

WTO RESPONSE TO THE GLOBAL ECONOMIC CRISIS

10 June 2009

Singapore

Ladies and Gentlemen, it is a great pleasure to be with you all this morning and to kick off this important conference. Singapore is a very special place for the WTO and for me personally. It was here in 1996 that the WTO held its very first Ministerial Conference and it was an unqualified success, something which we cannot say about too many of our Ministerials. Our official logo was in fact a gift from the government of Singapore, which had used it for that Conference. In the years since that meeting, we have always been able to count on Singapore for its support for the WTO and the multilateral trading system. I know I speak for Director-General Lamy and the entire Secretariat when I say that we greatly appreciate this support.

This seminar is for Parliamentarians and recognises the unique role you play in the multilateral trading system. It may be that governments negotiate international trade rules and agreements, but it is Parliamentarians, as the representatives of the people, which must consider these rules and agreements and implement their provisions through appropriate domestic legislation and budgetary allocations.

We at the WTO keenly recognise the wider role you can play in terms of bringing international organizations and people closer together. Specifically, Parliamentarians can help explain the workings, benefits and challenges of the trading system; Parliamentarians can help citizens understand and cope with the complexities of international business and globalisation; and Parliamentarians can encourage greater awareness and informed debate on international trade issues. In addition, as representatives of the people, you provide a crucial interface between the people, civil society and governments.

We view it as vital that we assist you in these efforts. In recent weeks we have begun an enhanced programme of reaching out to you. We have issued a new monthly newsletter specifically for Parliamentarians, we have enhanced our data base so we can remain in close contact with you. We have established a special email account so that we can hear from you on how we do better to provide you with the services you need. Director-General Lamy will conduct an on-line chat specifically with Parliamentarians on 16 June. We invite all of you to participate in this event. We hope very much too that this seminar will make an important contribution in this respect.

Ladies and Gentlemen, we are living through the most serious economic crisis of the last 70 years. We have faced economic downturns in the past, including one 10 years ago which shook this region profoundly. But this time the crisis is global and clearly the world will be a changed place when we emerge from it. Trading patterns will change, sourcing networks will shift, consumption will be more evenly distributed.

It is of course too early to say what the impact of these changes will be. There are, moreover, some indications that we are reaching the nadir of this crisis. OECD and the World Bank have issued some reports which indicate that

perhaps improvement in the global economy could be imminent. But WTO economists predict that trade volumes will fall by 9% in 2009, and that figure could be revised downward soon. The OECD predicts trade will shrink by 13%. So while we may see some green shoots of recovery here and there, it seems clear we are nonetheless in for a bumpy ride over the next year or two.

We have seen overall economic output decline in many nations, including Singapore, where economic output was down 10.1% in the first quarter of 2009.

What is particularly troubling about this crisis is that we know it will be the poor and weak countries – who have in no way precipitated this crisis – who will be the hardest hit. Export markets for many of the poorest countries have collapsed. Making things worse, prices are falling sharply for many of the commodities on which these countries depend for export earnings. The IMF warns that low income countries could face a deterioration in the balance of payments of roughly \$165 billion.

The collapse in trade has also been painful for those higher income countries with high trade to GDP ratios, which is the case for a great many countries in this region. Singapore saw its trade contract by 24.3% in March. Malaysian exports were down 15.6% in March, while in India and Indonesia exports have fallen by roughly 30% so far this year.

These sharp declines in trade have lead some to suggest that the those countries which are reliant on trade for economic growth and development should shift to a different model. But such pronouncements should be viewed with cold-eyed realism. It was through trade that countries like Singapore, Korea, Malaysia and China were able to develop so successfully. It was through opening its economy in 1991 that India began its remarkable record of growth that has lifted millions out of poverty.

Countries with open trade policies grow their economies more enabling them to combat the scourge of poverty. Fast growing Asian economies like China, Chinese Taipei and Singapore have seen trade add, 1.3%, 1.5% and 3.1% to GDP over the last 10 years, generating greater revenue which governments can spend on improved infrastructure in health, education, transportation and communication. These improvements have raised living standards and helped to alleviate poverty. It's true that recession has hit these countries and that the collapse of export markets has been a factor in economic contraction. But countries which have opened their markets tend to be more efficient and adaptable. Because they have seen higher rates of growth, these countries have the necessary reserves to implement the variety of stimulus packages that have helped avert even worse economic circumstances. As a result of all of these factors, they will be better positioned to benefit from the eventual upturn in the global economy.

Another concern that has arisen from this crisis is the fear of rising protectionism. At the start, I should be very clear, the sharp decline in trade volumes over the last eight or nine months has been driven by collapsing consumer demand and investment far more than any other factor, including a rise in the number of trade restrictive measures that have been applied.

Trade is a function of economic activity and when an economy stops growing, so does trade. The rise in global sourcing means that trade often rises or sinks by a wider margin than economic output, as many inputs to a finished product cross borders before that product is itself shipped abroad.

Although, trade restrictions have not been a factor in the contraction of trade, there is no doubting that governments and Parliamentarians, across the

world face growing calls from domestic constituents to do something to restrict import competition. And it is in this moment, that the wisdom of those who created the multilateral trading system is most apparent. Global trade rules negotiated over more than 60 years have acted as a powerful deterrent to the imposition of overtly protectionist actions like spiking tariffs. This sharp hike in import duties, which began with the Smoot-Hawley Act of 1930, was a major factor in the 66% contraction in global trade between 1929-1934.

Rather than such draconian actions, governments have opted instead for what Director-General Lamy refers to as "soft protectionism" – ie the implementation of measures which may fall inside WTO rules but which are nonetheless bound to deter trade. For this reason, our Members have asked us to be vigilant in reporting trade measures and this we have done. As you are aware, Director-General Lamy has put forward two reports to WTO members in which he has monitoring closely developments in the trading system since the crisis began. A third report will be released in the coming weeks.

To date, fears of a vast outbreak of protectionist actions have proven unfounded. True, G-20 members have not complied 100% with pledges made in both Washington and London not to employ protectionist measures. We have seen some slippage from those pledges. The Secretariat was able to verify that 21 WTO Members had employed trade restrictive measures since the crisis began. We do not imply that these measures run contrary to WTO rules. Nor do we suggest that the 17% surge in anti-dumping initiations in the last 6 months of 2008 are unwarranted. What we can say definitely though is that these measures restrict trade.

The second factor in the sharp decline in trade has been the sharp reduction in available trade finance. In the market today there is a lack of

transparency and an abnormally high aversion to risk. The G-20 made a strong start in addressing this problem by pledging \$250 million to support trade finance through export credit agencies and multilateral development banks. But the contraction of trade credit is part of the broader liquidity crisis and though we have made some progress in pushing this problem to fore and addressing it, developing countries in particular report ongoing difficulties in obtaining the bank credits they need to finance transactions. Trade finance is the oil of global commerce so it is vital that we continue to monitor this situation and we will continue to do so using our network of banks, governments and international institutions.

We have seen some encouraging signs on the trade finance front in recent months. Credit markets seem to have thawed, at least to some degree. At the beginning of the year the IMF estimated the trade finance gap at around \$500 billion and now their economists peg it at no more than \$220 billion, and perhaps far less. Dry bulk shipping rates, which are a very good indicator of the level of trade transactions, have been nudging up.

In the broader economy we have seen some signs of recovery, but the picture for the remainder of this year appears bleak. Much of what needs to be done – cleaning up banks balance sheets, stimulating domestic demand, improving global financial regulations – falls outside of the WTO's remit.

But there is no doubting that we have a contribution to make here. Monitoring of trade measures since the crisis broke has been important, working to shore up trade finance has helped as well. But there is little doubt that the most significant thing the WTO can do to bolster the global economy is to conclude the Doha round.

We will have a session dedicated to the Doha round tomorrow so I don't want to dwell on this for too long, but it is difficult to imagine anything we could do in Geneva which would do more to shore up confidence than to conclude this round. I'm not saying that a Doha deal would magically lift the world from recession. There will be phase in periods and it will take a bit of time for the trading community to adjust to the opportunities created through more open trade. But in pledging to roll back barriers to trade in goods, services and agriculture, governments will have sent a powerful signal that they are ready to work together to build on an improve the open, rules-based trading system which has delivered prosperity and stability for six decades.

These negotiations have been in train for some time, eight years to be precise. But a great deal has already been done. DG Lamy estimates that we are 80% of the way there in these negotiations. Given that this is the most complex trade round yet undertaken and given that far more countries are participating actively than ever before, this represents a considerable accomplishment. So what is the next step? My feeling is that the coming months provide us with a series of occasions at which the political process for the Doha round can be re-ignited. Already the atmosphere in Geneva has greatly improved. The May visit to Geneva of U.S. Trade Representative Ron Kirk was very well received. Negotiating groups are stepping up their activities across the board.

Ministers from the Cairns Group and other countries met in Bali earlier this week and from the reports I have received some encouraging signs emerged from the discussions. The trade ministers from the OECD and other countries will meet in Paris later in June. In early July, heads of state and government from the G-8 plus emerging economies, will meet in Italy and later in the month, APEC ministers will convene here in Singapore. Each of these meetings

should lend greater clarity to the process and help create the conditions for moving us toward agreement on deals in agriculture and industrial goods.

There will be other occasions at which Ministers can come together. We will hold our 7th Ministerial Conference 30 November – 2 December. This will not be a negotiating session, at least not in the traditional sense of the word. It will, however, provide a forum for ministers to exchange ideas on how the multilateral trading system can be strengthened. The precise format of this conference is still being developed but already we have heard from a great many delegations about what they believe should be discussed. Some want the WTO to become more development oriented. Others believe we should expand the agenda of the Doha round to take on board issues beyond what has been set in the current mandate. Should we look to include issues related to climate change, food security, financial protectionism, labour or energy?

Some have argued the WTO should be more involved in dealing with currency transactions and manipulation.

Others, having grown frustrated with what they see as the slow pace of WTO negotiations would like to see some changes to the procedures through which we arrive at decisions.

Frankly speaking I don't believe that a major change to the Doha negotiating agenda is feasible at this late stage. I do believe that we could expand our ambition some on the question of regionalism and the WTO and we have made some positive steps in this regard with the 2006 agreement on enhancing RTA transparency. Clearly there is some scope for multilateralizing these agreements within the WTO context.

As for the other issues, apart from climate change which I'll address separately, I just do not believe that the possibility exists whereby we can garner a consensus on these issues. It may be that they can be addressed in a future round. It may be that other international organizations are better positioned to handle such matters than are we. Either way, I can't see us delving too deeply into these matters as the Doha round winds toward conclusion.

Likewise, I do not see WTO Members ever agreeing to abandon the consensus principle, at least not on matters of national importance. True, generating consensus among 153 members is a painstaking affair. But it's equally true that agreements struck on the basis of consensus have greater legitimacy. Having all members on board enhances the Democratic standing of our institution. It is also essential given that we have a dispute settlement system which bites. It is difficult to envision a sustainable system of resolving disputes unless all the parties have accepted common rules.

As for the other procedures we employ, the single undertaking and the bottom-up approach, governments hold differing views as to whether they should be retained. The single undertaking allows governments the prospect of trading off concessions in one area for gains in another. But it is equally the case that it makes the negotiating process more complex. We do have a reasonable record of success at the WTO on sectoral and plurilateral negotiations. The agreements on information technology products, telecommunications and financial services showed clearly that members would be able to negotiate agreements within narrow sectoral confines. But these agreements were based on a critical mass of countries participating and they worked only because all parties to the negotiations believed that greater opening in that particular sector was good for all concerned, including the country doing the opening. It's not clear how this would work in agriculture, however.

The bottom-up approach has shown that it can work too. But a drafting exercise involving 153 countries is neither practical, nor feasible. The concentric circle approach in which agreement is hammered out in smaller groups, which expand to take in more players is the only system we have found that produces results. It has not always been popular and many of the criticisms about levied against it have been valid. But over the last decade the system has improved greatly, thanks to the formation of representative groups like the G-20, the G-33, the Cairns Group and others who represent their members in the Green Room, consult, liaise and work to form common positions which adjust as the negotiations mature. This requires a good deal of effort from the group coordinators, and the system is still not perfect, but clearly the circle of participation in negotiations has widened and will continue to do so.

I skipped rather lightly over the question of environment and climate change in my earlier remarks and that's because I think this matter needs to be addressed in a slightly different way. It's important to remember that the WTO already deals with environmental matters across virtually all its areas of activity. The Marrakech agreement states unequivocally that we are committed to "allowing for the optimum use of the world's resources in accordance with the objective of sustainable development." We have a trade and environment committee and a trade and environment division. The Doha round includes a great many issues related to the environment including disciplines for fisheries subsidies, closer co-ordination between the WTO and multilateral environmental organizations and reduced barriers to trade in environmental goods and services.

But while all of us acknowledge that there is an important intersection between trade and the environment, it would be a mistake to consider the WTO

an environmental organization. All of us are keenly aware that multilateral negotiations on climate change are already underway in a separate forum, the UN Framework Convention on Climate Change. There has been a great deal of discussion in trade circles regarding the use of border measures to enforce environmental agreements and the implications of a cap and trade system of emissions conclude.

These issues are on the table and will be very much a part of the discussion at the UNCCC summit in Copenhagen this December. Clearly, the negotiations on these trade issues will be difficult, but in my view this is the forum where rules of this sort must be negotiated. If an agreement on trade measures and the environment can be struck at the UNFCCC summit in Copenhagen I believe the WTO will adjust. Our system rules allows for flexibility with respect to other international agreements.

Moreover, we already have a good track record in this respect. There are some 20 multilateral environmental agreements with trade provisions. These agreements restrict or prohibit trade in everything from appliances emitting CFC gases, to hazardous waste to endangered species. There has never been an instance in which these restrictions were challenged by WTO members. There is a good reason for this -- the countries belonging to the WTO and to the MEAs are the same. So the WTO will adapt to whatever is agreed in the post Kyoto process. What is equally clear to me, however, is that if agreement cannot be reached in Copenhagen, we should not expect that it could be reached in the WTO. The worry is that failure to agree on multilateral rules, may lead some to pursue unilateral options.

It will be a busy few months ahead of us. Clearly, the difficult economic times we face mean that our jobs will not be any easier. But in every crisis there

is always opportunity. And we have before us now, an opportunity to act, to reform a trading system which must be made more equitable and relevant to the commercial concerns of the 21st century. We also have an opportunity to provide a stimulus to trade, when the world sorely needs it. Ladies and Gentlemen, I'm sure that working together we can seize this opportunity.

Thank you.