germany as the world's top exporter. In 1990, less than a third of developing-country trade was with other

developing countries; today over half of their trade is South-South. Not all developing countries are sharing in this growth, and for too many Raul Prebisch's concerns about dependency and an uneven trade playing field remain true. But for export powerhouses like China, India, Brazil and others — growing at historically unprecedented rates — Prebisch is being turned on his head.

A third result is the spread of globally-integrated production chains — in effect, global factories — as companies locate various stages of the production process in the most cost-efficient markets. In this process, expanding trade links with emerging economies are mirrored by expanding FDI links — as trade growth fuels investment and investment growth fuels trade. We still think in terms of Adam Smith's world of trade between nations, but in reality most trade now takes place within globe-spanning multinational companies and their suppliers. It is not competition between China and the US that is relevant, so much as competition between Nokia's and Samsung's value chains. Instead of “Made in China” on the back of an iPhone, the label should read “Made in the World”, reflecting Japanese microchips, US design, Korean flat-screens and Chinese assembly.

These new global realities also force us to re-examine how we analyze and measure the whole concept of “international trade”. With so much trade now involving foreign companies operating within national jurisdictions — and with so many components now criss-crossing the same border multiple times — we need a new approach to trade statistics which measures the value-added at each stage in the production chain, and not just the last place from which a product was shipped.

Here is the paradox: Open trade is more central than ever to the world economy — and a rule-based multilateral trade system has never been more critical to global prosperity and peace. Yet this system is struggling to cope with the fast-globalizing world it has helped to create. Even with the major changes to the WTO in recent years — its new Members, expanded scope, and more effective dispute settlement — there is a palpable need to factor in new realities.

This is not easy. The trading system has become more complex to manage as it has become more important. The dramatic reduction in border barriers has exposed deeper structural differences between economies — in standards, regulations or legal systems — that are generating new “systems frictions” and, because they are more tied up with values-based domestic objectives, are proving harder to resolve. Subjects that were never given much consideration when the GATT was first created — such as technology protection, environmental sustainability, or resource scarcity — have become more pressing. Because trade has become so important to development strategies, development issues have become increasingly important for the system — indeed, development is centre stage in the current Doha negotiations. And overall the system's rules have had to become more technical, more intrusive and more binding in order to remain relevant to economies that are still diverse, but far more interdependent.

As the system becomes more important, it also exerts a huge gravitational pull on countries to join and participate. The WTO has expanded to 153 Members — up from just 23 in

1947 — and this number could easily grow to 180 within a decade. The US, the EU and Japan remain key players but they are no longer dominant. Fast-emerging powers, like China, India and Brazil, play a role that was unimaginable even twenty years ago — while smaller developing countries naturally want a say in a system in which they have a growing stake. **As recently as 1997 some four-fifths of WTO disputes were initiated by industrialized countries; this year almost two-thirds were initiated by developing countries. For anti-dumping alone, developing countries initiated almost 70 per cent of actions since 1995 — and three quarter of these were directed at other developing countries,** further underlining their increasing use of, and reliance on, the system. But as the number of players grows and their participation increases, cooperation becomes more difficult — especially when interests diverge.

But this is not the full story. The **bigger challenge** — I suspect — is that we have not yet figured out how to deal with the interdependent world economy we have created. This system was initially designed to tackle problems specific to the mid-twentieth century — exclusionary trade blocs and tit-for-tat tariff wars — that preceded the Second World War. **The basic architecture of the system reflected its origins in an Atlantic-centric world of shallow integration. The question now is what is needed to manage a globalized world of deep integration and multiple powers. How to adapt?**

Let me give some examples:

Previous negotiations were driven by the exchange of market access — and the trading of one tariff concession for another. But tariff bargaining has less traction in an era when over half of world trade is MFN duty free — and another quarter is covered by free-trade agreements and other preferences. Reciprocity also makes less sense in a world of integrated production chains — where “imports” are key to “exports”, and where connectivity determines whether an economy becomes a link in the chain or not. It is also difficult to make reciprocity operational in areas like services where the challenge is to make whole national systems more open, and compatible. How, for example, to trade one country's banking regulations for another's telecoms rules?

Previous negotiations have also attempted to deal with a lengthening list of issues in a single “package” — with the aim of giving every Member an interest in its overall success. That is why the Uruguay and Doha rounds have been “single undertakings” — where nothing is agreed until everything is agreed. But this approach can also complicate negotiations — especially for poorer, capacity-constrained countries. And it can mean that progress on uncontroversial and solvable issues is held hostage to progress on more difficult and intractable ones.

Finally, in the past, **transatlantic leadership was central to moving negotiations forward.** But trade power is shifting, and the days — last seen during the Uruguay Round — when the US and Europe could essentially strike a deal on behalf of the entire Membership are long gone. It is not just that established powers need to accept to share the centre stage; emerging powers also need to recognize their responsibility for a system in which they now have a major (and growing) interest. The old North-South divide seems increasingly

outdated when so much of the future trade agenda will be played out among developing countries.

It is not just the composition of leadership that needs to evolve. **The WTO's impact now goes far beyond the traditional scope of trade policy touching on core national and international interests.** Yet despite repeated statements of support and of engagement, world governments seem incapable of marshalling the policies and political will needed to move the multilateral agenda forward. A worrying leadership vacuum has opened that has — so far — proved difficult to fill. Let's hope that the G20 can help provide an answer.

This is not the occasion to find answers to these questions — and even if it were, no one should pretend that the solutions are obvious or easy.

One approach would be to explore the scope for more plurilateral agreements — allowing smaller groups of Members to move forward, outside the single undertaking, on issues important to them. The 1996 Information Technology Agreement is a recent example successful plurilateral undertaking — dependent on a critical (but not universal) mass of signatories. And one of the most relevant agreements in the WTO today — with potential for expansion — is the plurilateral Government Procurement Agreement. With the procurement market representing upwards of a fifth of GDP in advanced economies (maybe more in developing), nine Members, including China, have signalled a clear interest in joining. Government procurement offers are a mine for efficiency gains which remain largely unexploited.

Another approach — which I am acting upon — is to fill in the WTO's “missing middle” by scaling up our surveillance activities, capacity building, and the day-to-day technical work that is critical to strengthening the system's foundations. By shining a spotlight on protectionism during the recent financial crisis, the WTO provided important intellectual ammunition for keeping markets open — and a good example of the progress that can be made through more information sharing, transparency, and peer pressure. The growing importance of WTO dispute settlement is also relevant, not just for conflict resolution, but for pointing out possible future directions for policy-makers. Another priority for the institution is capacity building for developing countries — captured in the “aid for trade” initiative. The basic idea is that more resources — and more policy attention — needs to be focused on helping developing countries to “connect” with the world economy — and with the global production chains that are its arteries. I agree with Bob Zoellick when he suggested earlier this week that “development economics must broaden the scope of the questions it asks”. Part of that broadening involves asking how trade can be better harnessed for the developing countries that are still left behind. All of these initiatives are in keeping with the original intent of the WTO which was to move towards more continuous work, negotiations, and rule-making.

But the central priority remains concluding the Doha Round — and here too we need to be realistic about the magnitude both of the challenge and of what is at stake. Early GATT rounds which focused on tariff cutting among a small group of countries, could be wrapped up in a matter of months. But with expanding issues and participants, and more effective

and active dispute settlement, trade rounds have inevitably become more difficult and drawn-out. The Kennedy Round — which started grappling with development issues and involved 60 countries — took three years to complete. The Tokyo Round — which addressed “non-tariff” barriers and involved 102 countries — lasted six years, twice as long. And the Uruguay Round — which created the WTO and involved 133 countries — turned into a negotiating marathon lasting eight years.

With 153 Members now at the table and the most ambitious negotiating agenda yet, the only thing surprising about the length of the Doha Round is that anyone is really surprised. Not without reason does the term “trade round” takes its inspiration from the boxing ring!

What is at stake is more than the economic benefits that would flow from a successful Doha deal. The real issue is the relevance of the multilateral trading system itself. **With its global Membership, comprehensive rules, and “world trade court”, the WTO is more central than ever to international economic relations.** But this also means that the costs of failure are higher — with ramifications that could be felt more widely. Bringing the Doha Round to a successful conclusion would send the strongest possible signal that the WTO is relevant to today's new world economy, that it remains the focal point for global trade negotiations, and that it will be a key forum for international economic cooperation into the future. But if Doha stumbles, then doubts will grow, not just about the WTO, but about the future of multilateralism in trade.

In many ways, **the Doha Round marks a transition from the old governance of the old trade order to the new governance of a new trade order.** Covering classic trade issues such as the reduction of import tariffs and subsidies, as well as innovative new chapters on trade facilitation and fisheries subsidies, the Doha Round is a turning point for the system.

The politics of this Round have had to adjust to the changes that happened since it was launched in 2001. And we all know we need to conclude it in order to address tomorrow's challenge.

Let me end by saying that I am optimistic we will find a way forward. The multilateral trading system remains the most successful example of international economic cooperation in history — and despite repeated predictions of an imminent death, it has shown a remarkable ability to grow, adapt and rejuvenate itself over the years. The GATT's transformation into the WTO in 1995 proves that reform is possible. The ease with which the old Quad leadership has made way for a new G5 — including rising powers such as India and Brazil — underlines the system's pragmatism and flexibility.

Besides, what is the alternative? Multilateralism may be complex, messy, even “medieval” but the reality is that none of the big trade challenges facing the world — from imbalances, to climate change, to resource scarcity — can be solved without it. The biggest reason why Doha is proving so difficult is precisely because it is tackling the tough problems that cannot be solved anywhere else. Certainly the current patchwork of bilateral and regional deals offers no substitute for global rule-making — and for coherent governance of a fast

globalizing economy. Nor can regional deals — even dozens of them — come close to matching the economic impact of agreeing to global trade liberalization among 153 countries. Bilateral and regional deals can be a complement to the multilateral system, but they can never be an alternative.

**In a world of interdependence, multilateralism matters. The global trade landscape may look dramatically different today, but some things have not changed — especially trade's capacity to generate huge international tensions and the importance of rules for managing disputes among the great powers.** Economists will agree that current global imbalances have macro-economic and structural — not trade — causes. And they are proven right, if one looks at what has not changed in the patterns of world trade for the last 25 years, which is a structural deficit between North America and Asia of a stubbornly persistent magnitude. But no one should underestimate the potential of this issue to spill-over into escalating trade tensions. We are seeing it already. **Just as a strong WTO provided a critical bulwark against protectionism during the recent financial crisis** — and a valuable forum for international cooperation — so too does it provide an indispensable foundation for economic stability in the time ahead, provided we understand what world trade is about today as opposed to yesterday.

As we see the Doha round finish line, we will have to put on our thinking cap and seriously look at the challenges that await us. We already have a lot of good ideas on the table from the Sutherland Commission and from the Warwick Commission. And I am sure we will have more to come when the space for thinking opens.

This is where the work of the World Trade Institute is so important – and why the Secretariat and I value the high quality of research and capacity building you provide. History reminds us that today's international order grew out of the disastrous failure of a previous system — the ill-fated League of Nations. History also shows that it was the power of an idea — that open trade and economic prosperity could secure world peace — which underpinned the success of today's globalization.

Your job is crucial. Happy Birthday — may there be many more!