

IGE Distinguished Lecture Forum



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<u>Host(s)</u>	IGE & KITA

Introduction

Good morning, ladies and gentlemen.

Even before I begin, I would like to convey my heartfelt condolences for the people of Korea and the tragic losses, particularly those of many young students in the recent ferry accident.

I share with you my grief and the grief of those in the WTO, and I want to offer my deepest sympathies to those who lost their loved ones in that tragic accident.

I am delighted to be here in Korea – the land of the morning calm. You wouldn’t be able to tell from the traffic.

I would like to start by also thanking President SaKong II and the Institute for Global Economics for inviting me to speak to such a very impressive audience.

And, since the successful conclusion of the Bali Agreement at the 9th WTO Ministerial Conference, WTO members have been working very hard to build on the success of that endeavor in order to reinvigorate the multilateral trading system and to restore also the role of the WTO in global governance.

The success of the Bali package demonstrated, once again, that we can deliver multilateral outcomes.

That was the first such deal since the organization was created in 1995 and it has given the WTO a new and fresh perspective for the future.

Korea, of course, played a crucial role in delivering the Bali outcomes. And, the support of the private sector in Bali was critical.

I’d like to take this opportunity to thank you all for the support that you all gave in making this breakthrough possible.

The business community in Korea – and around the world – played an absolutely crucial because we needed the conditions to make that deal possible.

Our challenge now is thus to make the case for going even further to strengthen the multilateral trading system – and therefore to help to improve people’s lives.

The outcomes of Bali have provided a very strong platform for this work.

So today I’d like to talk to you about that, in particular my vision for the future, and for the future of the organization and also the important role that Korea has to play in this future.

The Evolving Trade Landscape

It is an interesting time in the global debate on trade.

And let me, precisely, with this evolving trade landscape that we experience today.

Because, although Bali has put the spotlight back onto the WTO, a lot of focus – both in the

government and in the private sector – is now on the very large regional trade initiatives which are currently being pursued.

But I don't believe that this – this new environment – is there at the expense of the multilateral trading system. In my view the current work that is going on at the plurilateral and regional level, it is positive, it is welcome, and these initiatives clearly have a role to play. These blocks actually help to build the edifice of global trade rules and trade liberalization.

But it is clear, also, that these initiatives are not sufficient – not on their own. They must coexist with the multilateral system.

For one, they leave out a large number of countries – not only the most dynamic emerging economies, but also the poor and the vulnerable.

In addition, because this is not about geography alone, many of the big issues can only be tackled at the global level – and therefore many of the big gains can only be delivered at this level as well.

Let me give you an example. The Trade Facilitation agreement that we struck in the Bali package was successful in the WTO because it simply makes no sense to adopt regulations or to streamline customs bilaterally – if do it for one country, you do it for everybody else. And that's the same case for example when we talk about financial regulations or telecom regulations, which cannot be truly liberalized for just one player. Now, there may be minor things that you can do bilaterally but it is clearly much better to negotiate services regulations globally in the WTO.

There are many examples such as farming subsidies or fisheries subsidies – they cannot be tackled on a bilateral basis. Other examples are disciplines on trade remedies like anti-dumping or countervailing procedures, safeguards – all of those need a multilateral approach. The simple fact is that the major global challenges for trade – not tariffs, but the major big ones that are behind the border – can only be addressed globally and multilaterally.

Therefore, the different tracks – the bilateral track, the regional track, the plurilateral track, and the multilateral track – they have to exist together. They are symbiotic.

But how these regional initiatives are pursued, alongside the efforts to revitalize the multilateral trading system, will be an important factor in how the global trading system evolves in the coming years.

And we do need to evolve.

The world is changing rapidly.

New players in global economic governance, technological innovation, and new trade patterns are changing the way that governments use and design trade policies to capture economic gains.

The rise of the new global patterns of production is clearly the case.

This new architecture of transborder production can help countries to integrate into the global system. Trading in parts and components, or performing intermediate tasks, has clearly lowered the threshold for countries to participate in international trade and to attract investments.

However, the benefits of this new integrated way of producing are not automatic.

And the formula for the formal integration into global trade flows varies from country to country. While some have successfully participated, or managed to participate in global value chains, a very significant number of low income countries, particularly the least-developed, are still absent. And of course the benefits can vary considerably depending on where you are on the value chain – whether you're on the high end or the low end of the global value chains.

The effective implementation of the Trade Facilitation Agreement, which was struck in Bali, and the further reduction of tariffs and trade distortions in the context of the Doha negotiations can help remove some of the constraints that have prevented some of these

countries from participating in the global production chains. But to fully capture the effects and implications of this evolving trend, further analysis is needed to improve our understanding and to help individual countries to harness the benefits.

Global Economy and the MTS

Let me turn, now, to how the multilateral trading system can promote economic growth. International trade, as you know of course, is still feeling the aftershocks of the global financial crisis.

For the last two years, trade growth has remained at about just 2.2% - that's still a long way below the historical average.

Looking ahead, we see a somewhat more positive picture.

We expect a broad-based but modest upturn in the volume of world trade in 2014, we're expecting something around 4.7%, and further consolidation of this growth in 2015, maybe in the order of 5.3%. That's what we expect. Although this is relatively positive, this outlook still remains modest and the risk of setback remains.

But, WTO members are not mere observers of this scenario. They can actively support trade growth and they can do it in two ways. They can avoid protectionism and they can improve the disciplines.

Therefore, our work in monitoring trade developments around the world remains critically important. We must detect trade restrictive measures in early stages and must discourage their adoption wherever they show up.

Second, members, of course, can support growth by strengthening and updating the rules-based multilateral trading system through reaching new agreements.

The success in Bali made this point eloquently.

The Bali Package promises significant gains for the global economy, delivering growth and jobs, once implemented - particularly in terms of the Trade Facilitation agreement.

Economists estimate that by implementing the agreement, we could be injecting up to US\$1 trillion into the global economy by year.

By cutting trade bureaucracy the deal that we struck in Bali could reduce Korea's trade cost for doing business internationally by up to 10%.

And, significantly, it will help SMEs to become exporters. This deal will lower the barriers that SMEs face, helping them to export and access new markets - therefore helping them to grow and create even more jobs.

And the evidence shows that export-focused jobs are generally higher quality jobs - and the wages have a premium over wages in other areas have a premium over other areas of the economy.

Bali thus showed us that we can deliver and we can deliver big.

We have to make sure that Bali is just the beginning and that we can use that momentum to deliver even more.

That brings me to the most important thing we're doing in Geneva now to strengthen the multilateral trading system.

DDA Work Program

As you know the Ministers in Bali sent us instructions and the instructions were to conclude by the end of this year a work program, a very detailed work program on how to conclude the Doha round. And there are some really important issues on the table. Everything, actually, is now back on the table. But, in my view, in order to make progress, we must tackle at least

three issues on a priority basis and those were the three key issues that led to the impasse in 2008 and the subsequent years. Those issues as you know are services, agriculture, and industrial goods – or in WTO jargon as we know NAMA (non-agricultural market access). These issues have not been seriously discussed in nearly 6 years and that is just too long. We have to take a look at them again. We have to take a look at them creatively. We just cannot avoid them anymore. And to retain the sense of urgency we had in Bali, we have to do it quickly.

If we make progress on these issues, particularly these three issues, then everything else will fall into place. Not easily – nothing is ever easy in the WTO – but it will come together. However, if we don't make progress in these three issues, it's very difficult to make progress anywhere else. So, on a positive note there's a different mood in Geneva. I think the atmosphere is different in Geneva because things have changed since these issues were discussed 6 years ago.

Since Bali I have been travelling around the world trying to build momentum, political momentum, for what we're doing in Geneva and to ensure that we can deliver more.

In the recent months, I talked to many players. I visited the US and talked to President Obama. In the EU, I talked to Presidents Barroso and Van Rompuy. I talked to President Dilma in Brazil, President Mujica in Uruguay, and many other political leaders. I'm not going to make the list now. I'm meeting your president today, and these people, these leaders are both from the North and the South.

And everywhere I go I sense that there is very strong support for what we're doing.

Every I go, however, they're clear on one thing. They're clear that they want to avoid a repetition of the failures of the past. They want to make sure that we keep delivering and we keep being successful. That's very important for all of us.

Yesterday in Korea I met with the Speaker and members of the National Assembly, the minister of trade, industry and energy, and the minister of agriculture, food and rural affairs. They all showed strong support for the WTO and for the successful conclusion of the Doha round.

I am not suggesting at this point in time – and this is very important – that we should raise or we should lower the level of ambition of the Doha round. That is too early to tell, where we can go. What I am suggesting is that we have to be open-minded. We have to be creative. We have to be flexible. We have to find solutions wherever they lead us.

As a major player in the WTO and in the multilateral trading system, Korea will have a very critical role to play. Korea's support is vital. As a middle grounder in the Doha negotiations, Korea can help bridge the distance between the developed and the developing countries.

Korea's Economic Development and Trade

Let's take just a brief pause and think a little bit about why all these things matter.

Trade, as you know, is a force for growth and development. It stimulates innovation and competitiveness. Trade supports the creation of good quality jobs. And trade lowers prices and the cost of living, brings in new products, and improves the quality of people's lives.

Korea knows all of that. If there was one country in the world that benefited from trade, it was Korea.

In fact, Korea is an inspiration for many developing countries. It has achieved its economic success in just a few decades since emerging from conflict.

Korea's total trade volume increased from US\$0.5 billion in early 1960s to over US\$1 trillion in 2013. Its GDP per capita from US\$80 to over US\$24,000.

Over the past 50 years, therefore, Korea's GDP per capita increased by 300 times, and its

trade volume by 2000 times, with an average of 20% annual growth in exports over three decades.

More trade clearly meant more growth and economic development for Korea.

As the 7th largest exporter in the world today, Korea is: first in shipbuilding, second in semiconductors, third in electronic goods, and the fifth in automobiles.

Korea is also home to the world's biggest mobile phone manufacturer.

That's all very impressive.

So, over the years, the multilateral trading system, as embodied in the WTO, has been very important for Korea.

The converse is also true – Korea has become a central player in the multilateral trading system.

Therefore, as we approach a critical moment for the trading system, I have to reiterate that Korea's support is critical.

Conclusion

Korea has always been a very strong supporter of the multilateral trading system and the WTO. Korea's commitment and engagement was crucial for us to achieve the breakthrough in Bali and we must keep this engagement.

This isn't just about government.

As I said at the outset, this is also about the support of the private sector that was crucial in Bali – and it will be even more crucial in the future.

Korea's own experience shows how big and how transformative trade can be.

Although it's been only about 24 hours since I arrived in Seoul for the first time – and it was really the first time, it was my first visit to Korea, this is a very important trip for me – I witness how dynamic and strong Korea has become. It may be the land of the morning calm, as I said before, but Korea is certainly full of energy and motivation for further growth.

So I urge businesspeople in Korea to share your stories; tell people why trade matters; and explain the difference it can make in growing your businesses, and in improving your own lives and those of the next generation.

Korea's economic success, achieved in such a short period of time, supported by trade liberalization, is a model that many aspire to follow.

And, with your support, we can help others to achieve a better standard of living for their people.

Thank you very much for your hospitality, the warm hospitality that I received here. I hope we can continue this engagement for the time that we have left.

Thank you.

SaKong Il:

Thank you very much, Mr. Azevêdo, for sharing with us your insights and illuminating views regarding the global and multilateral trading future of the WTO. As you mentioned, the global economy is still suffering from the last global financial crisis, particularly unemployment is prevalent all over the world. The solution can be found in the promotion of trade and trade can and should be the key tool to resolve this problem. Therefore, the WTO is, I would say, the most important global organization at this moment. The WTO is led by Mr. Azevêdo, thank you very much again, for your initial statement. With this, why don't we invite two or three questions or comments from the floor.

Q: It's an inspiring talk that you gave us but in a way you may be preaching to the choir. Who

would say anything against many of the points that you made? I think it's an important question. You say that we've got resistance and progress to make, but where are these points of resistance? What logic do the use? Are we talking about labor movements? Are we talking about demonstrating farmers clunking up roads with their tractors and their cattle? What is it and what is their reasoning? How can they refute anything that you've said today?

A: Every single country has resistance in some area for different reasons. It's very difficult to find, in the WTO, one country that supports trade liberalization quickly, fast, deep in all sectors of their activities. Korea is a case and point. Korea has benefited from free trade immensely but still has sensitive sectors. Agriculture is clearly one of them. That same experience, you will see it everywhere. I think there isn't a doubt in anyone's mind that opening up the markets and being competitive globally improves the economy and promotes the chances for sustainable growth. I don't think anyone disputes that. Yet, often, there's a question of how fast, how quick, and how deep. That changes form perspective to perspective. I think it would be very difficult to radiograph and make a diagnosis of where the resistance is. The resistance is everywhere. There is not one single point that you can bring to the WTO upon which everyone agrees. Sometimes everyone agrees but they need different timing, they different depth, they need some flexibility here or there and that's why it's so difficult to reach agreements in a multilateral system. You have to bridge these gaps and take care of all these sensibilities to make it work. You can imagine what that means in an organization with 160 countries, where you have every single area – pretty much, almost every single area – of economic, trade-related activities on the table. It is extremely difficult but it is not impossible. We have done it before and we are going to do it again. We have no doubts about whether we will do it again but we have to be creative and we have to be innovative. Sometimes we'll hit the wall and have to step back and have another way. And that's what we'll have to do. But it's very difficult to say where the difficulty will show up. Sometimes during the negotiations you think that everything is fine, you think, "oh, this one is a pushover, it's going to go really easy," and then it becomes a nightmare over night. And you don't even know why. You see the resistance and you're trying to understand what the problem is and that's one of the most difficult things – to understand *why* the problem is there. You here the argument, you here the person saying it's difficult because this and that, but what he says has nothing to do with his problem. Nothing. You really have to go beyond what he is saying and understand the *reasons* for the problem. So, it's really a tough question to answer and I'm sure I didn't answer it the way you wished I would. But, that's the answer I can get.

Q: I cannot help but totally agree with what you have said this morning but I felt a little bit awkward when I heard the major three areas that should emphasized in the future. In order, they were services, agriculture, and industrial goods. Korea is very much small on the industrial goods side and would probably prefer the order of industrial goods, services, and then agriculture. Is there any reason why you stated the three in that specific order?

A: Next time I will bring a coin and I will flip it and what happens or use alphabetical order. I have to put an order. I can't put three at the same time. But, they are all equally important. There's absolutely no doubt in my mind. Of course, if I had to put some degree of importance, I would say that at this point agriculture is more challenging because of the number of issues on the table and the degree of importance that the world attributes to agriculture. It's a big issue but if you don't solve NAMA, if you don't solve industrial goods or services then you can't solve agriculture either. So, all three are important and you have to solve all three at the same time.

Q: I'm glad that you made significant progress in Bali. I think for almost a decade the WTO was on the verge of becoming irrelevant. So, I'm glad that it's on its way back. There was a recent election in India. I guess the votes are still being counted. India plays an important role as a developing country that's unaligned. How do you see the election and the upcoming leadership change in India as affecting the WTO's agenda to complete its goals especially in reference to the completion of the Doha round?

A: It's very difficult to tell. I myself am not a political leader in India so I don't know what's going to happen there or how those changes are going to affect each particular issue. But, I would assume – like everywhere else – that some issues will not change because of the election. India is still India before and after the election. The 700 million people who voted are still the same that were voting for the previous election. So, the millions and millions of farmers, small property farmers, are still there. So, those concerns are not going to change. We have to live with that. We cannot, in the WTO, work on the basis of elections because every year you have elections somewhere big and important. India just had elections now and Brazil will have elections at the end of the year. The European Union will change leadership at the end of the year. The US has elections coming up. If you wait for the elections to end, you never negotiate anything. What you negotiate has to make sense for those who are in power now and for those who are in power tomorrow. So, those outcomes have to make sense in the long run, throughout decades. You cannot be thinking about the immediate future on it. If you do that you never reach an outcome. So, again, it's difficult to tell but I think we need to have a long term perspective in negotiations