

Event Transcript

Central Issues Facing the WTO

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Peterson Institute for International Economics, Washington, DC
April 24, 2009

Pascal Lamy: Thanks to the Peterson Institute for International Economics for organizing this event and for giving us an opportunity to look at trade in the current economic turmoil and how it can be part of the global solution. We always have to start with a joke with US audiences, and Fred nicely provided me the occasion for that by reminding me that for five years I was CEO of Crédit Lyonnais. And the interesting thing to note for US audiences at a time when obviously people are thinking, “what's the right thing to do, should we nationalize? Should we bail out? What sort of fees and structures should we have?” is that Crédit Lyonnais was a nationalized bank, which had to be bailed out. So you can do both and I think that's food for thought for the Treasury here. Now back to trade, which is my topic. I'll try to keep my remarks reasonably short so that we can have questions and answers, which, of course, are much more entertaining, at least for you.

We are obviously confronted with the worst economic crisis in generations and with the first global crisis in the history of mankind, a crisis that threatens to undo the economic development achieved by many countries and to erode people's faith in an open international trading system. Trade has been another casualty of this crisis, with World Trade Organization (WTO) economies facing a decline this year of nearly 10 percent in volume, the worst results since the end of the Second World War.

This gradual free fall in trade and the belief that more-open economies are bearing the brunt of the decline have led some to argue that trade openness has made economies more vulnerable to the crisis. The reality is different. At worst, trade has been a mechanism of transmission but surely not the cause of the collapsing demand. The main explanation for this contraction is well known: It's the simultaneous reduction in aggregate demand across all major world economies. In addition, trade finance, which oils the wheels of international trade, is going up and is contributing to this contraction. Further, the fall in aggregate demand is affecting global supply chains, which in turn is magnifying the contraction in trade. Global production strategies and technological progress saw trade increase above world growth in good times. In bad times, trade is now seeing an exponential decrease. Finally, some countries have increased some tariffs, instituted some new nontariff measures, and initiated more antidumping actions. Some of the measures that have been introduced to stimulate economies contained provisions that favor domestic goods and services at the expense of imports. True, most of these measures are allowed under WTO rules. True also that none of them has triggered so far a tit-for-tat chain retaliation, but there is no denying the fact that they have had trade-cheating impact.

Opening up markets may indeed expose countries to greater volatility; but the response is not to turn away from openness. The response, in my view, is to insure that market opening is

accompanied by the proper international rules and by domestic policies that create insurance for workers or for business against this Schumpeterian impact of competition and the now well-known volatility of market capitalism.

Traveling around this country in recent times, I've been struck by the malaise in many American men and women who place the blame for their job losses on competition from cheap imports; people who blame trade for the stagnation of their salaries, the loss of their medical coverage, or the deterioration of events. We know that countries gain from trade as a result of the increased economic efficiency brought about by specializing in goods and services in which they have a comparative advantage. We also know that, if accompanied by the right domestic policies, trade can be a very powerful tool for fostering growth and contributing to development. But the key lies in the "if": More-open trade is essential, but it is not enough. We need better worker training, greater mobility in labor markets, more-expansive social safety nets. We need investment in critical areas such as healthcare, education, clean energy, and probably, last but not least, a better-regulated financial system. Adequate domestic policies also probably include greater investment in physical and social government infrastructure, which increase the benefits of trade in rich and poor countries alike. Now, while rich countries can count on their governance, their know-how, their taxpayers' wealth to implement these policies, many developing countries simply cannot afford that and yet, they keep stressing, rightly in my view, that opening trade is good for them. By breaking down barriers, trade creates larger markets and enables businesses to operate with increasing returns to scale. And this means that even small-incremented gains in input lead to large increases in output. And these efficiency gains, documented by the International Union of Labor, translate into higher incomes.

As a result, many economies that have been badly affected by the crisis have been enjoying decades of high economic growth; take Vietnam, Singapore, China, Chile, just to name a few. Governments in these countries have built important resources to allow them to manage the worst effects of the current recession. And since a global economic crisis of this severity is extremely rare, the contribution of external demand to increasing income will, over time, largely outweigh losses during economic downturns. And we also know that this global crisis will eventually end and, when it does, economies that are more open will be better placed to stage a faster and stronger recovery.

So my simple point is that retreating from market opening is not a solution to the economic crisis. For countries that depend on trade and are specialized their advantages, a reversal of openness will impose significant cost on their economy. And what is more, setting up new barriers to trade will be seen as protectionism and will risk retaliation from trade partners. One country's exports are another country's imports and the other way around; rather than reviving economies, the effect of this would be to worsen the global crisis.

So cobbling together complementary domestic policies with trade openness helps magnify the benefits of trade while, at the same time, blunting any vulnerability from sudden shifts in external economic conditions. Openness begets efficiency and higher incomes; flanking domestic policies enlarge those gains and provide greater security when a crisis strikes. And the presence of these complementary domestic policies provides a layer of comfort to workers, who are then better prepared to face global competition since they know there are social safety nets that will catch them when they fall. Without these measures, open economies are certainly vulnerable to external shocks. And politicians in developed economies also face a more skeptical public, who will find it easy to

limit trade when the economy is buffeted by powerful economic forces that many people just do not understand.

How does one maintain the drive to open markets in a regulated manner? And I wish to stress “in a regulated manner” at a time when the trend seems to be the opposite. Well the GATT and the WTO have provided the world with more than 60 years of economic stability. What businesses, what consumers want is exactly that: stability, predictability, which had been insured by this very basic principle of binding concessions, tariffs, services market opening. That means opening markets in a sure, in a definitive way, and in all the disciplines that are contained in the WTO arenas. And what we need now is a successful Doha development round to restore confidence at this moment of crisis and to reinforce the stability and the predictability of the global trading system.

And that's why the Doha round is simply the lowest-hanging global stimulus package. It would complement national stimulus packages that many countries, such as this one, have put in place. While national expenditure programs stoke domestic demand, the Doha round would fuel foreign demand for a country's goods and services through this concerted reduction in trade barriers, boosting again the confidence of both businesses and consumers. All available estimates of the benefits from the round show that the world as a whole would benefit greatly from the reduction in tariffs and subsidies. US business knows that, even if from time to time it pretends it doesn't know it. And as the world's leading exporter of goods and services and, as the country with one of the world's lowest tariff barriers, it is clearly in the United States' interests to conclude a global agreement that would bring down barriers to trade and open market in other economies. And this is exactly what the Doha round would do.

Available calculations about what's already on the table show world tariff ceilings halved and subsidy ceilings dramatically cut as a result of this round, and that's already on the table. But these studies underestimate the benefits. They have not factored in gains in the very important sector of services, or the rules-related aspects of the round, including trade facilitation, an often neglected aspect of the WTO system. Here again, these rules and these bindings would make trade policy more predictable, and there is evidence that predictability reduces instability in trade flows. And by reducing uncertainty in market access, bindings can have an equivalent effect to actual reductions in presently applied tariffs, even if the latter will also be achieved.

Since the beginning of this crisis, I've been, of course, because that's my duty, concerned about research in protectionism. I have now in my office, a picture of two reasonably aged men smiling as they shake hands. And visitors often ask whether these are relatives of mine, my grand uncles, or maybe my grandparents, but in fact these two smiling gentlemen are Senator Smoot and Representative Hawley, the authors of this famous 1930s Smoot-Hawley Tariff Act, and that's why I now have their picture in my office, and that's my answer to those of the visitors who are trying to be nice to me and say, "Oh, your grandparents' are great." My answer is the question of why these two guys are there is that they are the two founders of the World Trade Organization. This picture is a reminder about agricultural trade responses, which can quickly spiral out of control, as we saw in the 1930s. This is why I have taken the initiative, which WTO members have so far accepted, to monitor the measures taken by our members during the crisis, as a sort of a device to provide transparency and through peer pressure to preempt this dangerous threat. It operates on the principle that sunlight is the best disinfectant or, to use another image, like the cannery in the mine, it tells us if we are keeping protectionist pressures at bay. Now, as important as it is to open trade, we must also move forward.

And a successful Doha round would show that, even in the midst of this global economic crisis, nations can successfully cooperate to reach global solutions and this probably would auger well for our ability to find cures for other pressing global problems, which require, obviously, a lot of cooperation among nations, such as climate change, where the clock, as we all know, is ticking for Copenhagen. Because we are in the Peterson Institute, whose research is respected and well-known, I have one or two remarks about an academic view, which I have heard recently, according to which the Doha round is no longer relevant: The Doha agenda needs to be updated and therefore what we should do is call it a day and restart again from scratch.

And on this, I'll be very frank, as usual: I've been puzzled by such comments but, what is probably much more important, many WTO members have been angered. And a vast majority of these WTO members who have been angered are poor developing countries. Take the African government producers who are awaiting the conclusion of the round to see reductions in trade distorting GATT subsidies, or all those who are awaiting the elimination of current export subsidies on dairy. Please notice, I've balanced my examples. Take also the negotiations on climate-friendly goods and services, which is part of the Doha round.

Here is a chapter with a huge economic but also job creating potential. The Obama administration has committed itself to reducing US greenhouse gas emissions and to making the United States a leader on climate change. Well, a successful round could deliver a package of nicely increased markets for environmental goods and services. A more-open trade in this sector would increase the availability and lower the cost of climate-friendly goods, services, and technologies. And this outcome would nicely complement a much-needed climate change agreement later this year in Copenhagen. Take also fisheries subsidies, where the Doha round could create the first international agreement aimed at reducing wasteful government support for activities that deplete the world's oceans of their vital resources.

Not to mention the "outdated agenda" of regional trade agreements or rules of origin, which were already on the table during the Tokyo Round and which are part of the Doha menu and which are often quoted by economic operators, the ones that know the real obstacles to trade, because they are the ones trading, undoubtedly necessitating clearer WTO rules. So it's not that our current agenda is outdated or our mandate obsolete. It is simply that trade opening is, and will remain, an unfinished business, having to cope with dominant changes in technology, in production patterns, in consumption models, and in the number and the relative position of the players. So, finishing the round is simply about first things first. It's about addressing our immediate challenges first so that we can then build on them for the future.

So our challenge remains concluding this round, which would put another brick in our 60-year-old global trading system. But while I believe the logic of these arguments may be compelling, there are doubting Thomases who are skeptical about the political viability of US support for this round. They're looking to a reconstituted Congress, which may actually wield the balance of power on US trade policy. And they also believe that the American public has soured on trade because of the crisis. And if you believe the latest Gallup poll, a small plurality, 47 percent versus 44 percent of the US public, is more negative than positive about international trade. If you believe Pew, a small majority, 53 percent, of Americans continue to believe that international commerce is good for the United States. Now, what these polls suggest is that US opinion on trade is in flux, and that with

strong political leadership, it is possible to fashion a multilateral trade deal that the US public would support. It's not less trade that the United States needs, but more and better domestic policies.

There has been, in my view, excess attention to trade and a serious deficit of attention to these sorts of domestic policies, which translate into great benefits for the people. And this is where the task of reconciling the people of this country with trade, I believe, must start. And many of the priorities, which were announced by the new administration—better regulation of financial institutions, improving the education system, creating a more affordable, more accessible healthcare system, health being a smaller business—can be seen as a crucial component of these complementary domestic policies that we, in my view, need. They would prevent the recurrence of this crisis that now envelopes us. And they would better prepare Americans to participate more confidently in the global economy. I believe that US business, US academics, US political leaders can help galvanize American public support for this round by explaining that these policies help US people, help US firms to be better prepared to compete in a world with lower trade barriers and more open trade.

In conclusion, and this will not surprise an American audience, we owe the post–World War II vision of an open, nondiscriminatory international trading system to the United States. Historically, it has played a leadership role in all previous rounds of multilateral trade negotiations and the Doha round is number nine. I think the world, as was the case before, needs a committed United States to strengthen the multilateral trading system, a United States once more willing to make history in that field. Thank you for your attention.

Question and Answer Session

C. Fred Bergsten: Pascal, thank you very much for those very inspiring words. And thank you for agreeing to answer the panoply of questions I'm sure you will get from the audience. Let me start, if I may, by asking you a question of basic strategy. There are a lot of people out there who are fully with everything you said in avoiding protectionism or back sliding but who are not convinced of the need to move forward to more liberalization. In fact a lot of businessmen in the United States feel that the status quo is acceptable, markets are pretty open, so as long as we don't backslide, which the administration has resolutely opposed, we're okay. Now, as one who invented the bicycle theory a while back, I take the view that, unless you move forward, you may create a vacuum, which leads you then to be pushed back. But you're the man in the cockpit. You are orchestrating this global trade initiative. What is your sense? Is it possible to remain in a stasis with no backsliding in the absence of forward movement? Or does one have to move forward? And if so, what's the most persuasive way to convince people of that?

Pascal Lamy: Well, I think you've given the sort of “go on” public part of the answer, which is the bicycle theory, which is true. And especially at global, at the international level, where the resistance of the system to converge on an agreement is extremely high. So a domestic bicycle can move a bit without pedaling. An international bicycle immediately stops because of the resistance to move forward, because it needs consensus by so many

sovereign players, who all have their domestic constituencies resisting here and there. The international bicycle stops more quickly than the domestic bicycle.

Now, that's the sort of general answer. Trade wise, the technical answer is that, while remaining within the disciplines of the WTO, to which they have subscribed, in tariff ceilings, in subsidies ceiling, in services market openings, in antidumping or trade defense procedures, WTO members keep a policy space, which is big, and which is increasing every year in normal times, as countries lower, de facto, their tariffs, their subsidies, for reasons that are structural reasons. And they only, from time to time, consolidate this in the WTO system. Now, this sort of water, as we call it in our jargon, between ceiling tariffs, applied tariffs, ceiling subsidies, applied subsidies, consolidated services market opening and de facto existing market opening, even in trade defense, this water is there and, if it's not absorbed by the negotiation, and a large part of the negotiation, let's say as a rule of thumb, two thirds of this negotiation will be about absorbing the water that has appeared during the 15 years that have passed since the conclusion of the previous round.

Now, I've been trying to make this case, which is a bit of a theoretical case in normal times. Now this crisis shows that it is not a theoretical assumption. What's happening is that—and this is precisely the focus of the monitoring I mentioned a few minutes ago—what's happening is that people, in terms of crisis, are using this policy space. And, if you do not absorb it, then the risk that it's going to be even more used in the future remains. So, the bicycle, in reality, is not falling where it is, it's moving backwards. Now, I'm sorry to enter a bit into the details but that's the reality. So first answer, the bicycle falls because it's not moving. Real answer, the bicycle moves back. And who will be hit by the bicycle moving back? Those who have very little policy space.

And who are the ones who have very little policy space because their tariffs are very low and the level of the applied tariffs is equal to their consolidated tariffs? The United States, the European Union, Japan, Canada, because this policy space is unevenly distributed among members. And rightly so, because developing countries have always made the case, successfully, and to a large extent legitimately, in my view, that they need more policy space than developed countries. So the straightforward answer to your question is: If we don't do that, the bicycle will move back and the cost of moving back will have to be borne by, basically, the European Union, the United States, Japan. That's something that they need to understand.

C. Fred Bergsten:

Okay, couple questions in the back. Please identify yourself and then fire away.

Susan Aaronson:

I'm Susan Aaronson, George Washington University. It's a pleasure to have you here on Washington. I'd like to ask you a question about the trade policy review process. You mentioned in your remarks, which I'm very grateful to hear, that one of the great benefits of the GATT/WTO has been transparency, certainty and rule of law in the system. And in recent accessions, from China onward, these countries have been required to enforce the rule of law throughout all their territories, including their special economic zones. And I'm just wondering if any government has asked the trade policy review process to look at rule of law questions, which can impede market access as much...it's an indirect subsidy. For example if a government, let's just say Cambodia, ignores its own labor laws, or another government ignores intellectual property laws in the interest of maintaining employment, is that not as much a threat to market access as a direct subsidy? Thank you.

Pascal Lamy:

Well, trade policy is reviewed in the World Trade Organization and we now have, thanks to the crisis, two sorts of trade policy reviews, the vertical country-per-country trade policy reviews, and the horizontal trade policy reviews, which we inaugurated in January. These trade policy reviews and notably, the country-per-country trade policy reviews, are focused on whether or not the trade policy developments of our members fit with their commitments. And their commitments, as normal in this fragmented system of global governance, have to do with trade.

Now, the International Labor Organization (ILO) does labor policy reviews, which have to do with the implementation by ILO members of the commitments that ILO members have subscribed to under the form of treaties, conventions in the field of labor. The Human Rights Council does human rights country reviews, which assess whether or not (and that's done by peers) a country follows the commitments it has taken in the field of human rights, which is this compartment of the global system. True, we do not have a big umbrella organization where the whole commitments of all countries in all parts of the international system would be reviewed. And if I had to describe a big organization that would do all that, I'm not sure you would like it, nor would I probably.

So that's this sort of famous issue of coherence. Of course, labor rights have consequences for competitiveness. Of course, short-term currency developments, which are the remit of the International Monetary Fund (IMF), have short-term impact on the competitiveness of an economy. There are bridges here and there. There's a bridge between the GATT rules and what we call, in the jargon, currency manipulation. The GATT says that, basically, you cannot frustrate the commitments of trade opening, which you've taken through manipulation of your currency. So there are some bridges.

The ILO, in July last year, adopted a binding declaration saying that the members of the ILO are not only resolved to implement the labor conventions, basic union rights, basic equality of salary between men and women, no child labor, not only are they resolved to do that, but they will also not bridge these commitments to gain a competitive advantage in international trade. So, they've built that better bridge on their side. We in the WTO have the rule that if you respect international phytosanitary standards, for instance and, if you use them as an obstacle to trade, it's okay. The burden of proof that you wrongly use these international standards is on the other side, if there is a complaint. So there are little bits of bridges, which appear.

There is a World Intellectual Property Organization (WIPO), there are international treaties on intellectual property protection. WTO members have decided to build a bridge between WIPO and trade rules. But it's not everywhere and, at the end of the day, members of all these organizations, all these networks of commitments, are the same. And the theory of international law will tell you that their duty is to respect, simultaneously, all the commitments that they've taken in these various treaties, which is why, in theory, there is no coherence problem. We all know that practice may be slightly different, which is why these bits of bridges between the various islands of the archipelago of global governance are slowly appearing here and there.

C. Fred Bergsten:

Pascal, since you've mentioned building bridges, can I ask you about an area where I think you're going to have to build a new bridge. You mentioned the negotiations on climate change, and you particularly mentioned the positive prospects for reducing barriers to trade and energy-related, environmentally friendly goods and services. But I must tell you I, with some others here in the room, met with a group of Congressmen on Wednesday, one of whom, very protrade, suggested that the coming climate change legislation in the United States might become, and I quote him, "The Smoot-Hawley Tariff of the 21st Century." In other words, there's a great fear that climate change initiatives could provide a huge new foundation for trade protectionism. The work we've done, and you know that, suggests a need to build a bridge, and a very prominent and, hopefully, effective one right at the outset, between the climate change regime that is coming and the trade regime, which you defend. How do you propose to do that?

Pascal Lamy:

I think the previous question leads us on the right path. I am fine, intellectually, if my members decide to build a bridge between the WTO and the climate change island, provided there is an island. I can't build the bridge if there's no island. Well, I can start building a bridge, I won't get that far. So what we need is a climate change island, and that we don't have. And the climate change island substance is: What's the burden sharing on CO₂ emissions for the future? Class would go with it in terms of finance, technology transfer, a bit for mitigation, a bit for

adaptation. But, they have to create the island and the WTO island is not going to create a sub-island that would substitute for the climate change island they've got to build. And, by the way, if they're not able to build the climate change island, how could WTO members, who are the same, build it in the WTO?

So that's the issue. If there is a climate change island, building a bridge, we will do that. We did it for CFCs, no problem, it worked well. And there were older measures at that time. We did it for toxic waste. We did it for dangerous chemicals. We did it for endangered species. And true, the environmental thing is lots and lots of little bits of many islands. There's not a big island which is the environment island.

So the lessons of the past lead us to believe that, if there is something solid built, the bridge will be there. Now, that's the political answer. The technical answer, and we've started thinking about this, is that, as usual, with this sort of concept, in order to avoid leakages of good behavior, you need bolder measures. That's slightly more complex. Take the example of measuring the carbon footprint of imports, so that if the carbon footprint is negative—that is if what you import has a higher carbon footprint than what you produce—then adjustment at the border looks right. Now, what if the carbon footprint of what you import is lower than what you produce domestically? The logical answer is adjustment and import subsidy. Great idea for the WTO.

Nobody ever in the WTO dared, and surely not the director general, to suggest that in order to stimulate trade you should have import subsidies. So maybe we're getting to that. And mind you, it's not theoretical gains, given the time where a number of emerging countries stepped in the production of what they now export on rich markets. Quite a large part of these, not everywhere, not for everybody, is done with production methods that are much more modern and much less CO₂ emitting than what good old European or Japanese or US industries would do. So that's for the technical part of it, but again, if we need to go there, we will go there. It's not going to be a political issue, but we cannot, should not, try to find in the remit of the World Trade Organization, which has to do with trade rules, an environmental negotiation, which has to take place in another part of the system.

Howard Rosen:

My name is Howard Rosen with the Peterson Institute. I was gratified to hear how much of your remarks you devoted to the nexus between domestic adjustment policies and international trade. As you know, many of the international organizations have now been talking about this, but none of them has been willing to take a leading role in translating the rhetoric into action. Given the extent of your remarks tonight, I'd like to ask you, is the WTO ready to take an aggressive leadership role in promoting adjustment programs and helping countries to develop those programs, and maybe even to try to implement them?

Pascal Lamy:

Well, certainly not where the responsibility of that has to do with domestic policies that pertain to legitimate political processes in countries like this one, for instance. But also, certainly, and that's what we've been doing, for instance, in Aid for Trade since 2005 in participating for our little bit of what we do for developing country capacity building and training. So, in participating, or coordinating, which should be the mandate we got in 2005, Aid for Trade worldwide, or in revamping and funding, not by ourselves but our members, the enhanced integrated framework for NDCs, or in putting together this standard development facility, which helps developing countries raising their capacity to match sanitary or phytosanitary standards, which are, certainly for many of them, much more important obstacles to penetrating rich markets than tariffs.

So my answer in short is not for us to step into what's for domestic politics, good old principles of solidarity, but where there's a vacuum is where international organizations, the international system, developmental systems, have to step in to fill the vacuum between the notion that opening trade benefits developing countries and the reality that, in many cases, it may not do it simply because they don't have the capacity. There the answer is "yes."

Jamie Strawbridge:

Hi, I'm Jamie Strawbridge from Inside US Trade. Two quick questions: First of all, the new administration here has made it clear that it really wants to have a greater idea of what it's going to get in terms of modalities and agriculture and industrial goods. Do you see any ways that that greater clarity can be had within the existing modality framework or would getting greater clarity necessitate a whole different approach? And secondly, could you touch briefly on the negotiations in terms of politically recommitting to them? Do you see the G-8 meeting in July as a key event where we could see real political reengagement in the Doha Round? Thank you.

Pascal Lamy:

On the first question, I'm very adamant and interested in transparency and clarity. And, to be frank, this round, number nine, the way it has been structured and notably the way we use formulas to reduce tariffs in agriculture, in industry, or in subsidies, the purpose of which is to make sure that higher tariffs or higher subsidies are reduced proportionately more than lower tariffs and lower subsidies, is a big contribution to transparency and clarity, as compared to the previous eight rounds where it was all about negotiating averages, which were put in a big obscure black box. The negotiations were concluded and then your constituencies would discover what's in the black box.

So in terms of transparency, clarity, we've made a huge step forward in changing the technology of tariffs and subsidy reduction to formulas. Now, true, these formulas do not say 100 percent of the result, because

for passing through this totally brand new technology after 60 years, which will remain for the future if the round is concluded, we had to create a bit of obscurity here and there for some time in the negotiation, sensitive production and agricultural flexibilities, for industrial tariff reduction for developing countries, and special products in agriculture for developing countries. So true, there remains a bit of unclarity at this stage. Although for sensitive products in agriculture, which is the flexibility that developed countries have, this problem has been basically solved. So we remain with two elements where I totally recognize there is not the clarity that you need at the end of the negotiation. But again, as compared to what we've been doing for 60 years, it's night and day in terms of clarity and transparency.

Now, how can this be addressed? Either you try to provide a maximum of clarity before the scheduling process or you provide the final clarity at the moment of this scheduling process, and only schedules are legally binding, or you have something in between. So that's what's on the table for the moment. And there are ways and means of checking with a number of trade partners, reminiscent of what used to be done in the requests and offers, where tests were made and then adjusted. There's plenty of scope for that and the number of players is well known. How many countries among the 153 members of the WTO will apply the formula for tariff reduction in industry? One-fifth of that, maybe one-fourth. So it's not a huge problem. It's a problem; I'm not saying it's a marginal problem, but it's not a huge problem. And if there's political will and if that's what has to be done to move to the conclusion, it's perfectly doable.

Now, that's not the only area where a bit of clarity needs to appear. Some countries, this one, to be very precise and frank, negotiated in Hong Kong in 2005 a 3 percent flexibility on duty-free, quota-free access for these developed countries. Since then, these developed countries have been asking repeatedly, where would this 3 percent of tariff funds be chosen by request? To my knowledge, we also still lack clarity on this one. So a bit of clarity here, a bit of clarity there, trading off clarity might be a good suggestion.

Jeffrey J. Schott:

I'm very glad that you brought up the need to have negotiations on a line-by-line or sector-by-sector basis in a few areas on agriculture and nonagricultural market access (NAMA). But it seems to me that the negotiators have been going around in circles and, not having the flexibility to proceed in that, in the absence of negotiations on another important area of the agenda, services, and where there haven't been negotiations and where you don't have a formula, how do you engage all three together, so you actually have an ability to garner political forces that would support the flexibilities that you say are needed in all these areas?

Pascal Lamy:

Well, true, services remain with the medieval technology of request and offer. We haven't yet evolved our technology to the point where the average degree of an opening on services, or the quantification of a protection in telecoms, or distributions, or dredging, is doable. So because the services negotiation remains with the request and offer, the mandate, which was agreed in Hong Kong, was that the final round of request and offer in services would take place after the establishment of modalities, which are the parameters together with the formula, which you need to schedule in agriculture and in industry. And my sense is that we can perfectly do that. I've always said to the members and in public that, once you've established these formulas and the parameters you need to schedule, including in having tested the impact of flexibilities, you've got one track that does that, got one track that does the service and negotiation. So doing this simultaneously instead of doing this sequentially, once you have the necessary elements to schedule in NAMA and in agriculture, is perfectly doable. And I recognize that it would sort of exercise, sort of would create a bit of momentum. Because, as we all know, request and offer negotiations only work when negotiators know that the train is going to leave the station, and they'd rather be on it than remain outside the train. That's a well-known psychology request-offer on negotiations. So we have to combine the psychology of request-offer negotiations with the technology of formulas in the other areas. I recognize it's a bit complex, probably a bit too complex, but it's doable.

Frank Vargo:

First of all, Mr. Lamy, Governor Wrangler expresses regrets he couldn't be here and asked me to express his admiration for your boundless energy, which he's sure will get us to a successful conclusion. From the manufacturer's point-of-view, I'd be remiss if I didn't reiterate that we agree with you fully that the water has value, but, in the way the formulas are now, we would still be able to drown in the water seven or eight years from now. Is there a way of getting the bound tariffs down much faster? That would certainly have us look at this in a new light. But it became very plain, I think, that the Doha round for about seven years has really focused, principally, on agriculture. And it was only last year, at least in our view, that the industrial part, the nonagricultural market access, really got serious attention.

And it became quite apparent that there was a strong difference in view between at least the United States, not just the National Association of Manufacturers (NAM), but the US government, and the key, advanced developing countries where we said there's just not enough market access without having strong sectoral agreements with their participation. And they have said no, they don't want to do that. And there it sat in December and there it sits now. And we worked with the previous administration, we're working with this administration, we want to find a way to move forward, but we still hold that view very, very strongly. So my question is: Has anything really developed where we can find a way to resolve this dilemma?

Pascal Lamy:

Well, the short answer is yes. I mean, there has been a lot of technical exploration since last July in various paths, including on NAMA flexibilities, or even on sectorals. But as you well know, sectorals are voluntary, that's the mandated negotiation. And by the way, this voluntary character for the sectorals was negotiated in Hong Kong as a quid pro quo for the United States keeping their 3 percent flexibilities on duty-free, quota-free for developing countries. So, everything has a price in a negotiation. And that price, your 3 percent specific flexibility, was paid by voluntary sectorals. And you can't redo the negotiation. But I agree, and you know, and Governor Wrangler knows, that I've always been pushing for this bilateral testing, which would allow US industry to check the use of flexibilities by Brazil and India mainly. China doesn't really have a lot of that because their water and their industrial tariffs is very small, because they joined very recently. So that's what has to be done.

Now, on the implementation period, it's always been the case, and that was the case in the Uruguay Round, that developed countries would have a five-year implementation period and developing a 10-year implementation period. And I never heard any developed-country negotiator suggesting that their implementation period should be shorter than five years, unless I missed something during the seven years. And I'm usually paid, not that well, but paid, to check that sort of signal, that sort of new thing that appears in the sky. And by the way, in the case of the United States, which had a problem with textile clothing, the United States will have a 10-year implementation period, which as far as I know the National Manufacturers Association has not objected to.

So, we all have our offensives and our defensives, and it's all great talking about offensives, that's the good tactic of a trained negotiator. It's all easier that you already secured a number of defensives. And you know full well that where the United States had major defensives in these negotiations was in agriculture, and notably trade distorting subsidies. And I will not give you the list of all the major defensives which the United States has cleverly, as it should be, secured in trade distorting domestic subsidies, but it's quite impressive. And of course, others look at that. And, given that agriculture politically was the main tune of this negotiation and you may like it, not like it, I don't have to like it or not, but that's a political reality. So agriculture has given a sort of tune and the package, which is on the table, which is nearly finished on agriculture, gives a tune to the other topics. And the United States has negotiated on their defensives on agriculture, while they still have to secure a number of offensives, so if it saturates a bit of the box of the negotiation.

So if I were in your boots, I will do what you do. I would say, "not much in the formula, water; new trade flows, that's what we need. So it's all going to be about sectorals." I would do exactly what you do. But I

would know that, at the end of the day, my benefits in the negotiation will be removing the water, which I believe has a great systemic price, cutting down on tariffs in many countries that are major markets for US industrial exports with the formula, and the flexibility. Assuming these flexibilities will not all be used against the United States. That would be very strange. If I'm Brazil and I have to look at where I will use the limited flexibilities I have, plus the anticoncentration, I'm not sure I'll see US industry as my major competitor. I'll look at another part of the world, as you well know.

So, all in all, you're right to pitch strongly on sectorals but it will be an add-on to removing the water and the impact of the formula in cutting tariffs. Not for me to tell you what the right proportion is, that's something for the negotiators. But again, let's look at it, and that's what I have to do with you, even if I feel I'm becoming a bit too frank. Let's look at the big picture, and please understand that US partners in this negotiation look at the negotiation over all, including on things that are clearly unfinished like antidumping or fishery subsidies.

Doug Palmer:

Hi, Doug Palmer with Reuters. Well actually, I was going to observe that you sounded rather frustrated with the US position, and I wonder how you would characterize that? Do you think that that resistance from the National Association of Manufacturers (NAM), the farm bureau, the services industry is the biggest obstacle right now to concluding the round? And what about the Obama administration, I mean we're now approaching Obama's 100 days, is it time for them to get more involved in the Doha negotiations?

Pascal Lamy:

Thanks for the question because I didn't answer part of the other one, which is about the G-8 meeting. That's where I'm probably becoming too frank: If I look frustrated at the US position, sorry, wrong, I look frustrated at the EU position, I look frustrated at the Chinese position, I look frustrated at the Indian position, I don't look frustrated at the Tonga position. That's my job, to try to tell them, "please understand the next step of your partners." They have their own glasses to look at the situation. Of course there are resistances in the United States, as there always are domestic resistances once you open trade and there are winners and losers. And Congress is well known in the art of carefully balancing winners and losers. And that's the way US politics works, and it works in a much more open way than in many other systems. So yes, there are resistances, and we all know that at the end of the day the mix of US trade policies, it's like a good cocktail, it's 2/3 Congress, 1/3 administration.

I'm assuming, by the way, the administration is ready to sweat a bit on the other two thirds. So, lining up the constituencies, making sure that the daily is palatable is important for the United States, again, not least because this happens very much in the open. And I think that's key. And

I would never recommend the US negotiator, who, by the way, will never ask my advice on this, whether or not it's okay for Congress. None of my business but I know enough of that to have a sort of personal feeling.

So this administration, which is a new one, has decided they would say nothing about trade during a certain period, because they needed to review what was on the table, to clean up their minds, to start getting their strategy right, and, as all good negotiators, once you've gotten your strategy right, to start devising the first tactical steps of that. It takes a bit of time, and takes all the more a bit of time that there are few other fishes to fry in this country; notably in the relationship between the administration and Congress, which is, again, on trade, extremely sensitive, because it basically is automatically bipartisan. The examples of nonbipartisan trade legislation, for the last 30 years, are quite ideal. So for all these reasons, it takes a bit of time.

And we know that there is goodwill in the WTO membership for the new US administration, it's always like this. This goodwill has a limited shared value, but it's not expired. And I'm sure WTO trade negotiators, other than the United States, prefer to have a US team confirm a US strategy, Reasonably clear. Tactics, by definition, have to be and remain unclear. And that's what's happening. I mean, I suppose most of you listen to what the US president said in various meetings he attended: London, June 20, the Summit of the Americas. Most of you are aware of the speech Ron Kirk gave yesterday at Georgetown University. Things are, I believe, starting to clarify. And the wish of the rest of the membership is that these steps are taken as soon as possible, notably because, for many developing countries, this question of the conclusion of the round is much more urgent this year than it was last year. Because of the crisis and because, for many of them, it's the only little bit of blue sky, which I think the US president—and that's the feeling I got when I attended the G-20 in London—has also gotten right, having listened to what other G-20 members were saying. And I attended thirteen G-7 summits, ten as a sherpa, three as a participant.

I can tell you trade in the G-20 and trade in the G-7 is night and day. And why is it so? It's very simple. Because for G-7 members, trade was not that important; for G-20 members, trade is hugely important. And anybody, having attended the London G-20, would have realized that China, India, Indonesia, Brazil, Mexico, Argentina, the African Union, all had very, very converging and strong pictures on this issue, which, I think, this administration listens to very carefully. And sometimes body language says a lot. So I think, yes, it's a bit slow, other members are certainly impatient. But, I believe the direction is appearing little-by-little. And again, given where we are in the negotiation, I prefer, as the WTO DG, something which is well-thought over, well cooked, pretested with a number of constituencies here and there, rather than a sort of

quick, improvised position that would not stand a test of a tough Geneva renew.

Now, when this ... I don't know, I cannot restart a political process at ministerial level without the US being ready. I don't think we are there next week. Then, as soon as possible, and we have a series of international meetings, GANS group, OECD ministerial, G-8 plus five, APEC meeting in July, that may offer hooks for substantial political conversations by ministers.

Steve Beckman:

Thank you. Steve Beckman, erstwhile of the United Auto Workers Union. Thank you, Mr. Lamy, for being here and taking so many questions. I want to go down a similar path, but in a slightly different direction. You identified the importance of changing the political dynamic in the United States as a necessity in getting the negotiations moving again, and yet it doesn't appear to me that there's anything in the negotiations that would convince skeptics like myself that these negotiations are any different from the previous few rounds of negotiations, which have produced fairly unpleasant results for American workers in a number of different industries and sectors. You pointed to the importance of the social safety net in remedying some of the discontent in the United States, but you did not mention at all the incredible inequality in income distribution in the United States with which the wealth from international trade has disappeared for most and appeared for a few. And now, of course, it's disappeared for quite a few more as well. But we don't want to reestablish a system, or restore a system, reinforce a system, that is going to produce the same results as those that have produced a huge trade deficit for the United States for the last 20 years, one that is unsustainable by general recognition and undesirable for a variety of reasons, not the least of which is that the money generated or contributed to the financial disaster that we are currently experiencing and the international nature of it. So in the absence of bringing some issues, such as worker rights, onto the agenda in order to change the dynamic in the United States, why would you think that there's going to be any chance of building broader support here for an agenda that carries very little relevance or potential for improvement for most workers and citizens?

Pascal Lamy:

Well, the official answer to your question is that there is a place to negotiate worker rights in the international system and this place is the ILO, the International Labor Organization. That's the place where sovereign nation states have decided they would negotiate labor awareness. And they are bound by the results of these negotiations. So if the US workers want more labor rights to be recognized internationally, they have to negotiate an increase of internationally recognized labor rights. It's perfectly doable provided, of course, other sovereign nation states do that. And if I remember well, among the five or six labor standards that were adopted by the ILO, the United States has not

ratified some of them. Am I correct? Good. Now, the friendly answer, and it's a real friendly answer because I've been working with trade unionists for most of my life for various reasons, the friendly answer is that the vision you have, as a trade unionist, of the benefits and cost of trade is innovatively distorted, innovatively. And if I were you, I would have the picture you have, which is that opening trade destroys jobs where I have my troops and creates job where I have no troops; which is either in the United States in the new parts of the economy where, as we all know, the rate of unionization is lower than in traditional good old industries, or it creates tons of job in China, the trade union's of which are, if I'm well informed, not really in the center of the international trade union movement.

So, you lose, and when you're in the trade union and you lose members, you are unhappy. So that's inevitable, but this doesn't change the fact that, overall, trade opening has created millions and millions and millions of jobs. Again, that's the view of an economist, and I can understand why the trade unionist may not be pleased with that. And in the debates I have regularly, and you probably know I regularly interact with the international trade union movement. my pitch has always been, because I have a sort of bias in the direction, that the solution is in making trade unions stronger in developing countries. But you will not in the WTO, under trade regimes and trade rules, substitute for the fact that the trade union movement is weak in many poor developing countries, which are growing rapidly through international trade.

And as far as income distribution is concerned, please don't you drag the WTO into income distribution debates. We are in the business of creating welfare by proper, regulated, more open international division of labor and that's what we've been doing for 60 years and it has created, again, tons and tons and tons of jobs and welfare. Now, how is this welfare distributed? Not for us, subsidiary, not for us. And there's no sign that the US trade deficit is one of the reasons why there is unemployment in the United States; that does not stand a minute the test of the numbers. Three years ago the monthly deficit of the United States was \$70 billion, with high employment. Today the monthly US trade deficit is \$25 billion, tons of jobs have disappeared. So the source must be somewhere else, it's not trade. And this notion that the problem of trade deficits have to be addressed through trade policies, I'm sorry, but I don't agree with that. Trade policies can address tons of things and notably, if they are linked to increasing competitiveness and putting, as I said in my remarks, the necessary comforting factors for the part of the economy, which is reshuffled by international division of labor. But the US trade deficit has much more to do with the US savings rate than it has to do with trade policy. And, by the way, I'm giving exactly the same message the other way around to China, so that's the real issue.

Arvind Subramanian: Mr. Lamy, thank you very much for your inspiring remarks. My name is Arvind Subramanian, one of the coauthors of the piece that you politely referred to as having said that the Doha agenda's outdated. So, let me try and make that argument, not in the form, maybe, that we made earlier. But just imagine this hypothetical situation that you were magically able to conclude the Doha round. Suppose to that, notwithstanding your efforts at naming and shaming, that despite concluding the Doha Round you saw the surge in protectionist measures in antidumping, government procurement, exchange rates, outsourcing, and state aid. Suppose all these things went on, despite having concluded the round. What would that signal about the credibility of the trading system that is does not seem to be addressing the burning problems of today that need addressing? Or, to put it slightly differently, could you not actually generate more interest, more political and private-sector interest in actually moving things forward for the WTO, by actually refashioning Doha to include all the issues that, in fact are the source of the problems in the current crisis that you so eloquently spoke about?

Pascal Lamy: Thanks. That's the last question I will take. I read your piece in *Foreign Affairs*, of course, attentively. And I must say it was very well written, congratulations for the packaging. Great talent of communication and, if I have a job free in the media division of the WTO, there will be...there will be a competition, because I always recruit on competition. But you have good chances of winning it. Now, on substance, there's one part of the argument you've been making in you piece, which I did not address in my remarks, which is that your numbers are wrong. You won't enter into a big debate about this, but you're starting point in your piece that this realm is worth nothing; totally wrong.

And sorry about that, but we have numbers. And what I read in your piece, I didn't really see where your numbers were. And, of course, it's very important because when you make the argument that the things should be refashioned, as you say, if there is not much on the table, it's rather convincing to say, "Why sweat for this meager piece of bone?" So that's very important. So the reason why I think they should sweat for this piece of bone is that it's a big piece of bone.

Second, as I tried to explain—how should we put it?—the WTO is not really in the fashion business. Our time rhythm is 15 years, which as you know, is not really the fashionable business. We start a round, it takes between five and 10 years to conclude, and the implementation of this will take five to 10 years. So, all-in-all, it may even be 20 years, which is why, by the way, exchange rates do not matter at all, not at all. On a 20-year basis exchange rates do not affect competitiveness, which is driven by more structural factors.

So we have to do what our members have mandated us to do, which, by the way, a number of them were left over from the previous round, which

started in 1986, which is 23 years ago. So again, we are not in the fashion business. And the problem of the WTO, or this round, is not to garner public attention with some sort of shining new thing, which we would pass under the nose of the trade negotiators. They know what to do. They simply have domestic constituencies, which are reluctant. And it's not a piece of novelty that will solve this problem. You eat poultry, you wear cotton, Indian sensitiveness on livelihood farming, Japanese rice. They are there and they've been there for a long time and it's been constant work of tackling this bit-by-bit, eroding here, eroding there, putting together packages. So that's the business we're in. And again, I don't think any of the topics that you suggested in your piece would have any credibility for WTO members who are politicians, if what they've agreed to do is not done first.

Energy, plenty of interesting questions but, you know. Second range of questions count as transit we do in the negotiation. Tariffs, got no tariffs? Subsidies, yes, there's potentially a problem in these subsidies, but second round, as compared, for instance, to agriculture subsidies whose distorting effect is absolutely obvious, nothing to do with tariff piece, whose distorting effect on trade is absolutely obvious. So let's start with the obvious and then, if we conclude the round, we'll have time to think about suggestion of this kind, which I'm not saying do not make sense. Academically, this is interesting. But it's not the political reality of today, notably for developing countries.

Jim Burger:

Yeah, sure. Thank you. Jim Burger from *Washington Trade Daily*. I'll make it a short question. I appreciate your comments today over an hour ago. I think, if I'm not simplifying things that you said that a successful conclusion to the Doha round would be equivalent to a global economic stimulus. I just wonder if you met anybody in Washington that agrees with you on that. And also is the sentiment in Washington that the trade liberalization is something that can be put off and is not that important?

Teng Xin:

Teng Xin from *Taipei* magazine. There has been criticism that China is not putting anything on the table in Doha. But, from a Chinese point of view, if the United States is not opening its agriculture sector, that's fine, we don't care. So I mean what are the real incentives for the Chinese, and how do you bring China seriously back to the table? Thank you.

Pascal Lamy:

Short answers. Stimulus: If my memory is correct, the US amount of duties collected on imports by year is in the order magnitude of \$25 billion, is that right?

C. Fred Bergsten:

No, it's more than that.

Pascal Lamy:

Thirty, okay. Half of that is in textiles, clothing, and footwear. So there's a \$15 billion a year gift for the US consumer, a tax cut. And by the way, a tax cut that will go directly in the pocket of people who would consume

more because they are poorer than the others, because clothing, footwear, and textiles is the higher part of their expenditures. So that's easy to fix, \$15 billion. And I could multiply the examples of that. And, if protectionist pressure were to rise, it would work the other way around. So it's available, you just have to...the fruit is there, you just have to extend your hand and grab it.

Now, on China, I've always said that this notion, which I read in the Western press, that China is not an active member of the WTO and is not an active actor in this negotiation, is for people who know nothing about this negotiation. China is a major actor in this negotiation. China is a major stakeholder in the WTO since it joined the organization in 2001. Simply, China does not negotiate the Brazilian way, doesn't negotiate the US way, doesn't negotiate the EU way. The Chinese negotiate quietly, which, of course, for the media is a terrible problem. But please understand how much of these cultural biases influence Western media when they talk about China in the WTO.

They know everything about every detail of the negotiation. They've got dozens of extremely brilliant brains analyzing every month, every move by every actor. They spend a lot of time thinking about the next move. They spend a lot of time applying this good old, some would say, principle that the easiest actors are the ones others win for you. So, they'll spend a lot of time thinking and they will keep their powder dry, if India, Indonesia, the United States, the European Union, Brazil, who like to show that they are maneuvering, they are doing things, they are saying things, they love that. And they will keep their powder for where they, after careful analysis, have made the diagnosis that nobody is going to run for them on an issue. And there you can be sure there will be a negotiating energy. So please remove ... and, you know, I'm again talking maybe too frankly, but I can see the system from within. I can see then, the way they work, the way they move, the way they talk to the others, the sort of connections they have. Simply, you have to be cultured to the Chinese way of doing things to understand.

So they are very active players, they paid their entry ticket in the WTO, a high price that, by the way, they don't regret today. Think a bit of what the trade worldwide would be today if China had not joined the WTO in terms of protectionist portions. So they did it well, they took the right decision, true. Some of them believed that they paid a bit of a high price but you don't hear them so much in recent times. And they know that, although they are, what we call in our jargon, the recently acceded member, this round will not be a free round. Yes, their tariffs, for instance, the Chinese tariff, average tariff on agriculture is lower than the EU average tariff on agriculture. So, they entered at levels that are very low, as compared to their colleagues in developing countries and sometimes even after colleagues and developed countries. So they have, and this needs to be understood, they have less margin to maneuver than

many of their colleagues, which are much more in tune to the WTO in developing countries. But they know that, for political reason, they will have to pay in this round, because what they will get, like the others, is a strengthening of an insurance policy, which has a huge value for them, even if this time they succeed in rebalancing the sort of export path and the domestic path of their economy.

C. Fred Bergsten:

Pascal, you have once again exhibited your encyclopedic knowledge and your creative leadership on this whole range of issues, not to mention considerable stamina and also very admirable candor. I think the only tribute greater than the big audience for you on a Friday night was that everybody stayed until 9:00 p.m. We wish you the best of success with carrying these initiatives forward, for all the debate, for all the difference on details, I think it's fair to say that most of the people in this group are with most of what you are doing and we therefore wish you well and hope we can continue to help as you proceed with your enormously challenging responsibilities. Thank you for sharing with us tonight.