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THE WORLD TRADE ORGANISATION: NEW ISSUES, NEW CHALLENGES

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SUMMARY

"UPWARD REGULATORY CONVERGENCE CAN LEAD TO THE ESTABLISHMENT OF NEW GLOBAL STANDARDS"

1. The transformation of international trade

- The rapid reduction in the cost of distance has undermined the traditional paradigm of trade openness.
- The mercantilist principle of reciprocity that underpins the prevailing global trade regime is declining in validity.
- The gradual decline in tariffs has seen a corresponding increase in regulatory barriers; advanced economies tend toward more regulation, but must strive to reduce the differences between such standards.
- Upward regulatory convergence can lead to the establishment of new global standards; certain countries are better poised to adapt to this new reality.
- The current regulatory apparatus focuses primarily on important restrictions and remains ill-suited to potential restrictions on the export of natural resources.

2. Emerging countries are changing the picture

- The rise of emerging countries has profoundly changed the agenda and distribution of major players in the GATT negotiations.
- There is no natural trade coalition among emerging countries, but the non-aligned G20 as led by Brazil during the Doha round has often served to represent all developing countries.
- In reality, existing trade coalitions defy geographical, political, and thematic categorisation. The new players' influence is more closely related to their trade openness than their GDP levels.
- China has paid a high price for its membership in the WTO, and has substantially opened itself to global trade despite considerable resistance on the domestic front. Two considerable obstacles remain: the Chinese subsidisation of capital and the lack of agreement of public procurement.
- The United States' weight has decreased as that of emerging countries has grown. Its increased focus on domains where its influence remains strong, but domestic political divisions threaten its future trade treaties. The European Union faces its own unique challenges in reaching agreements both with the US and with emerging countries.

3. What governance in order to make better progress?

- The global package approach to trade negotiations suffers from excessive complexity and excruciating sluggishness. WTO governance must be improved; the development and enforcement of rules by member countries is crucial to maintaining its effectiveness.
- The WTO's adoption of supplementary monitoring mechanisms during the global financial crisis helped to prevent a significant increase in protectionism.
- The WTO's secretariat requires greater room for manoeuvre as it facilitates increasingly complex and sensitive trade negotiations.

This Policy Paper was first published in French in the *En Temps Réel* series.

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The author would like to thank Jean-François Roseau, a student at HEC and Sciences Po, for his assistance in drafting this brief.

INTRODUCTION

I wrote the first brief published in the *En Temps Réel* series on the "paths to world governance" back in February 2002, in the wake of the WTO summit in Doha in November 2001. Three years later, in 2005, I contributed to a collective brief addressing the issue of "globalisation and collective preferences". These considerations were primarily the result of analyses I had developed in my capacity as the European commissioner for international trade. Many of them strike me as being still relevant today, while others have evolved under the pressure of changes on the international scene in recent years. From September 2005 to August 2013, my responsibilities as director general of the WTO allowed me to develop these considerations in greater depth and breadth. This new brief in the *En Temps Réel* series provides me with an opportunity to return to some of the more important considerations concerning the contemporary reality of international trade and the new configuration of the international trade system in terms of its issues and its players.

"THE MAJOR CHALLENGE FACING US IS NOW THE CONVERGENCE OF COLLECTIVE PREFERENCES"

The globalisation of trade has continued despite the economic crisis, but its face has changed. The major challenge facing us over the coming decades is now the convergence of collective preferences. The emerging countries are playing new roles in the process. New alliances are being forged. This situation entails changes for the advanced countries, and it requires changes also in the way the WTO works.

The history of the WTO began with tariffs, but it is now concerning itself increasingly with "beyond the border" regulations. I would argue that the globalisation of market capitalism has made it necessary to find a new way of re-embedding the economy and the society, in accordance with the process intuited by Karl Polanyi. In view of the globalisation of trade and of the incontrovertible diagnosis regarding an increase in economic interdependence, it is impossible to ignore questions concerning society in the broader sense. In other words, I doubt that economies can continue to pursue their interdependence without societies themselves becoming increasingly interdependent, which raises the very concrete issue of collective preferences and values. That seems to me to be not only an interesting hypothesis but also a pertinent one if we are to grasp the issues involved in the international transformation of trade and, beyond that, the future of globalised market capitalism.

I base my consideration on the argument that the autonomisation of market capitalism has led to the divorce of the economy from society. Thus it is possible that its globalised version, inasmuch as it demands a certain degree of convergence in order to be sustainable, may be steered towards reintegration to a greater or lesser degree, with the advent of a global society enjoying more shared values.

Two recent examples strike me as interesting in this connection. First of all, there is the death penalty that continues to mark a major fault line in our world's value systems, nor has this separation been called into question by the globalisation process because no aspect of trade was involved. Yet recently, a restriction on European exports of the lethal substances used to execute convicts in the United States has caused several (suitably dramatised) instances of capital punishment to fail. These restrictions, which are based solely on moral considerations, have to some extent "reintegrated" value systems into the process, as if the march towards convergence were inexorable and as though the application of the principle of subsidiarity was becoming perfectly congruent.

In a less dramatic field (at least, in some people's view), the WTO Tribunal has recently addressed the European Union's restrictions on Canadian and Norwegian exports of baby seal fur and meat on the grounds that hunting these beasts runs counter to the principles of animal welfare. The trade figures involved are minimal but it is an important issue in the eyes of the European man in the street, who voices his views through the majority in the European Parliament.

1. The transformation of international trade

1.1. "Made in the world"

1.1.1. A rapid reduction in the cost of distance

Over the past few decades, changes in the production of tradeable goods and services have caused an in-depth revisitation of the traditional analysis regarding the opening up of international trade. Since the establishment of the GATT in 1947, itself a product of 19th and early 20th century economic thinking, a new landscape has gradually replaced the world of the past, marked by fifty years of regulation that began at the end of World War II.

A clear-cut answer is needed to the question regarding the differences between these two worlds: technology has had a major impact on the location of manufacturing systems. An unavoidable driving force behind the globalisation of trade, technological evolution has reshuffled the cards of international trade to a degree that traditional thinkers such as Smith or Ricardo could not even have dreamt of. The practical implementation of their theories came up against the continued existence of distance as an obstacle to trade for a very long time.

But new technologies, such as the container or the Internet in the field of logistics and of communication, have introduced huge factors that have slashed the cost of distance, thus improving the efficiency of trading and the international division of labour the world over. One example of these countless innovations is the replacement of piston-engined planes by jet-engined planes, which has cut the cost of transport fifty-fold over the past fifty years. It costs less today to ship a container from Marseilles to Shanghai than it does to shift it to Avignon. Constant progress in information and communication technology, like the widespread use of personal computers and smartphones, have also contributed to rapid change in the world's production and consumption patterns.

> "IT IS NO LONGER AS EASY AS IT USED TO BE TO GAUGE THE ADDED VALUE OF A PRODUCT"

The trend towards a reduction in the cost of distance in international trade has *de facto* literally eliminated a traditional paradigm whereby *foreigners* are "distant" from us, in a geographical or geopolitical situation which allegedly hampers trade. This argument is now obsolete. In actual fact, the opening up of trade and the development of value chains have had such a major impact on the location of goods and services that it is no longer as easy as it used to be to gauge the added value of a product (whether we are talking about goods or services) whose component parts come from all around the world. A worldwide average import content of exports has shot up from 20% twenty years ago to 40% today and it looks set to hit the 60% mark in twenty years' time.

What conclusions should we draw from this evolution if not that capitalism will soon end up killing mercantilism whose ideological residue occasionally continues to hamper our thinking? It is not that the old ideas of commercial heritage, which did indeed preside over the conception and regulation of world trade, were always wrong to discredit imports in favour of exports. But clinging to that way of thinking today means missing out on reality which requires that imports account for almost half of a country's exports. In other words, wishing to revive the distance hurdle by restricting trade through an increase in the taxation of foreign inputs would be tantamount quite simply to shooting oneself in the foot.

1.1.2. Mercantilism is losing steam

In the formerly predominant mercantilist vision, the way of devising the opening up of trade was based on the underlying principle of "mutual disarmament". The starting point was a situation in which trade was primarily restricted by customs duties and that duties reduction was governed by the principle of reciprocity, which is crucial to any understanding of the system underpinning the legal theory behind the GATT.

The negotiation rationale was essentially restricted to a balance of concessions between exports and imports. It took me some time to grasp the extent to which the legacy of mercantilism theories weighed down on the trade diplomats' mindsets. It was in 2004, in my capacity as the European commissioner for trade, that I took the measure of this legacy in the course of a conversation with Vladimir Putin on Russian membership of the WTO. The Russian president appeared to be finding out after negotiations lasting quite a number of years, that there was no single duty per tariff line for all of the organisation's members; in other words, the member states had different protective structures; hence the common goal of converging towards the reduction, not to say the elimination, of customs duty through "mutual concessions" as gradual as they are complex.

The GATT's theoretical architecture was based essentially on mercantilism closely linked to the concept of reciprocity; and that concept entails the principle of special, differentiated treatment for developing countries. The way it was applied by the GATT for fifty years, this theory argues that advanced countries have to open up their trade on the basis of reciprocity and to allow developing countries to benefit from the opening up of trade through differentiated pricing as a result, so to speak, of their reduced "capacity to contribute". The reasons for this flexibility, which are at once both very complex and very concrete, have as much to do with the economic interests of the former dominions players in international trade as they have to do with colonial guilt feelings; the basic idea being that industrially advanced countries are obviously better able to cope with the consequences of increased international competition than developing countries.

> "THE THEORY OF DIFFERENTIATED TREATMENT BUILT INTO THE WTO'S PRINCIPLES, ADMITS THAT NOT ALL MEMBERS SHARE THE SAME OBLIGATIONS"

Thus the entire theory of special, differentiated treatment built into the GATT's and the WTO's principles, admits that for a number of reasons not all members share the same obligations. In doing so, it justifies in particular a lesser degree of openness for less developed countries until such times as they have caught up with advanced countries. Hence a taboo question and a necessary reflection on this concept of development, whose boundaries are still fuzzy. At what moment does a "developing" country cease to fall into that category on a permanent basis? Because while a broad consensus exists in favour of convergence, it only marginally addresses the practical circumstances of the development that is supposed in the longer run to make that convergence possible. In actual fact, the effect of multi-location is to change the nature of obstacles to trade, but also to call into question the traditional antagonism pitting a system for the southern hemisphere against a system for the northern hemisphere.

The fuzziness of this notion of development can be seen, for instance, in a simple question that I often ask: Is China today a developing country with a large number of rich people, or is it, on the contrary, a developed country with a large number of poor people? One's definition of the principles of balance and justice required to regulate the opening up of trade will change according to the answer one gives to that question. If this rationale applies whatever the nature of the obstacles standing in the way of trade, then it certainly applies to traditional obstacles, basically represented by customs duties. But the situation has changed: the huge transformation of the international scene due to the technological factors discussed above, entails a continuous lowering of traditional obstacles to trade.

1.2. Tariffs decreasing, regulations increasing

1.2.1. The irresistible rise of regulatory precaution

The system being more flexible and mobility having increased, customs duties are no longer as powerful a curb on a producer because he can simply decide to set up elsewhere. This observation partly explains the massive cut in the global level of customs duties since the start of the GATT. The trade weighted average customs duty today is below 5%. Administrative constraints and immobilisation at the border, the reduction of which was the subject of a major deal at the WTO's ministerial conference in Bali in late 2013, represent on average a cost that is twice as high as the cost of customs duties.

Remaining obstacles in the way of trade now have far less to do with customs duties or with the administrative cost of border crossing, which the Bali agreement, still to be ratified, is going to reduce in the future, than they do with regulatory differences in such varied spheres as health, safety and the environment. The application of the precautionary principle to international trade raises new problems which are clearly at variance with the ideological neutrality governing the establishment of obstacles of mercantilism world. In this new landscape, it is no longer a matter for partners simply to reduce costs and to optimise gains, they have to ensure that potentially politically loaded standards are addressed.

Reference to the precautionary principle at this juncture subjects the regulation of trade to a risk management rationale in accordance with a moral or cultural partner that marks a radical break with the neutrality required by international trade based on the traditional approach. Without even considering such heated debates as those surrounding GMOs or data privacy, the differences between the use and conception of diesel in Europe and in the United States perfectly reflect the weight of collective preferences[1].

For reasons that have as much to do with protecting the environment as they do with the organisation of transport, the Americans eschew diesel engines for their cars in favour of petrol engines. The Europeans, on the contrary, prefer diesel-engined cars, yet they levy taxes on diesel that are totally non-existent in the United States.

The difference in regulations points to a radically different world from the previous system, which was marked by a shared intellectual approach whose aim was quite simply to ultimately abolish all customs duties. The approach aiming to abolish customs restrictions on trade is relatively clear and easy to understand. In fact, it was the approach adopted by the European initiative known as "Everything But Arms" (EBA) which I carried back in 2001 to facilitate freedom of access to the European Union's markets for the forty-eight poorest countries in the world. This kind of approach fosters a reduction in customs duty so radical that it ends up disappearing altogether.

> "WHAT NOW MATTERS IS TO REDUCE THE DIFFERENCE BETWEEN SETS OF REGULATIONS"

The approach based on regulatory restriction, on the other hand, comes up against an increase in standards and in the level of protection to match increasing level of development. In the food sector alone, compliance with certain standards becomes a priority requirement when supply or production are handled upstream. The formation of collective preferences is closely linked to rising income.

The more advanced a country is, the more cautious it becomes, adopting regulations which can, *de facto* and without it being the main reason, stand in the way of trade. Now, short of being totally cynical, it is impossible to think of eliminating regulations solely on the strength of the benefits deriving from the opening up of trade. What now matters is to reduce the *difference* between sets of regulations. For instance, no European commissioner would ever defend a differentiation in the maximum level of pesticides permitted in imported

1. See previous brief published by *En Temps Réel*: Pascal Lamy, Steve Charnovitz & Charles Wyplosz, « Mondialisation et préférences collectives : la réconciliation ? », October 2005.

flowers for the benefit of less developed countries, in the name of a trade policy designed to foster development. The maximum level of pesticides permitted, a level set by Europe and checked at the border, will not change depending on the origin of the import.

In other words, we can no longer differentiate. And the reality, which most trade negotiators take good care to avoid mentioning too clearly so far, is the end of differentiated treatment. The essential conclusion of this process is that with tariffs already low and with an increasingly binding regulatory environment, there is less and less room for negotiating by mutual concession.

1.2.2. Calling the traditional balance of forces into question

The discussions between the European Union and the United States over a Transatlantic Trade and Investment Partnership (TTIP) perfectly illustrate these new issues because 80% of the problem concerns regulatory convergence. In this context, the notion of disarmament is equally unsuitable. It would be inconceivable for a negotiator to plead in favour of regulatory disarmament.

Now, this transformation pushes the balance of forces into a new rationale. In general terms we might surmise that, under the old system of international trade, consumers were in favour of an opening up of trade while producers evinced reservations, not to say outright hostility. In other words, the international opening up of the markets and the reduction of tariffs can only be to the consumer's liking because he or she benefits from them, but less so to the producer because he suffers the impact of increased competition.

> "THE USA AND THE EU HAVE EVERYTHING TO GAIN FROM ESTABLISHING WHAT COULD WELL BECOME GLOBAL STANDARDS"

But with regulatory convergence the tables are turned and consumers tend to evince a certain hostility to what they more often than not equate with a risk for them, in other words with a lowering or a relaxation of standards ("regulatory dumping"); while producers have everything to gain from this convergence taking place in order to benefit their economies of scale. Personally, I tend to think that regulatory convergence will take place in an upward direction: even harmonisation to higher standards will always be more beneficial than no standardisation at all. In this context, the United States and the European Union have everything to gain from establishing what could well become global standards.

So we need to take on board the notion that the reality of international trade, thus its regulation, is basically no longer what it once was and that negotiators' ethos has no option but to adapt to it.

That is also the reason why I pleaded in favour of the calculation of trade being based on the gauge of added value rather than of volume. If we look at the figures in added value, we get a far more faithful picture of international trade as it really exists. In particular, we will see that services account for the core of international trade, while the multi-location of the production of tradeable goods necessarily leads, in terms of volume, to the overestimation of the goods trade. We will also see that the biggest importers are also the biggest exporters, and that they are the countries that gain the highest added value from their international trade.

These changes also reflect the extent of the transformation which has taken place and which demands a public debate on how to consign the mercantilism mentality to the history books. It certainly is not a problem for Singapore, for New Zealand or for Costa Rica, which have done so very rapidly, or for Canada, for Australia, for Sweden, for Denmark or for Finland. Nor is it a problem for The Netherlands or for the United Kingdom. It is far more problematic, however, for the United States, for France or for India. And it is even tougher for Brazil, for Argentina, for Indonesia, for South Africa or for Russia because the new division of labour affords pride of place to value chains.

1.2.3. What kind of development?

> "SHOULD DEVELOPMENT BE BASED ON NATURAL RESOURCES OR ON MAKING THE MOST OF HUMAN CAPITAL?"

This process imparts a fresh relevance to an old ideological bone of contention questioning the proper criteria governing economic development. Should development be based on natural resources or on making the most of human capital? The dominant model of value chains (joining which is precisely the goal) offers developing countries new opportunities to make the best use of their comparative advantages in accessing the global market. Naturally, while the global opening up of the market provides developing countries with the opportunity to obtain commercial advantages, it also leads to greater volatility on account of the competition.

In this new configuration one can perceive a clear difference between, on the one hand, countries tempted (or tempted again, like Brazil) to manage their own development (in accordance with the Singer-Prebisch model) based on the exploitation of abundant natural resources, and on the other, countries which follow the European or Asian model by affording priority to the labour factor. In this spirit, investment in education and training is the best way to develop the economy.

And lastly, it is worth pointing out that some countries oscillate between the two tendencies. This, for instance, is the case with Indonesia, or with South Africa, and even more so with emerging African countries such as Nigeria or Kenya, which are soon going to have to address the same dichotomy. Africa, the next continent to emerge, is rich both in natural resources and in people.

Just as these transformations have an impact on the nature of the obstacles, and thus *ipso facto* on the way they need to be addressed, so the generalisation of internationally highly integrated value chains entails huge differences compared to the interpretative approach adopted by the GATT (in terms of both its priorities and its area of intervention[2]).

The thrust of the GATT mandate focused on lifting restrictions on imports. But in the world of value chains, the greater problem is restrictions on exports. This is especially true in the sphere of agriculture. One has but to look at the international rice market. If prices rise on the international market, an exporting country wishing to protect its citizens from the attendant inflation may react by freezing its exports. So to what extent does a country maintain the right to curb its exports? If we confine ourselves to the GATT and WTO regulations, we notice a plethora of cases involving restrictions on imports but very few involving restrictions on exports. Yet there are many countries in the world that practice such restrictions: Russia and Indonesia with metals, China with rare earths, or Argentina with meat. In this connection, its current regulations do not really provide the WTO with the means to intervene.

Where the convergence of standards is concerned, it is also necessary to note that the WTO's mandate as it stands today is limited. While we can state that the principle of reciprocity guided the implementation of the former system, it is also apparent that its current assertion sometimes conceals the return of protectionism in disguise. But the reciprocity being called for by some is only of tangible value if the trading partners clearly understand what it means. The problem is the same in the case of "fair trade", which everyone wants, yet without always agreeing on its true substance. Take, for instance, the French and their agriculture.

So that which is fair in terms of trade is only that which it has been decided is fair by mutual agreement. That is why it is important to analyse and to accurately define this notion of reciprocity. Over and above the Global Public Goods recognised by the WTO (the environment, health), reciprocity should not assign the stigma of illegitimacy to certain regulatory restrictions justified by collective preferences.

2. I explore these issues in greater detail in *The Geneva Consensus*, Cambridge University Press, 2013.

On the contrary, the WTO even takes care to ensure that the opening up of international trade does not call legitimate collective choices into question when they entail no discrimination. But with regard to such social standards as a minimum salary, which has more to do with the jurisdiction of the International Labour Organisation (ILO), it is not in their nature to be established throughout the world, if for no other reason than that a salary means nothing in terms of competitiveness until it is linked to productivity.

"QUESTION THE IMPLICIT ROLE OF THE EUROCENTRISM AND, ON A BROADER LEVEL, OF THE WESTERN ETHNOCENTRISM THAT IT BETRAYS"

This serves to moderate the reciprocity argument used by some people to censure the unfair competition practised by the emerging countries. And sure enough, if the conditions of transparency and of non-discrimination are complied with, no country can be accused of dumping on the pretext that it is selling products more cheaply than others because its labour costs are lower. Or, if taken to its logical conclusion, this rationale demanding the total harmonisation of social standards urges us to question the implicit role of the eurocentrism and, on a broader level, of the Western ethnocentrism that it betrays.

2. The emerging countries are changing the picture

2.1. The emerging countries burst onto the scene

2.1.1. A short history of Doha: new players and a new agenda

"THE RISE OF THE EMERGING COUNTRIES CHANGED THE AGENDA, THE MODALITIES GOVERNING NEGOTIATIONS AND THE DISTRIBUTION OF THE MAJOR PLAYERS"

The late 1990s marked a momentous change in the interaction of the various players in international trade. We witnessed a rapid rekeying of the portfolio of influences with China's membership in 2001 and with the gradual assertion of such GATT founder members as India and Brazil. Up until then the system had been dominated by the *Quad*, in other words by the United States, the European Union, Japan and Canada. The rise of the emerging countries not only profoundly changed the agenda, it also changed the modalities governing negotiations and the distribution of the major players.

In strictly geographical terms, Asia boosted its influence through China, India and, proportionally speaking, also Australia, which was gradually to take the place of Canada, whose governments refocused their policy on domestic affairs: it played a bridging role between Asia and the industrially advanced economies of the northwest. Besides, the appointment in September 2013 of a Brazilian director general, Roberto Azevêdo, assisted by an Australian chef de cabinet in the person of Tim Yeend, paints an eloquent picture of the new distribution of influential players within the WTO.

The story of the Doha Round revolves specifically around the difficulty that these various players encountered in attempting to converge on a new agenda reflecting the new balances, particularly among agricultural disciplines, the reduction of tariffs in the industrial sphere and the opening up of the services market. The primary hurdle in the Doha Round until 2008 was the sensitive issue of agriculture. For a number of different reasons – first and foremost the negotiators' national targets – the Doha Round was not concluded despite clear progress having been made throughout 2008, a year which at the same time marked the start of the global economic crisis.

A hike in agricultural prices was noted at the time and it is likely to continue for the next twenty or thirty years. The reasons for this rise in global agricultural prices, following a downward trend in real terms in previous decades, have a great deal to do with one of the most important developments of recent years, namely the emerging powers' actual emergence and the food transition which has led to far higher (indirect) consumption of proteins and carbohydrates by the middle classes than by the world's poorer populations. The increase in the price of agricultural raw materials upset the Doha Round's agenda because it led to a profound change in the terms of the implicit deal initially aimed at securing a tradeoff between reducing obstacles to trade in agriculture on the one side and in industry and services on the other side. The "rate of exchange" between the two, which was implicit in the negotiators' minds at the start of negotiations, gradually changed. The increase in agricultural prices led to a cut in subsidies and tariffs, which thus lost their value as bargaining chips. Agricultural supply has not yet adjusted to the food transition, particularly on account of a certain sluggishness in its development in Africa.

Broadly speaking, the international agricultural markets are still relatively meagre. The international rice market, for instance, accounts for no more than 8% of the world's overall production and consumption of this commodity. The adjustment problem is a real one and it explains why agricultural prices remain high.

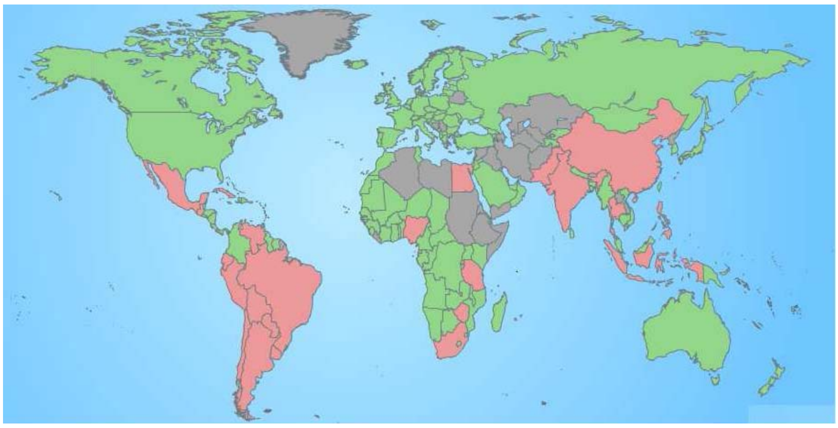
2.1.2. Variable coalitions among emerging countries

There is no natural coalition among the emerging countries, each one having its own distinct economic profile and being integrated to a differing degree in the international trade system.

Yet bizarre though it may seem almost sixty years on, the Bandung conference (at which twenty-nine emerging countries adopted non-aligned status) continues to be an important focal point. Diplomats in New York are probably more sensitive to the spirit of Bandung than those in Geneva.

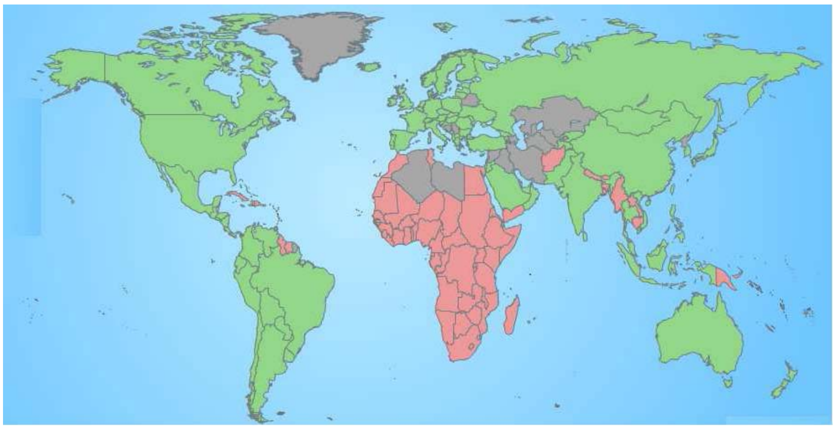
In terms of international trade negotiations, this economic revival of non-alignment has been promoted primarily by Brazil. It was at the WTO's ministerial conference in Cancun in 2003 that Brazil took the initiative of calling for a G20 in response to a plan for a narrow agreement on agriculture between the European Union and the United States. It was an alliance between divergent interests, without question, but it embraced the major emerging powers such as India, China and South Africa, along with countries that were less dynamic in trade terms, such as Bolivia and Tanzania. This G20 allowed Brazil for several years to reaffirm its position as a leading emerging power by becoming a major negotiator in the Doha cycle.

Map 1 ► G20: Coalition of developing countries hoping to see agricultural reform in advanced countries and flexibility for developing countries



The least developed countries (LDCs) rapidly realised that it may not have been to their immediate benefit to join this coalition exclusively and so they set up the G90 comprising LDCs and certain developing countries. Their interests are not impermeable to those of the G20 or the G90, some of whose inclinations they share. Thus the existence of common memberships and of interaction between these different coalitions has allowed the G20 to act as the representative of all developing countries.

Map 2 ► The Group of 90: African group + ACP + LDC



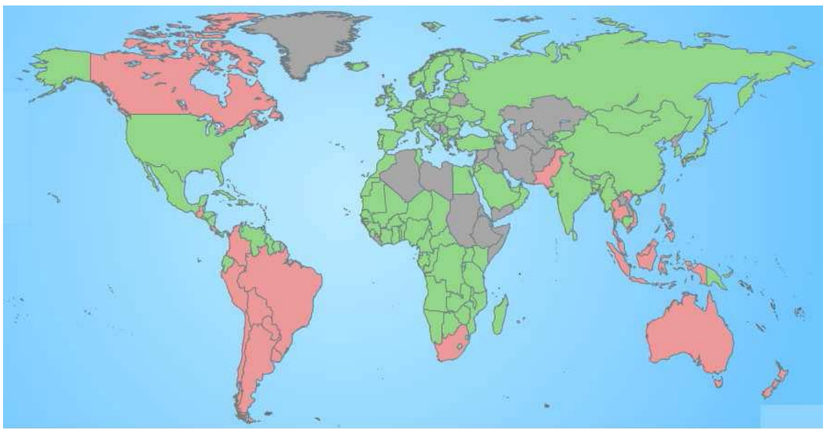
Key:
Member of the group
Not member of the group but member of the WTO
Not member of the group and not member of the WTO

This move on Brazil's part was the result of a strategy adopted by Celso Amorim, President Lula's foreign minister from 2003 to 2010. At the time I had submitted an analysis to the European Parliament in which I argued that the WTO and Iraq were the two parents of the G20 devised by Brazil. This, because Amorim had indeed used the international situation over Iraq to forge the coalition around a rejection of military intervention. In concrete terms, the group saw the light of day on the sidelines of the G8 summit; in other words, it was designed to put an end to the systematic sidelining of developing countries, which decided to act independently by setting up the G20.

Brazil was an important player in Amorim's day, but after that its influence began gradually to wane. Today the aggressive posture in connection with the opening of the agricultural sector, which was this coalition's spearhead despite India's differing interests in the matter, has returned to the bosom of the Cairns group of agricultural exporting countries, a group which has been pleading since 1986 for stronger GATT/WTO disciplines targeting the European Union's and United States' farm policies.

Thus a group of emerging countries was forged to face down the more or less homogeneous group of advanced countries, converging in some areas and diverging in others. The recent relaxation of ties within the G20, which has lost its Brazilian driving force, is probably going to allow the (primarily African) G90 to boost its influence in the coming years.

Map 3 ► The Cairns group of agricultural exporting countries



Key:
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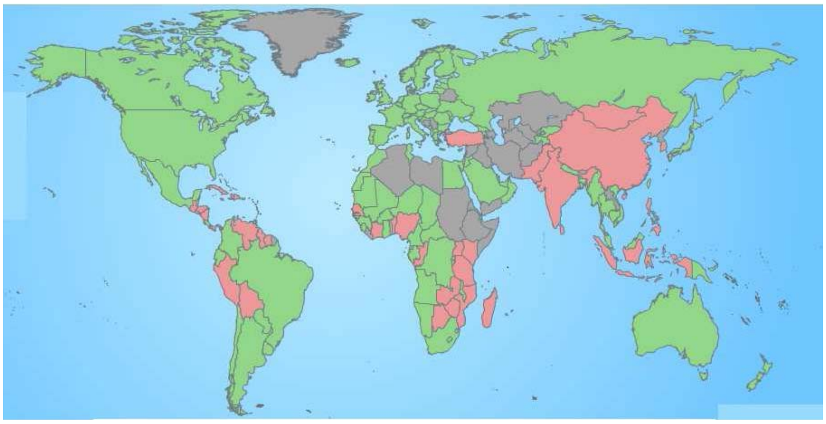
No emerging country in any of these alliances explicitly wishes to call the system into question, the only ideological challenges systematically arising within the WTO coming from Cuba or Bolivia. And in fact the BRICS countries are creating a regional development bank of their own along the lines of the one that already exists in the northern hemisphere. In short, within the WTO we find coalitions of a geographical, political and

> "WE FIND COALITIONS OF A GEOGRAPHICAL, POLITICAL AND THEMATIC NATURE, AND ANY ATTEMPT TO AGGREGATE THEM SUFFERS FROM INTERNAL INCONSISTENCIE"

thematic nature, and any attempt to aggregate them suffers from internal inconsistencies. This is the case, for example, with Indonesia which is a member of the G20 alongside Brazil, a country that is particularly aggressive in the agricultural sphere, but at the same time it is also a member of the G33, a group that favours a specific clause restricting agricultural market opening.

Map 4 ► The Group of 33: Developing countries hoping to see the limited opening up of their agricultural markets



Key:
Member of the group
Not member of the group but member of the WTO
Not member of the group and not member of the WTO

The new players' influence in the international trade system also depends to a great extent on the countries' openness rather than simply on their GDP level. For instance, countries such as Singapore, New Zealand, Norway, Costa Rica and Chile have succeeded in acquiring clout in a category to which they should not really belong in geoeconomic terms. One has but to look at the countries of origin of the chairs of general councils, committees and sub-councils in the WTO's structure (including dispute settlement) to fully grasp the unique role that these countries play.

Other countries, such as Morocco or Canada, play a role whose importance varies according to the period. This depends not only on the negotiators' personality but also on the countries' posture with regard to the opening up of trade. Some of them, such as Singapore, Chile, Hong Kong and New Zealand, are thus especially open and present in the longer term, which explains the influence they wield.

2.2. The EU and the United States face China's rising power

2.2.1. More on Chinese membership

Regarding China, which is rightly indicated as one of the most important emerging countries, the United States and Europe do not yet appear to have correctly grasped the historical reality of the situation. I would like to dwell briefly on China's sometimes difficult relations with industrially advanced countries in the context of WTO negotiations. In my view, China has paid a high price for its membership of the organisation. If we compare China's trade regime in 2001 with that of Brazil, of India or of Indonesia, just to mention a few comparable countries, we will see that there is a considerable difference in terms of average tariff ceilings. Brazil's and India's ceilings in the industrial sphere stand at 35% and 40 to 45% as opposed to 9% for China. In the agricultural sphere, China joined the WTO with a lower average ceiling than the EU. In the service industry, China has opened up more than have other comparable countries, and the Chinese have accepted an intellectual property regime that flies in the face of their traditional cultural approach.

Thus we have to recognise the Chinese leadership's effort to meet WTO demands. The conservative minority at the time saw these demands as a revival of the one-sided 19th century "inequal treaties" on enforced openness during the opium wars and the Chinese negotiators had to field considerable resistance on the domestic front. Yet China still succeeded in joining the WTO despite these difficulties.

China's membership also provided an opportunity to highlight the importance of cultural differences, particularly with regard to the settling of differences. In an anthropological study conducted at the WTO, I recall the conclusions reached by a Chinese author who underscored China's difficulty in taking on board the notion of appealing to a judge in the sphere of international trade disputes.

> "CHINA COMPLIES WITH THE GROUND RULES SET BY THE WTO NO MORE NOR LESS THAN OTHER COUNTRIES"

I would now like to address the widespread contention that China is not playing the game, particularly where labour costs and its currency are concerned. I consider this perception to be mistaken for the simple reason that China complies with the ground rules set by the WTO no more nor less than other countries.

The United States' focus on the renminbi is excessive. The Chinese currency's real, effective rate of exchange, i.e. adjusted to allow for inflation, has in fact gone up over the past thirty years.

The euro, the yuan and the dollar are still the world's three major stable currencies. On the other hand, the two countries that have made the greatest use of their currency to influence foreign trade are Korea and Japan, not to mention Switzerland (albeit in the opposite direction in the latter case).

The most crucial issue concerns subsidies and the cost of capital. In subsidising its capital, China is providing its economy with comparative advantages which, as I see it, have a far greater impact on competitiveness than the labour costs at which people are always pointing the finger of accusation. But in this sphere the WTO's ground rules are fuzzy and China's competitors have (wrongly, in my view) failed to make the renegotiation of those rules a priority, for reasons which remain shrouded in mystery.

Another area in which the Chinese have not yet forged any agreement is that of public procurement. Year after year, their offers are deemed insufficient and negotiations are postponed to a later date without any concrete progress being made. Yet the opening up of a quarter of China's public markets would be worth some $100 to 150 trillion a year in terms of the contracts that it would generate.

In other words, there are still numerous regulatory issues associated with shortcomings in several links in the chain of "traditional" international regulation, although in general terms the greatest tension with a view to the future concerns the convergence that we were talking about earlier: not the convergence leading to the abolition of tariffs but the convergence leading to shared standards.

2.2.2. The United States and the European Union in the present system

During my time at the WTO I was able to track the changes in the United States' positions within the international trade system occasioned by the changes in that system's players. While the United States made a very clear contribution to the establishment of the GATT and of the WTO, playing a co-pilot's role in devising the regime, the weight that it carries has objectively declined as Brazil's, China's and India's have grown. Thus it has tended to shift its field of action to wherever its influence remains strong. The evolution of its role also depends more specifically on such political issues as China's image in the United States and the growing political difficulty it is experiencing in pushing through Congress trade treaties involving what might be interpreted as concessions to China.

The European Union, for its part, has a certain internal homogeneity of its own, plus it also coalesces with other European countries whose economic clout is far from negligible, such as Norway and Switzerland, and to some extent even Turkey. Where its principles are concerned, the Union is always on the defensive where agriculture is concerned and on the offensive in the sphere of industry and services. Yet it is less aggressive than the United States – quite rightly, I would suggest – with regard to intellectual property issues. The United States is becoming increasingly demanding with regard to the protection of inventions, and major differences continue to exist with the Europeans, in particular with regard to the issue of brands or of geographical denominations in the food industry.

Personally, I have always felt that the European Union has both the strategic means and a political duty to forge associations with the emerging countries, whether it be through bilateral or through multilateral agreements. Yet everything points to that not being easy. The Union has been trying, in vain, to conclude an agreement with the Mercosur since the 1990s. Negotiations with India have so far led nowhere. The Union is negotiating a bilateral agreement with China on investment protection, of course, but the United States is one step ahead of it in that sphere.

3. What governance in order to make better progress?

3.1. The limitations of the "global package" approach

"THIS DIPLOMATIC APPROACH BASED ON COMPROMISE HAS BECOME THE VICTIM OF EXCESSIVE COMPLEXITY"

The ground rule governing trade negotiations demands resorting permanently to a consensus. "Round" technology, based on the exchange of offsets in the context of a "multi-issue" global consensus (single undertaking), is justified by the concept whereby the multiplication of issues facilitates negotiations through the construction of packages. But today, this diplomatic approach based on compromise has become the victim of excessive complexity, with too many players and too many conflicting interests involved. The number of potential combinations is mathematically overwhelming when the critical mass of the consensus making it possible to then extend the talks to all 160 member countries is no longer four but forty.

What the inexperienced observer may find most striking at first sight about the way international trade relations work is their excruciating sluggishness. This is due to a concept which also makes them legitimate: diplomacy, when it does not slide in the heavy and often vain direction of "diplocracy". In concrete terms, the interests at stake are not the same and divergences slow negotiations down. A substantial amount of political and diplomatic work needs to be done upstream to develop the "packages" required to reconcile the positions of the various players by permitting the exchange of concessions.

There is room for improvement in the governance of the WTO and it lies clearly in the sphere of negotiations, in other words in the production of rules enforced on countries by the member countries themselves. This intergovernmental aspect, so complex and so frequently laborious yet of crucial importance nonetheless, is vindicated by the true effectiveness of its action on the supranational level, in other words the practice of litigation.

The handling of trade disputes by the Dispute Settlement Body (DSB), which is crucial to ensure compliance with the rules, is one of the WTO's most efficient tools. Discipline also rests on the WTO's transparency, because it is obliged to publish all of its decisions in the sphere of litigation in full.

3.2. The WTO in the economic crisis

The economic crisis, which began in 2008 and plunged the world into a recession in 2009, could have sorely tested all of the GATT's and WTO's achievements. But the rise of protectionism has been largely averted and the WTO has helped to ensure this by adapting to the circumstances. I am referring in particular to the supplementary monitoring mechanisms put in place as of November 2008. An example of institutional progress, this boost to the monitoring of member states has made it possible to ensure greater transparency, which has translated into a greater effort on their part to play by the rules.

The WTO's agreements already contained a mandate inherited from the Uruguay Round known as "trade policy reviews" which oblige each WTO member state to undergo regular evaluation. On that occasion, the WTO secretariat collects a set data (garder) on the country's trade policy and compares garder data with the country's commitments. It is a kind of routine check-up.

"THIS HORIZONTAL MONITORING HAS HELPED THE WORLD TO ADDRESS THE ECONOMIC CRISIS WITHOUT A SIGNIFICANT INCREASE IN PROTECTIONISM"

In 2008 I obtained an all-round monitoring mandate from the G20 extending the measure to include the regular evaluation of each member state no longer solely in isolation but in a global and ongoing manner. This evaluation allows us to supplement the traditional evaluation with information garnered from several sources and leading to the production of a report. This horizontal monitoring, backed by the G20, has obviously made it possible to ensure a better implementation of the ground rules. It has helped the world to address the economic crisis without a significant increase in protectionism.

3.3. A stronger role for the WTO's secretariat

But above and beyond these achievements, the difficulties for an organisation such as the WTO are still there and they only grow, as we have seen, as the number of players increases. Yet to be optimistic, there is no *a priori* reason to think that what has been the case to date, namely gradual convergence, is not going to happen. But we have to recognise that the game of regulatory convergence facing the WTO today is not going to play out as simply, as mechanically, as tariff convergence. The changing issues demand a change in the modalities of governance.

Though not a homogeneous structure, the WTO is an organisation comprising 160 members and a secretariat with a director, known by the misnomer of director general of the WTO for the sake of linguistic simplicity. It is a commonly held view that the director general and his role are often overestimated. In actual fact, he is only the director general of the WTO's secretariat. In responding to this frequent overestimation of the role that I performed from 2005 to 2013, a role whose influence in fact varies in accordance with circumstance and personality, I often say that the director general of the WTO's secretariat is at once "very general and not much of a director". Naturally, member states can assign influence to him in facilitating negotiations. During the negotiations held in Geneva in the context of the Doha Round in July 2008, for instance, I managed to push through fully two-thirds of "my" compromise despite reluctance in by India and by the United States.

"NECESSARY TO INCREASE THE WTO SECRETARIAT'S ROOM FOR MANOEUVRE AND TO ALLOW IT TO SUBMIT PROPOSALS ITSELF"

To overcome the difficulties inherent in the traditional approach of the WTO's negotiating framework, it would be necessary to increase the WTO secretariat's room for manoeuvre and to allow it to submit proposals itself rather than simply having to handle dozens of different and often conflicting proposals put forward by members in support of strictly national positions. For any given single issue, the system has been so devised that it spawns a number of incompatible proposals over which it then takes from five to ten years to review and to forge a synthesis[3].

If the chairman of the negotiating group is skilful, a compromise can eventually start to take shape, but it will inevitably be a slow process.

3. See in this connection the suggestions put forward by a group of wise men, published in April 2013, *The Future of Trade: the challenges of convergence*, WTO.

In other international structures such as the World Health Organisation (WHO), the International Labour Organisation (ILO) and the International Telecommunication Union (ITU), negotiations are handled with greater rapidity. For any given issue, a group of experts is set up and a lot of time is thus saved.

> "THE ISSUES ADDRESSED BY THE WTO ARE OFTEN EXTREMELY SENSITIVE IN POLITICAL TERMS"

It is also true that the issues addressed by the WTO are often extremely sensitive in political terms. This difference explains the singular nature of the way it works by comparison with the organisations mentioned above. Aside from such issues as tobacco, which resembles a commercial negotiation in many ways, the struggle for public health waged by the WHO does not spark as many disagreements as the opening up of trade. No one is opposed to combating a pandemic.

If it proved possible to conclude a deal at Bali in December 2013, it was because businesses' wishes, namely a reduction in the cost of customs operations, coincided with the negotiators' agenda for the very first time for a long time. Besides, where "trade facilitation" is concerned, the simplification of customs procedure is not exactly the thing that arouses the most heated opposition in any member state. And lastly, the agreements were also structured in such a way that developing countries can gradually adjust at the same pace as they get capacity building support to help them modernise their customs systems, in particular by investing in customs-related software.

The WTO's achievements are considerable and the absence of a flare-up in protectionism during the crisis is additional proof of this. In fact, it is one more reason for ensuring that the organisation has the best opportunities to continue to succeed in a situation where the convergence of societies between which international trade is forging ever closer links is becoming increasingly important. This demands a debate and renewed action in the sphere of collective preferences and of taking those preferences on board. It is not just going to happen of its own accord. The rules governing the WTO's functioning today, and in particular the single undertaking rule and the constraints on the power of initiative enjoyed by the secretariat general and director general, hinder the WTO's ability to operate effectively. If we want multilateralism to prevail over bilateralism in the sphere of regulatory convergence, we are going to have to review both the organisation's procedures and its mandate.

CONCLUSION

European prospects

Regarding the more specific question of France's and Europe's place within the WTO, I have already dwelt at some length on these two players' current needs in *Quand la France s'éveillera*[4]. Basically, it can be taken as a given that the European Union's trade policy is very effective, that its market is powerful, that it enjoys the kind of ideological unity that it needs to have the homogeneity required to conduct a trade policy and that its institutional system works well.

"THE EU COULD DEVELOP ITS INTERNAL COOPERATION FURTHER IN THE SPHERE OF TRADE"

A player with no precedent in history, the European Union's strength lies in its gross internal product – the largest in the world – and in its social models – more generous than elsewhere – for a population of 500 million. Yet I feel that it could develop its internal cooperation further in the sphere of trade by a more extensive and more transparent exchange of knowledge among its member states. Europe has a major potential comparative advantage in this. It needs to partly overcome internal competition in order to get equipped with a fully-fledged economic diplomacy, especially since the Union would be able to make huge economies of scale in that area too.

France and protectionism

"IT IS NOT THE MYTH OF SELF-CONTAINMENT THAT IS GOING TO ALLOW FRANCE TO WIN BACK MARKET SHARES OR TO RESTORE ITS COMPETITIVENESS"

From the outside, France continues to be seen as a country with a rather protectionist ethos and approach compared to other countries in the European Union. The example of its cultural exception and its agricultural positions reveals a special sensitivity reflecting major French domestic political issues and national traditions. But today these specific features are not particularly obstructive (unless the Luxembourg compromise is brought into play) because all decisions relating to the EU's common trade policy have been taken by a qualified majority since the Treaty of Rome. For historical reasons, France has a genuine distaste for globalisation. Some people blame the process for all the evils connected with "desindustrialisation" instead of looking towards the future to unleash the country's true assets.

What we have to understand – and I trust that this brief has shown this sufficiently clearly – is that the protectionist rationale has now been consigned to the history books for good. It is not the myth of self-containment that is going to allow France to win back market shares or to restore its competitiveness. I was eager to stress in the first part of this essay that, thanks to the growing interpenetration of productive fabrics and to the interdependence of commercial structures, it is less and less appropriate for a country to voluntarily restrict its imports in order to save the jobs that it is losing to exports. Against all common sense, such a move even

4. Pascal Lamy, *Quand la France s'éveillera*, Éditions Odile Jacob, March 2014.

ends up fuelling the deterioration of an economy's added value. It is not a matter of painting a rosy portrait of the globalisation process, but simply of taking stock realistically of the structures of international trade in order to find an intelligent and effective way of integrating with them[5].

> "FRANCE SHOULD TAKE STOCK OF THE STRUCTURES OF INTERNATIONAL TRADE IN ORDER TO FIND AN INTELLIGENT AND EFFECTIVE WAY OF INTEGRATING WITH THEM"

People often talk about French depression, because France is the only country where opinion polls reveal such ingrained pessimism. Fully 60% of French people apparently see the future as black and globalisation as a threat to the country. But France's ambition, the result of a history and a culture that are our pride, seems increasingly out of key with its performance. It certainly is not by rejecting openness that France is going to correct that distortion. Globalisation is neither good nor bad, it is simply there, in a shape that, as we have seen, is constantly changing and evolving. France has the wherewithal to make the most of it and to take its place within it rather than to fold in on itself.

5. In this connection see the report entitled *Quelle France dans dix ans ?* published by the Commissariat général à la stratégie et à la prospective on 25 June 2014.

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