



**CUTS INTERNATIONAL
AND
GLOBAL DEVELOPMENT NETWORK**

"A fire-side chat on the change in trade landscape"

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Let me thank Pradeep Mehta of CUTS International and Pierre Jacquet of the Global Development Network for their invitation to his fire-side chat on the changing landscape of global trade.

My starting point will be the growing disconnect between the speed of globalization on one side and the slow pace of global governance on other side. Of course, my own thoughts about this are heavily influenced by three of my own professional lives: the first one, when I was working as Chief of Staff to Jacques Delors, President of the European Commission from 1985 to 1994, my second life as European Trade Commissioner from 1999 to 2005 and the third one as Director General of the WTO since 2005.

The international system of global governance and the multilateral institutions that were set up progressively after the First and Second World Wars during the last century, did a reasonably good job in tackling a variety of international challenges until the years 1990s, until basically the fall of the Berlin wall, plus or minus 2 or 3 years. The Kyoto protocol to the UNFCCC, the creation of International Criminal Court or the creation of the WTO at the end of Uruguay Round were high points in global governance. But since then little has happened.

But in the meantime the world has not stopped. Globalisation has kept accelerating under the pressure of, what in my view is and will remain for decades to come, the main engine of globalisation i.e. the technological progress. As a result of this, we now have a disconnect between these two elements – markets and economic integration on one side, political and policy integration on the other side. Nowhere has it been as obvious as in trade and/or climate change issues.

On the trade side, Pierre is absolutely right. The WTO system as it was constructed 50 or 60 years ago is a major element in international governance. There is an important stock of rules and disciplines. There is a machinery to enforce these rules, including a specific dispute

settlement that has no equivalent in international public law. In many ways it is a good example of a solid multilateral institution. But as we all know one of the functions of the WTO is to regulate international trade and to establish international trade rules. The trade rules exist but we have had serious problems in updating them as evidenced by the stalemate in the negotiations under the Doha Development Round. The problems which the Round was supposed to address through negotiations remain and these problems will remain as long as they are not addressed.

So if you look at the trade scene, globalisation is going on in full speed, international exchange in goods and services are increasing as a multiplier of growth. Global supply chains are expanding all over the world, the patterns of trade have changed considerably. 20 or 30 years ago roughly a country was producing 'something' that was being exported in another country that was consuming it. In today's world the same 'something' is produced in 5-6-7-8 different countries, things are not made in China, made in India, made in Germany or made in Japan, they are "made in the world". The globalisation of production system has created multi-localization in the form of these global value chains.

60% of trade in manufacture today is 'parts and components'. Only a small and shrinking part of the international trade, measured in volume, as we still do it, is finished product, whether by way of manufactured goods or food. This change in the patterns of trade has brought to the forefront the costs related to the administrative thickness of borders. Having a border where you have to pay an average worldwide tariff of 5% is one thing. Having a border where on top of this 5% tariff, you have to pay 10% in various administrative cost, fees and other additional costs is yet another thing! The problem is compounded by the fact that today your intermediate goods cross not just one border, but several ones. This has become a serious cost to trade and this is one of the reasons why this border administration issue has become a major piece of attention in WTO negotiations.

As we face serious difficulty in amending the multilateral rule book, countries continue to negotiate trade opening bilaterally, plurilaterally and regionally. Not that all of these ways of opening trade are not conducive to multilateral opening, but some risk scattering the playing field instead of leveling it. You have this paradox, that business, trade, production, industries, services are more and more globalized, connected through these value chains while the governance of the system is getting more bilateral, with the risk is that if the multilateral system of trade governance does not move multilaterally then the benefits of an efficient specialization will progressively disappear.

The same thing can be said on the topic which is dear to Pradeep's heart, i.e. competition. The reality is that this progressively merging of economic space that blurs economic borders, happens in this area of competition rules within clustered legal, national, domestic systems. You have the same contradiction between the necessity to look at this globally, because these competition policies have to be global and you cannot have disconnected competition policies where you face global supply chains, when 40% of the content of your exports (average worldwide) is now imports. Think about domestic competition policies, clustered in a world where 60% of your export will be your imports 20 years from now. Makes no sense! So that is also, I think, a good example of this discrepancy which grows as the speed of economies integrates markets and the global legal and political systems cannot follow up.

And of course, I could also dwell at length, which I won't do now on the issue of climate change where we face exactly the same problem. We have a growing challenge in addressing collectively and globally, a number of environmental problems, carbon-di-oxide emissions being one, ocean depletion is probably another one. And we know by experience that the capacity to address these issues globally has slowed, stalled and probably even, if you look at the recent discussions on the Kyoto protocol, even moved backwards. So, not only like in trade, it is a problem to move forwards, but it may also have an impact of moving backwards.

Now, if that is the problem, what can be done? And that is where I would like to make a few suggestions. I was educated, like Pierre, in the Cartesian system. Between having a problem and looking at the solution, there is a need to find the root of the problem, so that the solution matches your diagnosis. So, I will stick to this frame of mind today with you. Now what's the root of the problem? In my view the root of the problem is *geopolitical*.

One could say that it is the crisis and the inability of governments – who have difficult problems at home, whose legitimacy is dwindling – to cope with international issues. This may be true. But the discrepancy between the global governance and globalization started way before the crisis erupted. The crisis did not erupt in 1995, it erupted in 2008. So the main problem is not the crisis, it preceded the crisis and in my sense it is linked to the formidable geopolitical, geo-economic transformations which we have seen in recent decades. They relate to the emergence of many developing countries, India of course being one of them. The big move from the West to the Rest, which is changing the game of international governance, because we have to move from a system that was built, hardware/software, by the West – an obvious historic reality – to a system that now needs to be co-built, co-operated, co-owned by both, the West and the Rest.

Getting there has proven to be extremely difficult for one simple reason: any international system of governance whether national, regional or global is about finding the right balance between rights and obligations of the stakeholders of the governance systems. In the international system, the stakeholders of the global governance systems are the sovereign nation states. And finding the right balance between rights and obligations of the sovereign nation states is the purpose of any international negotiation whether trade, environment or even competition rules which were mentioned by Pradeep. This is where the system for the moment is blocked. This is where the deadlock lies in my view. It is on the question of this balance between US, EU, Japan and the like on one side and emerging countries like China, India, Indonesia, Brazil and others on the other side.

For the US, EU or Japan, emerging countries have now emerged and, as a consequence, they have to accept a balance of rights and obligations which is closer to those built and accepted by them as developed countries. Emerging countries in turn, see themselves closer to their status as developing countries than to that of developed nations. Are emerging countries rich countries with many poor people? Or are they poor countries with a few rich people?

I believe there is a need to review the balance between reciprocity and flexibility, whether you call it 'special and differential treatment' like we do in WTO or 'common and differentiated responsibility' as they do in UNFCCC. I believe that the three following principles, if accepted globally, could help in overcoming the current stalemate:

- 1) Emerging countries need to accept that as they develop, which is their ambition, they will have to align their levels of rights and obligations with those of developed countries.
- 2) Rich countries should in turn recognize their own legacy, their own responsibility in the unfairness of some of the existing rules or in their ecological footprint and accept that, while emerging countries intend to apply developed levels of obligations/rules, they will only be able to do after a transition period, the length of which has to be negotiated.
- 3) Both developed and emerging have a responsibility towards the poorest in helping them build the capacity to reap the fruits and address the challenges of globalization.

Such simple principles, as recognized by the G20 for example, could help in overcoming the current deadlock and in helping build a new consensus to address the governance of our interconnected world. I called it the 'Geneva Consensus' eight years ago. In many cultures a name is a promise. This one is still to be delivered.