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Future Challenges for the Multilateral Trading System

Humayun Akhtar Khan, Minister for Commerce, Pakistan

I am very pleased to have been invited to speak on this issue of future challenges for the Multilateral Trading System. It is a very pertinent question in the light of the global events as they are unfolding.

Albert Einstein said that we shall require a substantially new manner of thinking if mankind is to survive. I think the same applies to the multilateral trading system. We require a substantially new manner of thinking if the multilateral trading system is to survive.

What are the challenges and how could we go about addressing them?

While there are many challenges, I would like to concentrate on three or four issues which I think must be addressed if the multilateral system is to survive.

The biggest challenge to the multilateral system is the impact of bilateral deals. At one time they were considered as complimentary and serving the same purpose of liberalization, but now increasingly bilateral deals are hindering multilateral trading system. Let me give you a few examples to illustrate my point. While the Doha Round is in life and death struggle, some one somewhere is celebrating a new FTA (Free Trade Agreement). The more powerful the economy, the more it is concentrating on the FTAs at the expense of the multilateral trading system. A recent example is the US-Korea FTA. While time is running out for concluding the Doha Round, everything was on hold while the US and Korean negotiators were working on their bilateral deal. Everyone was resigned to this diversion of time and resources away from the Doha Round to an FTA.. No sooner was the US-Korea FTA concluded, than the EU started working on a similar deal. It is clear where the priority for key members of WTO lies.

The concept of FTAs is not just confined to one relatively smaller economy negotiating with another, bigger economy. Whole trading blocks are adopting it. Recently an influential panel of US experts suggested that the old idea of global trade rounds should be abandoned in favour of negotiations among like-minded states. The European Union and the US have already taken initial steps with the aim of creating a single market between the two regions.

FTAs by their nature are discriminatory and go counter to the Most Favoured Nation (MFN) principle. If some countries face higher tariffs, while others face zero tariffs, it is obviously discriminatory, even if allowed by GATT exceptions. MFN principle is a basis of the multilateral trading system, and the system cannot survive if the principle is ignored.

The MFN principle was adopted after it was realized that the discriminatory policies of 1930s had played a part in the collapse of the world trading system, which eventually led to the Great Depression. Not that there was any more unity in the world then or the world was more caring at that time than it is now.

Maybe this time around there is a feeling that the risk of any collapse is low, since the marginalized economies belong to low income countries. But what we need to remind ourselves that as long as pockets of economic disparity exist, there is a danger to peace and stability. In the words of John F. Kennedy "If a free society could not help the many who were poor, it could not save the few who were rich."

The second biggest challenge facing the multilateral trading system is its inability to address the existing trading inequalities. Although the average tariffs of developed countries are low, often less than 3%, still the import from developing countries attract at least three to four times higher tariffs. For example, the WTO statistics shows that the MFN applied tariff rate in the USA is 3.7 per cent for all products. However, the rate rises steeply for the developing and least developed countries. Average US import tax for imports from Pakistan and those from other poor countries such as Bangladesh, Cambodia and Sri Lanka ranges from 11 per cent to 16% while in contrast, tariff rates for many of the developed countries like Norway, Canada, Sweden, Netherlands and UK range between less than one and 2.5 per cent. If the Doha Round is successfully completed, this unfairness will get reduced but not get eliminated.

Various studies clearly have shown that agricultural trade-distorting subsidies hurt poor people in developing countries. It is estimated that the world's poorer countries lose a total of \$24bn a year because of the subsidies paid to farmers by rich nations. In addition to this, a further \$40bn in agricultural exports could be generated by developing countries if protectionist policies were abandoned by developed nations. Rice farmers in the US receive over a billion dollars a year in subsidies, which equals the total value of the US crop. Pakistan is one of the major rice exporters and our exports could have fetched much higher prices if these subsidies were removed. Unfortunately the multilateral trading system is failing to address these inequities.

The third biggest challenge is the current expectation from the multilateral trading system. It is generally believed that solution to all world issues could be linked with trade and through trade sanctions, countries should be made to comply with other international conventions. Therefore, with every trade round, we have been putting on more and more load. As a result we are now breaking the back of this multilateral camel with all sorts of baggage. Although some baggage was shed since we started negotiating the Round in 2001, we still have over 20 very complex issues varying from agricultural reforms to Intellectual Property Rights to Environment and so on. In my opinion those issues are best left to the specialized international organizations created for the purpose. The reason that GATT was successful in getting tariffs reduced was because it concentrated on the issue alone.

The fourth biggest challenge is the reality versus perception of the multilateral trading system. The perception is that the multilateral system is not moving forward as it is a bottom-up, single undertaking and consensus driven. The fact is otherwise. A very few countries (more recently it is G4) are involved in negotiations. Perception is that the Rounds were quicker when they only involved developed countries. The reality is that the

major issues now holding up the Round such as agricultural subsidies and agricultural tariffs relate to developed countries issues. Previous Rounds were completed in relatively shorter time because they did not touch sensitive areas of developed countries. Now that they have to negotiate those areas, it is not easy.

Finally, a big challenge for the multilateral trading system is to close the large gap that has emerged in the development of institutions and mentalities versus markets and technology over the past 25 years. This has resulted in a big governance gap. Negotiators still feel that if they reduce their tariffs they are making a concession and need to be compensated for that. Working of the WTO has not changed much from what it was in the old days of GATT. In the real world, markets and technology have changed dramatically. Trade is not so much confined to countries trading with each other but it is more inter-corporate trade.

I am generally optimistic by nature. But with the way international trading system is shaping itself, I feel that the multilateral trading system is under a great strain. With such a strain and with cracks developing all over the multilateral system, I am not sure it could survive. We need to find a way the monster of bilateral trade is brought under the multilateral system, existing inequities are reduced, the trade agenda is kept limited, a more transparent mechanism for negotiations is worked out and the emerging gap between the developments of markets and technology versus institutions and mentalities is narrowed. To sum up, unless we adjust the multilateral trading system to address these new realities, it would be difficult for it to survive for too long.

Thank you.