

“The Perspectives of the Multilateral Trading System”

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Lima, 31 January 2006

Your Excellencies, Ladies and Gentlemen,

It is a privilege for me to have the opportunity to address this impressive gathering this afternoon. It is no coincidence that my first trip following our recent Ministerial Conference in Hong Kong, and in fact the first visit that I have initiated myself since I took up this post, has taken me to Latin America. Quite apart from a personal admiration for the environment and cultures of your region which I have had the good fortune of exploring in my previous incarnations, Peru and its regional partners have always been constructive actors in the multilateral trading system. Since becoming Director-General of the WTO in September last year I know I have been able to count on the solid support of your region as we have moved the WTO agenda forward.

The year 2005 was an important year for the multilateral trading system. Not only did the WTO celebrate its 10th Anniversary but we also successfully concluded the Sixth Ministerial Conference in Hong Kong and provided a road-map for the final stages of the Doha Round negotiations. 2006 must be an even more important year – the year in which we conclude the Round for the benefit of all participants.

The past ten years have radically transformed the way in which nations interact commercially and have propelled the WTO onto the front pages of media reports across the world. In stark contrast to the tranquil and rather obscure GATT, the WTO has gained significant notoriety from world financial centres to small villages. I continue to be amazed that an organization which spends the vast majority of its time deciding matters of a supremely arcane nature has attracted so much media attention and controversy. One of the reasons for this popularity is that the expansion of subjects with which the organization has been called to deal with – from tariffs and services to intellectual property rights, technical barriers to trade, rules of origin and a vast array of subjects which, in spite of their bureaucratic names, have a bearing on the everyday lives of millions of people. Another reason is that the expansion of multilateral trade is the emerged part of globalization for a lot of people, hence the focus on WTO for many pro- and anti-globalizers.

Whichever side one takes in this debate, I think that there is broad agreement on the need for an effective multilateral trading system in an era of ever increasing economic integration. The global economy has advanced with remarkable speed over the past decade. Developments that no one could have foreseen in 1995 are today shaping the way we live our lives. Products which many of us had never imagined and which few people owned are now a central part of everyday life. Regions such as Latin America and Asia now play much more prominent roles in the global economy and in international economic policy-making.

Technological change and global economic integration have not come without cost. There has been displacement in the work force and there is anxiety about the future in many countries. For this reason, the concept of globalization has sparked much debate. Many of the fears and concerns that have arisen from this remarkable economic transformation have been laid at the feet of the WTO. Many people enjoy the benefits of trade opening, but they either do not know it, or they are silent. The few who suffer the negative consequences – and there are negative consequences of trade opening – are very vocal, as protestors in Ministerial Conferences show us. There is no escaping the fact that global problems require multilateral solutions. Absent global rules we are left with uncertainty, instability, heightened international tensions and possibly chaos. No progress in global rules means more of the law of the jungle.

In some ways the WTO is perhaps the most advanced multilateral institution in the international system and this is in no small part due to its dispute settlement system. In establishing this mechanism WTO member governments have proven that multilateral solutions to disputes are not only possible — they are desirable. The facts speak for themselves - the WTO Dispute Settlement System has been used more often in the past 10 years of activity than the old GATT system was used in nearly a half century. This system has been successful largely because WTO Member governments have been prepared to implement panel and Appellate Body rulings and to bring their laws and regulations into conformity with WTO rules should a panel decision go against them. Similarly, the increased utilization of the system by developing countries confirms that the multilateral approach protects all Members, not just the large, strong, or rich.

One of the most important achievements of the last ten years has been the enhanced integration of developing countries into the WTO system. Never before have so many been such active participants in the global trading system and the development focus of the Doha Round is an appropriate reflection of this. With you today I would like to look more closely at what the Doha Development Agenda – and the WTO System as a whole – mean for developing countries and then consider what needs to be done in order to get the most out of it.

The Doha Development Agenda gives development issues headline treatment for the first time in a trade Round. By doing so, governments have given their negotiators a challenge: How to make sure the Round lives up to its title? What will it take to move from sound-bites to a sound result, one that will keep development centre-stage on the trade agenda?

I am convinced that the answer must be found first and foremost within the substance of the negotiations themselves. The development dimension can no longer be an afterthought or an add-on, a sort of pisco you add to the main dishes of market opening. Exceptions and derogations have their place, but they can too easily lock developing countries into the status quo and put a ceiling on their future possibilities. Technical assistance is also important in bolstering the capacity of poorer countries to get the most out of this Round – but it can never become a substitute for the main event. That has to be a negotiation which integrates the issues and concerns of developing countries – like

those of all other WTO Members – into every stage leading up to an outcome which is positive for all, starting with the disciplines on agricultural subsidies, and tariffs which are more similar to the tariffs on industrial goods.

This is possible. We should remember that trade is not a zero-sum game. But achieving it will depend on all participants being prepared to understand and accommodate the needs of their partners. This Round calls for nothing less than a new mindset among negotiators, from developed and developing countries alike, where we banish the ghost of mercantilism and set these negotiations firmly in the context of our common interest in a world where economic growth is more widely shared.

The importance of trade to developing countries cannot be overemphasized. It is generally accepted that trade is an engine of economic growth and sustainable development. During the last two decades, a significant number of developing countries have implemented far-ranging reforms with the aim of increasing their exports, diversifying their economies and integrating them into the global economy.

To some extent, these reforms have started to produce results. For the last decade, developing countries recorded an average merchandise export growth rate which is one-third higher than that of developed countries. The dollar value of the exports of least-developed countries, whose economies have mostly stagnated, have also increased by the same rate.

The year 2004 saw a marked increase in the share of developing countries in world trade to 31 per cent, the highest in fifty years. This was due not to the rise in oil prices but to the increase in their share in the export of manufactures. They now account for 28 per cent of world exports of manufactures which is significant considering that their share a decade ago was only 22 per cent.

While these figures are impressive and may give reason for optimism, the fact remains that still too few developing countries have benefited so far from the expansion in world trade. The 50 least-developed countries account for less than 1% (one per cent) of world trade. The share of sub-Saharan African countries in world trade is also not encouraging; it was a mere 2 per cent last year. Overall, the evidence is clear that the developing countries which have derived the greatest benefits from the multilateral trading system, and most successfully integrated their economies into the global economy, are those which have pursued sound economic policies, including open trade and investment regimes. Latin America offers us some significant examples of this point.

Economic growth and sustainable development will be all the more meaningful and evident as developing countries play an active part in the negotiations and undertake commitments towards each other as well as with their developed counterparts. Undertaking commitments should not be seen negatively. Lowering or abolishing barriers greatly reduces the scope for monopolistic practices which stifle competition and growth. Increasing transparency creates more of a level playing field among economic actors. In an enabling environment, firms can innovate and increase their

export of goods and services, through access to cheaper and better quality inputs or components from a wider range of sources.

The multilateral trading system offers developing countries the opportunity to adopt and lock in reforms which underpin economic growth and development. It gives added credibility to policies implemented by governments and sends clear signals to investors about a country's commitment to an open economy.

In considering whether a developing country has secure access in the markets of its major trading partners, investors are more likely to attach greater weight to commitments made under the auspices of the WTO. This is because amending or withdrawing them carries with it a cost in terms of providing compensation to the Members which would be affected by the measure, or the risk of those affected countries suspending concessions.

To improve the security and predictability of their trade regimes, developing countries have, on average, committed not to raise the import tariffs of three-quarters of their tariff lines for industrial products during the Uruguay Round. Latin American countries have showed great leadership here, with commitments on market access approaching 100 per cent. The current negotiations offer an opportunity to all developing countries to increase the level of their bindings and reduce their tariffs on each other's exports. While the share of developing countries in world trade is 31 per cent, they pay over 40 per cent of the world's total tariff bill. One reason for this anomalous situation is the high tariffs developing countries generally impose on each other's exports. With trade between developing countries growing rapidly, these countries have every interest in reducing their own tariffs on both industrial and agricultural goods during the current negotiations, as well as those they face in wealthier markets.

A significant reduction in the overall level of tariffs and non tariff barriers will increase the market access opportunities of developing countries and facilitate the diversification of their economies. It would assist in adding value to raw materials and reducing dependence on primary commodities. This in turn generates growth in employment and investment.

Similarly, to reap the maximum benefit from the Services negotiations, developing countries have an interest in opening up as many services sectors as possible. Reasonable commitments should enable them to attract foreign investment in certain critical sectors of the economy including financial services, telecommunications, transport and tourism. I should emphasize that – contrary to some claims - the WTO agreement on services is a flexible one. It does not impede the right of governments to decide which services sectors to open nor to monitor or regulate the activities of foreign service suppliers.

To sum up, developing countries have a great stake in the multilateral trading system, but much of this still remains a potential. In order to realize this potential, developing

countries themselves need to engage actively in all aspects of the work of the WTO. After all, they constitute over three-quarters of the membership of the organization.

Regional and bilateral trade liberalization initiatives have been a growth area in recent years, not least on this continent. Today, almost all WTO Members are a party to at least one regional trade agreement and many, including Peru, are in the process of concluding further agreements. Clearly, difficult and slow progress at the multilateral level will generate interest in other possibilities. This happened in the Uruguay Round and it has happened in the Doha Round. However, despite the contribution that bilateral and regional trade agreements can make towards further trade liberalization we all also know that they cannot be a substitute for the multilateral trading system. In the long run the limitations in terms of coverage and balance will become costly in comparison to an unified system of shared and enforceable commitments. They can and do complement the multilateral system; they cannot replace it. Concern about the slow rate of progress in the multilateral system is not a reason to turn away from it, but a reason to put more effort into moving it forward.

To sum up, where is the multilateral trading system heading to, and who is likely to benefit from such a system ? Let me conclude this presentation by expressing my firm belief that improved market opening, lower subsidies and a predictable and more stable set of rules for international trade, which are to result from the current Round, will not change the current system dramatically. The system is already in place, the WTO is a solid organization. But the results of this round can make this system better, adapt it to the realities of the XXI century. And this will benefit, in a particular way, countries like Peru, on which support the WTO – and myself – hope to continue to count.

Thank you for your attention