

The Worshipful Company of World Traders

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by

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World Trade in the New Millennium

Master, Wardens, Mr Sheriff, your Excellencies, my Lords, Aldermen, Ladies and Gentlemen, I suspect that most of us in this room have concerns about the current state of what we may loosely term “global governance”. The past few months – still more the past few weeks – have raised huge doubts about the validity and performance of global institutions. Multilateralism seems to be a more fragile concept – in practice and in theory – than was the case for most of the past six decades. The rules that formed the basis for post World War Two interdependence among nations somehow do not seem to work as well as they should as often as they should.

There is good reason for concern. I do not need here to harp on the conflict in Iraq. Suffice to say it is not a startling success for multilateralism.

I want to ask tonight whether there is, in fact, reason for hope that multilateralism will survive – more than that, that it will deliver? Lest that sound too negative an approach, let me say from the outset that I believe multilateralism *will* survive and *will* deliver. Unilateralism, bilateralism, regionalism and most of the other “isms” may have their places but they offer no durable, adequate or wise alternatives to ambitious global decision-making.

That said, I must still pose the question. I do so on home ground – trade. We have in the World Trade Organization the most developed, sophisticated and, for the most part, effective instrument of multilateralism that exists today. But like the United Nations it too is being challenged, and on many fronts. Above all, it is being challenged

to meet a new agenda – the Doha Development Agenda – by which its relevance to the needs and aspirations of a wide global community will be judged. So also will the success or failure of this Round provide a judgement on the credibility of the WTO.

However, let us first step back a little. We all accept that trade negotiations are not a “zero-sum” game. We also know they serve many purposes, not merely commercial. I believe we can make some startling claims for the multilateral trading system as it is. First and foremost, it provides an alternative to war. When Cordell Hull, later to become US Secretary of State, told Woodrow Wilson "If goods do not pass frontiers, armies will", he had thousands of years of history on his side. He went on, in the 1930s, to design the US trade laws that helped recovery from the Great Depression and ultimately became the foundation of the GATT.

The GATT and, now, the WTO have largely eliminated commercial ambition as a cause of war. Governments have neither the need nor the opportunity to raise armies and navies solely to secure access to land, raw materials and labour. Of course, Friendship, Commerce and Navigation Treaties existed for hundreds of years. But most were born precisely from military adventurism and empire building for commercial gain and influence. For centuries armed might determined or defended trade advantage.

Now businesspeople conquer markets, not navies. That they have the freedom and opportunity to do so is the essential achievement of the GATT and the WTO. Science has helped of course. Trade is also a reflection of remarkable developments in technology, transport and communications that make possible the increasingly open global economy. Modern financial systems are also fundamental building blocks. But it is the multilateral trading system that provides the rules and commitments to support open competitive markets. That is the essential bulwark against commercial confrontation pursued through military means.

So, to suggest that multilateralism in trade might be threatened is not a small matter - not in terms of our collective security, nor from the perspective of economic welfare. In 1950, two years after the GATT was established, world exports were worth around \$400 billion a year (*constant prices, 1990 dollars*). Now, exports of goods and services approach \$8 trillion a year. It is not merely fortuitous that in the same time frame, average customs duties in the industrialised countries have

fallen from nearly 40 per cent to less than five per cent. Nor that, since 1995, we have had a multilateral framework to promote liberalisation of trade in services. The jobs and livelihoods at stake? These are probably incalculable with any accuracy – certainly billions, it may be easier to estimate which are *not*.

I suspect I am not alone in being disturbed by the carelessness with which the system's critics seek to undermine it. It is not difficult to find faults with the WTO. But what it represents is too precious to abuse. There is no credible alternative model of global governance in trade out there. If the system's detractors believe a return to the laws of the jungle is an optimum response for those nations and interests they claim to represent, then they are sadly deluded.

The WTO helped drive globalisation. Globalisation is bad. Hence, the WTO is bad. That is one popular mindset. Another, equates the WTO with trade; trade with corporations; corporations with exploitation. Again, the only response is to destroy the WTO. This is mindless nonsense. And it is a great pity that otherwise responsible political leaders have not been much firmer in forcefully and publicly rejecting such notions.

It is certainly the case that one driver of globalisation is the rule-based trading system. It is true that the WTO provides both open markets and predictability on the basis of which corporations can more easily make investment decisions. But is what follows bad? Trade does appear to generate national wealth. And, despite our concerns about its distribution, wealth tends to be good. Generally speaking we live in a world with more democracy than ever, longer life expectancies, better access to food and sanitation, more and improved education, wider access to the arts and different cultures, the ability to travel and communicate cheaply and access to remarkable medicines and advanced healthcare.

There is no shortage of evidence to back up such assertions. And I am not talking just about the minority of the world's population that lives in industrial countries. The advances of recent decades have been broad and deep, even if there are still too many desperate exceptions. Crucially, the past two decades have seen perhaps the biggest decline in poverty in history. The proportion of the world's fast-rising population living on less than the UN's benchmark of \$1 a day has fallen from 37% in 1970 and 29% in 1980 to 22% now.

And what of those corporations? Are they simply exploitative? In fact, the evidence demonstrates that most foreign companies investing in developing nations behave responsibly – usually more so than their local competitors. They tend to be better employers. They tend to import modern production processes that add efficiency and safety to the old ways. They pay more attention to the environment. They often invest strongly in local communities. Their governance standards are usually high. And they tend to stick around, despite troubled times – they are seldom fly-by-night operators.

Let me make a short diversion here. Our capacity to say such things – indeed, the ability of the private sector to take positions on broad international public policy issues – has been seriously undermined by corporate scandals over the past year or two. What worries people, I think, is the suspicion that the interests of many businesses have not been aligned with the interests of the societies and communities in which they operate.

More generally I detect genuine concern amongst the public about values and standards in business. The norms of behaviour amongst business leaders did seem to change during the 1990s, even if very few went to the extremes of greed and fraud we have all read about in the newspapers.

Business is being scrutinised more intensively in most countries today. Some companies are truly very large and influential. Any big company has a material impact on the economies and societies in which it operates. Large firms employ a lot of people and affect the lives of many others. So it is entirely right that companies should be held to account for how they operate.

However, I see a reaction against the extremes of corporate excesses. It is impossible for any big company today not to spend a great deal of time thinking about corporate governance and the role of the corporation in society. I believe we must welcome a climate which makes companies reflect on their roles and responsibilities.

It is especially important in the fields of trade and investment policies. After all, business is the number one stakeholder in the global trading system. For the most part, it is businesses that trade, not governments, not consumers and not NGOs. If companies do not support and, largely, drive the processes that open markets and generate rules, then those processes become no more than barren diplomatic

manoeuvrings. That may not be a politically correct view of the WTO at present, but it is one we need to get back to if we are ever to reap a worthwhile harvest from the Doha Development Agenda. And when I say that, I am more than conscious that we must fulfil the “Development” part of the agenda – perhaps above all else.

Right now, we see many divisions and precious few signs of compromise and consensus. There are large differences among the industrial countries – and not all of them to do with agriculture. There is a North/South divide – or should I call it “mistrust” - as significant as we have seen in decades. There are also divisions among the countries of the developing world – particularly between those enjoying preferential market access arrangements and those not. Further, it does not take rocket science to detect a division between those WTO members actively within, or in the process of negotiating, regional trading arrangements – notably with the major traders - and those left out in the cold.

For now, let us concentrate on the development perspective. First, have poorer countries had a bad deal from the GATT and the WTO? Second, whatever the case, how do we ensure they gain more from WTO membership in the future?

I hope I can be forgiven a little impatience with those who claim that developing countries played no role in the Uruguay Round. This is nonsense. Many such countries were in fact remarkably influential in framing the agreements that finally emerged – notably the groundbreaking accords on services and intellectual property rights. They were especially effective to the extent they were prepared to send their best people to Geneva to negotiate. And it has to be said that the best of the developing country trade negotiators are, and were, the best anywhere.

Certainly, my predecessor at the GATT, Arthur Dunkel, and I both worked overtime to ensure poorer nations were included in all the processes that lead towards the final deal. What has changed since is that there are considerably more developing country members of the WTO and rather more which have capable negotiators and a will to be active. An ambitious technical assistance effort has, no doubt, improved negotiating capacity.

So developing countries have not been ignored. Have they benefited from the Uruguay Round results? Again, I have to say that the

claims made about the “losers” in the system are often both exaggerated and mischievous. We must start from the observation that the GATT and WTO systems do not guarantee *anybody* a greater slice of world trade. What they strive for is some equality of opportunity through open, competitive and predictable markets.

Have developing countries been able to benefit from the opportunities? The answer is yes, and in two senses. First, those countries that have liberalized over the past two decades – often in the context of GATT/WTO membership - are, in general, those that have seen the most impressive economic success. World Bank studies demonstrate that 24 such nations achieved an average 5 per cent growth rate over a 20-year period compared to two per cent for advanced economies. Some 3 billion people live in these countries. Of course, that includes the population of China which joined the WTO only in 2001 after more than a decade of market opening and other economic and regulatory liberalisation. There is no doubting the remarkable, dynamic impact on the global as well as the domestic economy of Chinese WTO accession. And other candidates – like Russia and Vietnam – will ultimately add their own full economic potential from within the multilateral system.

The second perspective is that developing countries are beginning to step up their shares of world trade. The WTO has noted that the share of developing countries in global merchandise exports and imports jumped by six and five percentage points respectively in the years 1990-2001 – the former reaching 30 per cent, the latter 26 per cent. Further, in the decade 1990-2000, trade between developing countries mushroomed by 12% a year, twice as fast as global commerce generally. Although the biggest success stories come from just a handful of countries, only the Middle East and Africa, among developing *regions* failed to boost their exports more strongly than industrial countries in the same decade.

What about the poorest countries? Well, eight of the least-developed nations whose exports are concentrated on manufactures achieved average export growth of 15 per cent per year for the period. Another four, which are oil exporters, managed 12 per cent as an average; those dependent on other commodities did less well. Those dogged by civil strife fell back.

Poorer countries have also secured more investment. The United Nations Conference on Trade and Development (UNCTAD) reported

last year that the share of developing nations in world foreign direct investment flows moved from an average of 17.5% in the period 1986-1990 to 27.9% in 2001.

Thus the notion of exclusion from the global economy must be considered with some reserve. So also must any response by the WTO to that notion. What we have seen in the past several years is a sometimes-uncritical drive to create additional special conditions for developing countries in the system. What that means, in practice, is reduced obligations in terms of the rules yet increased benefits in terms of market access.

If it were not founded on an incorrect premise – that developing countries are, in some way, victims of the system - this might be a reasonable objective worthy of our enthusiastic support. However, not only is the diagnosis wrong, the proposed treatment is not necessarily going to improve the health of the patients.

We need to get back to what the WTO is for. While it will serve development it is not primarily a development institution. Nor is it a redistributive mechanism to rebalance artificially the economic conditions of its members. It is simply a means of pushing towards more open markets and keeping open markets open and competitive. That simple purpose is achieved by restraining governments from pursuing their worst instincts. That is the job of the WTO rules. Where politicians would prefer to respond to narrow, vested interests governments are required by the WTO to base their decisions on much wider interests: principally the negotiated rights of all other WTO members but also of domestic consumers, taxpayers and other industries.

That is the Faustian bargain if you like. But it is a bargain that, on the whole, has worked to everyone's benefit. It has its own checks and balances –including, of course, the dispute settlement procedure. Above all it is a bargain that gives the most powerful players reason to play by multilateral rules and to restrict their room for executive and legislative action in the trade field. For the most part, with a few slips here and there, they do exactly that.

So does it make any sense to change the game substantially for developing countries? Will the removal of the Faustian Bargain for poorer nations make them more or less likely to take policy decisions that aid their integration into the global economy? Are they more or less

likely to be able to benefit from the opportunities provided by the WTO? Yes, governments need space for policy flexibility which recognizes local conditions, cultures and traditions. They must, of course, retain their sovereignty. But further than that – complete permanent derogations from WTO disciplines, for instance – and I suspect we will be undermining development and poverty reduction not promoting it.

This is not to say that poorer countries do not require recognition of their particular circumstances. Above all they need time. They cannot absorb new commitments quickly and some continue to have difficulty in implementing current obligations.

These countries cannot go too far, too fast. They will generally build their capacities for good and transparent governance slowly. In part, technical assistance must help the government sectors adjust to WTO requirements. But it is not enough just to train trade negotiators. The trading system only works where there are productive companies capable of trading and where those companies make their interests felt in policy making. And that is an element in the development puzzle that appears too often to be ignored.

In summary, therefore, I would suggest that the “development” perspective of the current round needs to be more carefully thought through. Many of the objectives being pursued are understandable when set against the rhetoric of poor countries as victims of the system. But do they make sense in terms of poverty reduction, the generation of competitive export sectors, the attraction of inward investment or integration into the global economy? That strikes me as more questionable.

Governments need to work through this development perspective – and it may take time. It will, nevertheless, be one of the determinants of success in the Doha Round. Not, of course, the only one. Two weeks ago, delegations had to face up to the missed deadline on agreeing the modalities for negotiations on agriculture. That has been portrayed as something of a disaster for the WTO. In a sense it is; further delay undermines the momentum of negotiation and will bunch a large package of tricky decisions on the agenda of the next ministerial conference in Cancun, in September this year. Tackling such a package – with or without any post-Iraq war generosity towards multilateralism – will be tough.

However, there is a need for some sense of maturity and realism. We are not in a situation where the existing trading system is inadequate and nor is that system about to crumble. That was the story of the Uruguay Round, not the Doha Round. The point of the Doha agenda is to consider extending the system into some new areas and, generally, to make it more responsive to the circumstances of developing countries. However, if we focus on the potential medium-term commercial impact of the agenda, then it is more like a classical GATT round. First and foremost it is about market access.

Admittedly, market access now is not the way it was thought of in the 1950s and 1960s – limited to border tariffs and quantitative restrictions. In agriculture and services we are looking at a complex mix of border and domestic policies. Yet for WTO members with offensive agendas in Geneva, the negotiations on these issues – and, of course, on non-agricultural market access – are about no more than securing more open, competitive markets. The frameworks for negotiating on agriculture and services are in place. What is needed now is cut and thrust bargaining to secure more ambitious liberalization commitments.

For the moment, there is no cut and thrust. Why? In part because the perception is that agriculture must move first. For many participants progress on creating better conditions for farm trade is the sole significant and *urgent* reason to negotiate in the WTO. All else is linked and, for them at least, secondary. Unfortunately, in the absence of agreement on a new stage of clearly defined farm reform in the European Union, these WTO members see little reason to start the bargaining. Maybe that's unfair to the EU. Certainly, other players will face tough challenges once Europe's future reform path – notably, for the post-2006 period - becomes clear and Brussels can put forward more forthcoming negotiating positions in Geneva. Arguably, other players have been more timid, to date, in their negotiating stances on agriculture than has the EU.

Yet the spotlight is on Europe as the biggest influence on certain commodity markets. This may be regrettable for some member states, but it is reality. Europe must move – and the sooner the better. This summer, the Council of Ministers should pay serious heed to the CAP reform proposals tabled by the Commission and find an accommodation. I do not see any other means of breaking the logjam in the WTO.

Failure to move the Doha process forward in the coming six months will not be fatal to the round, but will undermine confidence and credibility. It will also raise questions seriously and dangerously about the deadline and the level of ambition.

There has been talk of cutting back the level of ambition to secure quick results. To my mind that would be a mistake – and I was not entirely favourable to a broad agenda prior to the Doha Ministerial Conference. A low level of ambition now will bring very low value results, if any. And we cannot be confident of launching a further round of WTO negotiations quickly thereafter.

We need solid results across most if not all of the agenda for three reasons. First, the world needs the prospect of a medium-term economic boost from more market opening and more predictability in trade and investment rules. Second, the commitment of business – in developing and industrial nations – needs reinforcing. That will not happen with political fudges and minimalist deals.

Third, there must be an accompanying parallel agenda to those being pursued at the bilateral and regional levels. Arguably some of those initiatives will not succeed unless the WTO also succeeds. But I would not count on it. We may end up with a further mishmash of regional trade agreements which pay scant regard to the existing WTO rules that are supposed to discipline their content. We will certainly end up with many of the poorest countries on the sidelines.

Which brings us back to the necessity of reasserting multilateral pre-eminence in global trade. That is a fourth reason to ensure that, ultimately, the Doha Round is a success. The system must be seen again to deliver. And not solely to enhance trade. If the WTO represents international order through consent, achieved by consensus among sovereign governments, then the stakes are very high. We have to make it work.