



Lowy Institute for International Policy

“The values of the multilateral trading system”

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Address by Pascal Lamy

Director-General

Mr Gyngell,

Ladies and Gentleman,

It is a great pleasure for me to be at the Lowy Institute for International Policy. The Institute's mandate is to generate new ideas and dialogue on international developments and on Australia's role in the world. I guess these are busy times for you. The world desperately needs new ideas and there is certainly scope for improving the dialogue over international challenges.

I would like to share with you some ideas about where I see the place of trade in the current economic crisis, the inspiration we can draw from 60 years of the multilateral trading system and our endeavour to further open trade within a framework of rules through the conclusion of the Doha Round

The place of trade in the economic crisis

Trade has become another casualty of the global economic crisis. The slump in demand and the difficulties to access trade finance have led to a significant contraction of world trade. According to current estimates, world trade will contract by some 3% in 2009, the first decline in trade growth since 1982. Just

as trade tends to grow faster than output in good times, it typically contracts faster in times of recession.

This means that one of the most powerful engines of global growth is hampering efforts to lift people out of poverty. And this is affecting both developed and developing countries. It is affecting the 12 million jobs in the US which are dependant on exports. It is affecting the 6.2 million jobs in France which are dependant on trade. Not to mention the 100 million or so jobs in China which are turned to export markets.

I think it is important to reflect on this as we think of devising responses to the current crisis and as we hear talk about “protecting domestic jobs”. The reality is that today a huge proportion of domestic jobs are reliant on access to export markets and without trade, these jobs risk disappearing.

This is why we hear many voices against isolationist measures. Is it credible to imagine that one country can protect its domestic market without others doing the same?

Let’s imagine for a second that the US decides to close its automobile market to imports, let’s say Chinese, Japanese and European automobiles, worth \$80

billion. It is highly probable that the Chinese, Japanese and Europeans would decide to close their markets to American planes, cranes and chemicals, all this worth \$120 billion.

Ladies and gentleman, the domino effect that such moves could cause would be devastating. And this is why isolationism, even “smart” isolationism as some are advocating, is a recipe for global slump. And this is why resisting protectionism and avoiding an aggravation of the current crisis is an imperative today.

The reality is that protectionist measures by individual countries are unlikely to help in the recovery efforts. Instead, what is necessary is to coordinate the domestic stimulus packages, to cooperate in addressing global challenges and to think of using the least harmful trade policy instruments.

This is where activating the WTO’s mechanism of trade policy review is essential. It provides WTO members with a forum for dialogue on how best to use their trade policies to help the recovery, while allowing a thorough scrutiny of trade distorting measures.

Australia has been a strong advocate of putting this sort of WTO radar to its full use, in particular in the current circumstances, and I count on Simon Crean and his team in Geneva to contribute to this. After the first report that I tabled in January, and which was discussed by members shortly after, a new “radar picture” will be produced by mid-March.

This is why I disagree with those who say that the current economic crisis requires a shift in the WTO’s priorities — that we need to concentrate on fighting protectionism and that therefore we should de-emphasize or even abandon the Doha Round.

In fact trade and the Doha Round have a place all their own in global efforts to revive the economy. Open trade flows have a role in maximising the G20’s efforts to stimulate the global economy. At the same time, the Doha Round is the most effective way to further constrain protectionist pressures by reducing the gap between bound commitments and applied policies.

Indeed, if all WTO members raised their currently applied tariffs to today’s WTO ceilings, tariffs worldwide would double. A recent study estimates that world trade could then shrink by up to 8%, reducing global welfare by up to US\$350 billion. Conversely, with what is currently on the table in the Doha

negotiations, tariff ceilings would be halved and the savings for economic operators could amount to over \$ 150 billion annually.

Values of the multilateral trading system

We have recently heard ideas for a Global Economic Charter — an occasion for the international community to re-build a consensus over the basic principles and values that would underlie their economic relations, emulating the founding fathers of the United Nations Charter of 1945.

The WTO and its predecessor the GATT can provide a source of inspiration in this regard. Let me briefly mention some of the WTO principles which could help formulate a new global economic consensus.

First among them is openness through the gradual reduction of obstacles to trade. This is accompanied by flanking regulations aimed at ensuring a level playing field and avoiding excesses. A third element is transparency and monitoring: processes ensuring a brighter spotlight to foster compliance with the rules and avoid the eruption of disputes. The fourth element that I would mention is non-discrimination, which in the WTO is embodied in the principles of most favoured nation and national treatment. The fifth element is fairness, as

enshrined in the special and differential treatment for developing countries. All of this with the overriding objectives of raising standards of living, ensuring full employment and achieving sustainable development as described in the preamble of the Marrakesh Agreement establishing the World Trade Organisation.

Concluding the Doha Round to advance the multilateral trading system

The principles on which the WTO is premised and its objectives are as relevant today as they were when they were adopted in 1947. And the depth and breadth of WTO rules have evolved along with world economic realities and the changing needs of our members.

The last major overhaul of the world trading system took place in 1995 with the conclusion of the Uruguay Round, which by the way took over 8 years to conclude. Subsequently, the WTO family forged a consensus to further reform the world trading rules with the launch of the Doha Round in 2001. I would note that we are still capable of beating the duration of the Uruguay Round!

It was agreed under the umbrella of the Doha Round to substantially cut trade-distorting agriculture subsidies, chief among them cotton subsidies, to curb

fishery subsidies which contribute to the depletion of the resources of our oceans, to a greater opening of services trade, to facilitate customs operations, to open trade in clean technology, to adjust anti-dumping rules, to offer duty-free and quota-free access to the exports of the world's poorest countries, and to achieve greater market access in agriculture and industry, to name a few.

This is the consensus on which the Doha Round is premised and this is the menu which needs to be served at the conclusion of the negotiations. And the good news is that we are over 80% there and that with an extra effort we could get to the finish line.

I have recently read some academics argue that this is an outdated agenda. That the world has moved on. That fluctuating commodity prices, cartelisation of oil exports, currency undervaluation, sovereign wealth funds, financial instability and environmental insecurity have significant global implications that demand a global solution that the Doha Round would not offer. They therefore argue that the Doha Round be scrapped and a new round of Bretton Woods talks be launched with a more ambitious agenda and wider organisational coverage to deal with all these challenges.

This seems to me, at best, a classical example of trying to “bite off more than you can chew”! At worst, it is a disingenuous appreciation of the politics of trade negotiations, with two-thirds of its active participants nowadays being developing countries.

Is it fair to tell African cotton producers that they need to wait until a new agenda is set to address the pressing issue of cotton subsidies, which contribute to depressing their domestic prices? Is it credible to say that we need to build a new agenda tomorrow to discipline subsidies which are contributing to over-fishing today? Is it wise to delay a global agreement reducing tariffs on environmental technology? Can the world’s poorest countries wait until a new consensus is built and a new agenda is agreed upon to receive duty-free and quota-free treatment for their exports?

My own sense is that the vast majority of WTO members want to see the current agenda tackled and concluded as soon as possible. They want a result on the priorities which were agreed when the round was launched and whose results are long overdue.

My own sense is also that WTO members need to start thinking about the next agenda: about future priorities and challenges, whether in terms of subjects,

negotiating processes or participants. Serious thought needs to go too into a better distribution of roles among international organisations and the challenges of coherence.

But I am convinced that the road to the future starts with the conclusion of the Doha Round. This is now as much a political imperative as it is an economic necessity.

And this is where Australia has a leading role to play. Prime Minister Kevin Rudd and Minister Crean have been strong advocates of the Doha Round and I wish to thank them wholeheartedly for this. All of you can rely on them and on me to carry this message to the global community in the coming months.

Thank you for your attention.