

# The Shape of International Trade to Come: Challenges and Opportunities

## Keynote speech

### Opening Ceremony of the 2018-19 WTI Advanced Master Programmes

13 September 2018

#### 1. Thanks and introduction

- Ladies and Gentlemen, colleagues, dear guests,
- At the outset, I wish to express my thanks for the kind invitation. It is indeed my pleasure and an honor to be here today in my capacity of head of the world trade division at SECO.
- Thanks to a remarkable management and first class faculty members, the World Trade Institute is enjoying since many years a worldwide reputation of excellence in the field of international trade. It is always astonishing and heartwarming to realize how many delegates at the WTO have been sitting right here on those benches.
- In particular, I would like to congratulate the students for their excellent choice to deepen their studies at the World Trade Institute in Bern.

*[short pause]*

- Ladies and gentlemen, today the multilateral trading system is going through a serious crisis and its fundamentals are at stake !
- What has proven to be right for more than 70 years is now being questioned – partly by those who helped to shape this system.
- As a strong supporter of the rules-based multilateral trading system, I can only worry about the situation we are currently facing: Rise of unilateralism and protectionist trends, reconsideration of the benefits of open trade, disregard of international trade rules and disruption of trade institutions. The WTO is at a critical juncture.
- Despite my concerns, I cannot help but believe, honestly, that today's difficult times may actually give birth to opportunities to reform and modernize the WTO and the multilateral trading system. It is perhaps about time to bring them in better coherence with economic and trade realities of the 21<sup>st</sup> century.

## 2. Importance of open trade and a rules-based multilateral trading system

- The GATT and the WTO were born under the paradigm of trade liberalization. There is perhaps no need to convince you about the benefits of open trade as a source of growth, job creation, poverty reduction and better living standards.
- I wish nevertheless to recall that open trade promotes competition and increases access to higher quality, lower-priced goods. It drives competitiveness in a widely integrated world and improves efficiency and innovation by creating incentives for business to adapt to the shifting demands of the worldwide marketplace.
- The principles of open trade and its benefits are sheltered by the WTO and its set of rules. It provides the legal certainty required for predictable cross border trade and protect trade flows from harmful protectionist measures.
- Switzerland, like many others, heavily rely on the safeguarding and development of the rules-based multilateral trading system. For countries that depend on access to foreign markets, it acts as the best tool against the law of the strongest.

## 3. A bit of History

- Looking back at the origin of all this, a single page of text from 1941 is a powerful reminder that the desire for peace and security drove the creation of today's global economic system. In 1941, Winston Churchill and Franklin D. Roosevelt agreed on "*The Atlantic Charter*". At that time, the war was at its height, with Germany's invasion of Russia occurring just six weeks earlier. The Charter sets out "common principles" on which both countries based their "hopes for a better future for the world".
- The Charter refer to the importance of bringing about "*the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement and social security*". It refers "*to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms to the trade and raw materials of the world which are needed for their economic prosperity.*"
- The global principles that underpin our multilateral economic system were a direct reaction to the Second World War and desire for it to never repeat.

- Six years later, on 30 October 1947, the General Agreement on Tariffs and Trade (GATT) - the leftover from the Havana Charta - was signed by 23 nations.
- In the course of eight rounds of negotiations between 1947 and 1994, it was possible to substantially reduce customs duties for industrial goods between the participating states.
- Agricultural tariffs and tariffs in other labor-intensive sectors, such as textiles have only been integrated into the WTO rules and regulations with the conclusion of the Uruguay Round in 1994.
- The WTO's creation on 1 January 1995 marked the biggest reform of international trade since the end of the Second World War. Trade in services and intellectual property were added to trade in goods.
- As remarkable as it was, it only established what was meant to be there 50 years earlier, right after the Second World War.
- Since 1990, the average worldwide import tariffs have fallen steadily from 14 percent to just under 5 percent today. It is merely a tenth of what prevailed 70 years ago. Today, nearly half of global trade is subject to duty-free treatment.
- Trade liberalization has made tremendous progress since the Atlantic Charter in 1941 and its benefits have spread throughout the entire world. Unfortunately, the beautiful principle of international collaboration and the spirit of open trade seem to have been lost on the way.

#### **4. International trade crisis**

- It is arguable that support to open trade and the multilateral trading system has been gradually decreasing over the past few years. This year, the WTO slipped into its biggest crisis since its inception in 1995.
- In the WTO, fundamental divergences within the membership on the benefits of trade liberalization continue to persist, not to say that they continue to deepen. On the one hand, reform-oriented members wish to make progress in further liberalizing trade and advancing multilateral rules.
- On the other hand, there are members that fear that a further development of the multilateral rules may result in a loss of their "policy space" that they deem necessary for their own further

development. Further liberalization will also mean a loss of a legitimate source of government revenue.

- Looking at the facts: despite a few notable results in the ministerial conferences in Bali and Nairobi in 2013 and 2015 respectively, the WTO has not been able to make significant progress towards trade liberalization. The only achievements since the beginning of the Doha round are the multilateral Trade Facilitation Agreement, the abolishment of export subsidies in agriculture and the conclusion of the expansion of the Information Technology Agreement.
- As a matter of fact, since 1995, Members were simply not able to reduce tariffs on a multilateral basis.
- Besides political and sometimes dogmatic positions, it is undeniable that benefits of open trade have not been split equally across all sectors of activity. Labor-intensive sectors in some countries have been put under pressure due to increased international competition.
- For example, the steel and aluminum sectors in the US and EU have suffered job losses against a fierce and unfair competition from abroad, where the steel and aluminum industries may benefit from large-scale opaque governmental subsidy programmes.
- Such cases nurtured the anti-trade rhetoric of the Trump administration, amongst others, that pursue a questionable trade policy aimed at rebalancing the trade deficit of the US, in particular the one they suffer with respect to China.
- Now let me elaborate a bit on the US trade policy. According to the US, the multilateral trading system and the WTO have hindered their sovereignty and weakened their power to the benefit of the emergence of countries such as China, India or Brazil.
- This perception translated into the main strategic axis: to weaken the multilateral trading system and to increase the use of legitimate and illegitimate trade defense measures.
- The weakening of the multilateral trading system happens via the separation of the US from the WTO, where they maintain many obstructionist positions. This is particularly reflected in the DSU crisis, which has the potential to seriously jeopardize the WTO ability to settle disputes and affect its credibility as the guardian of international trade rules.

- Consistent with this disconnect, the US are concentrating on bilateral negotiations; the format in which their relative bargaining power is the highest. The NAFTA and KORUS renegotiation are a very good illustration of this strategic pillar.
- In 2018, the Trump administration expanded drastically the use of trade defense measures. Although antidumping measures can be categorized as legitimate “standard trade defense measures”, safeguard measures, national security measures and unilateral measures pursuant to section 301 are much more exceptional.
- In addition to grant the US with enhanced bargaining power in their bilateral negotiations, these measures directly correct the trade deficit by stimulating US demand for domestic products at the expense of more expensive imports from abroad.
- By massively imposing trade defense measures, the US are breaking down global value chains to the very dubious benefit of the US economy, particularly in key sectors, such as steel, aluminum and the automotive industry.
- As you surely know, proportionate reactions by affected trading partners, such as China, the EU, Canada, Mexico, India and Turkey, have been triggered.
- As an indication of the seriousness of the situation, the US measures and the respective counter-measures of the past six months cover a trade volume of 400 billion US\$, that is almost five times larger than all trade restrictive measures recorded by the WTO secretariat in the six months between October 2017 and May 2018.
- All together, the current crisis roots itself not only in the unpredictable policies of the Trump administration and in the acute trade turmoil between the US and China, but also as an expression of anti-globalization voices.
- The irony of the situation is perhaps that the main protagonist of the crisis is precisely the one that has continuously shaped the multilateral trading system since the Second World War.

## 5. Reform Opportunities

- On a positive note, a crisis comes also with the desire, at least by some protagonists, to bring relevant changes and to address the concerns at its origin.
- Since the creation of the WTO in 1995, it has admittedly not been possible to modernize the multilateral trading system and adapt it to the new realities of international trade. A source of today's trade tensions grounds also on the fact that multilateral trade rules have not progressively adapted to the new challenges and needs of members, such as in the area of subsidies and state-trading enterprises.
- There is a sense among a group of WTO members that a reform is necessary to renew the multilateral trading system in order to maintain its relevance and credibility. There are signs of mobilization.
- Various reform initiatives were launched this year. The EU is particularly active in this regard. First, the EU, together with the US and Japan, has launched a reform agenda, which will also be discussed in the G20. Second, the EU has established a bilateral dialogue with China to tackle reform opportunities. Third, Canada has initiated a reform process with a small group of members, including Switzerland. A meeting at ministerial level shall happen in October in Canada.
- Although the concrete content of these initiatives is currently being developed, it is possible to foresee the main ingredients of the reform process. Some of them will be of a high political importance, some others are more of a technical nature.
- As a matter of urgency, it is crucial to find a way out of the "appellate body crisis".
- A key aspect concerns the issue of special and differential treatment for developing countries. One-size-fits-all exemptions for all developing countries, regardless of the state of their economic development, will no longer be consensual. Case by case solutions in the spirit of the 2013 Trade facilitation Agreement may be a good way forward.
- Other areas of work include increasing transparency of trade policies and practices across the board, envisaging alternative mechanisms to solve trade dispute, and facilitating plurilateral initiatives.
- On the latter, the system shall not force contributions and concessions by members not in a position to do so. Likewise, the system shall not

allow members to block those wishing and able to move forward. For too long now, a few notable countries have been blocking.

- In the end, irrespective of the substance of the talks it will be crucial to bring the two antagonists USA and China closer together and to satisfy the countries that continue to consider the Doha round as a priority. This seems to be like squaring the circle.

## 6. The risks

- A reform would actually be the best-case scenario. There is a real risk that the members fail to modernize the multilateral trading system, address the actual concerns and contain protectionist trends.
- In that case, the damages may be suffered by medium-sized economies like Switzerland.
- Regarding the DSU crisis, the number of members of the Appellate Body may fall below three at the end of 2019. Once this happens, the appellate body will become inoperative.
- The dispute settlement process of the WTO could thus be de facto rebuilt as a more political mechanism, as it prevailed under the GATT.
- Back in the GATT days, the panel reports contained recommendations and rulings for resolving the dispute. They became legally binding on the parties to the dispute only upon approval by positive consensus by the GATT Council. Positive consensus means that there had to be no objection from any contracting party to the decision of the panel. Knowing that the parties to the dispute were not excluded from participation in this decision-making process, such a system would favor the strong political nations. This would doubtless be in the interests of the current US administration.
- From the point of view of medium-sized economies, which do not have the capacity to participate in such power games, that would be a painful step backwards.
- Another important risk for the WTO is the proliferation of trade defense measures justified by national security interests. This includes the additional US tariffs on steel and aluminum imports.
- The US invokes the national security exemption pursuant to Art. XXI GATT. There are currently Switzerland and other WTO members see this justification as a misapplication of this exemption. Switzerland has therefore - as well as other members - launched a WTO dispute

settlement procedure against the USA. Should a panel rule in favor of the US, this clause could be applied in the future abusively and thus undermine the rules of the WTO.

- In addition to those systemic risks, there are economic risks associated with the escalation of trade restrictive measures. Export-oriented economies are directly affected by the additional US customs duties based on national security. Failing to invert this process would pose an important threat to the global economy.
- The trade war between the US and China creates actually many collateral damages. All goods affected by the measures imposed by the two giants are now delivered in third countries' markets instead of reaching their initial destination, be it the US or China. For instance, Korean or Chinese steel products are now heading to the EU. US agricultural products are exported to South American markets rather than China.
- Such diversion of trade flows leads affected countries to take their own measures to protect their economies from surge of imports. This is precisely what the EU does. The EU is about to impose safeguard measures on imports of steel and aluminum products. For Switzerland, this is even more troublesome than the US measures.
- Another effect arises when Chinese inputs are processed in third countries and the end product retains its Chinese origin. Those products would still be taxed at the American border, with the burden being put on the processing third country.

## **7. Concluding remarks**

- True, the US lead an unpredictable trade policy to the expense of the global economy.
- The picture is however not entirely dark. The US are pointing out problems that have been in the air since a long time but never been addressed due to their political sensitivity.
- First, this is the case of the development dimension in the WTO and on what basis are development status attributed to countries. It is relevant to ask whether Singapore, South Korea, Taipei and Hong Kong should still be considered as developing countries? Can we really continue to concede the same privileges to China, India, and Brazil on the one hand and to smaller countries, such as Honduras, Guatemala, or El Salvador on the other hand?



- Second, Trade policies and practices are not equally transparent across the WTO membership. There are clear indications that some important countries do not notify in the WTO heavy subsidy programmes in favor of key industries, not to mention the steel and aluminum industries.
- Third, the problem of State-trading enterprises and non-market economies must be addressed.
- Remember that the GATT and the WTO have emerged after major international conflicts have been terminated. While the GATT emerged after World War II, the WTO was created shortly after the end of the cold war and the fall of the Berlin wall.
- Perhaps to a lesser extent, the trade policy of the current US administration may act as a shock that will trigger a substantial reform of the WTO to make it more fit with the economic realities of the 21st century.
- A clear forecast is that the WTO will not come out unchanged from the reform process.
- For Switzerland, there is a lot at stake with the multilateral trading system. In calm waters, Switzerland as a small speedboat is much more maneuverable than the big tankers, but when the waves go up, it rocks all the more!
- But what do I want to tell you with all this – most of it is not new to you: As imperfect as the current system might be; it is the only one we have. And the alternatives currently tested by the larger players are not very appealing to medium-sized economies like ours.
- If we did not have the current multilateral trading system developed over more than 70 years and based on the tough lessons learnt during the thirties – where the US was also testing similar approaches; unsuccessfully by the way – we would have to reinvent it.
- I trust, that this subject will be at the heart of your discussions in the year to come and I hope that with the knowledge you will acquire here in Berne, your conviction and your passion, you will be able to contribute towards preserving the system and to developing it further.
- I wish you all the best for your studies and I would very much appreciate if our ways could cross again at some time, in some place at one of the negotiating tables constructively discussing this matters.