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THE CHALLENGES TO THE WORLD TRADE ORGANIZATION:
IT'S ALL ABOUT LEGITIMACY

Washington, D.C.
Thursday, April 28, 2011

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P R O C E E D I N G S

MR. DERVIS: All right. Good afternoon, everybody, and thanks for coming despite tornado watches and thunderstorm warnings and really quite nasty weather, but now that you're all inside outside has become sunny and nice.

But I'm very happy to be able to welcome you. This event is the second in a monthly series of cooperative research and event organization between Brookings and Foreign Policy called the deep dive and so I'm very, very happy that Susan is here and going to moderate. We have a great panel this afternoon. Susan will introduce it in more detail.

Josh Meltzer who's joined us recently is both an economist and a lawyer. Homi Kharas, the deputy director, who will give you more of the developing country perspective, and then Jeff Schott, whom I think everybody here knows, who's one of the leading thinkers and opinion makers really on this topic.

I unfortunately have some other commitment that I have to go to, but, you know, these things are taped and so I will listen to it, hopefully over the weekend.

Let me just say a few words. I think the topic remains extremely important. Trade and growth and development have been intimately linked over the decades, and when one looks -- when I look at the trade area, I don't want to preempt what the panel has to say of course, but there really is, you know, good news and bad news. The good news, I think, when we look back at the crisis, at the big economic crisis of 2008, 2009, 2010, is that despite, you know, early trouble and countries passing restrictive procurement legislation here and there and a feeling that, you know, to protect jobs, there may be a rush to protectionism, I think overall when one looks at the world, there has not been such a rush.

I mean, despite the worst economic crisis since the 1930s, overall the world trading system has actually held up. There have been here and there things, but, you know, one cannot say that it has collapsed with the crisis or that countries gave in to massive protectionism, and I really do believe that the WTO framework, the dispute resolution mechanism, the fact that as far as trade matters are concerned, really all WTO members accept these mechanisms and submit to that shared sovereignty, has helped a lot and in that sense, you know, it maybe not -- it wasn't that much in the news, it wasn't as much in the news as the financial sector and the Financial Stability Board and all that. Partly it's because there were, to some degree, less problems, I think.

The bad news is that, you know, the Doha Round has been languishing, there hasn't really been any progress as far as I can tell. Now the countries are meeting as we speak in Geneva and tomorrow to see where we're at, but it's really been a very frustrating, lengthy affair that seems to have led almost nowhere. And so in that sense, I think that's really bad news because the multilateral framework seems to be really in danger, if nothing comes out of this, you know, all this effort, all these meetings, and so on, and I think this is going to be at least part of the topic today.

I guess that -- unfortunately it reminds me a little bit of the climate negotiations also, you know, the big kind of effort at the single undertaking with many -- more than 100 countries present, is very, very difficult and what seems to be happening is that some regional dynamics or maybe FTAs, bilateral arrangements on trade, seem to have more movement in them than the overall universal multilateral framework and I think one question that comes up in this context is, you know, can we use this. Is this usable? Is this useful? Can one link the multilateral framework to the more regional frameworks and even to bilateral FTAs? Instead of degenerating into the famous spaghetti ball, can one put some order and some logic and some harmony into a system where maybe instead of a grand, you know, big overall undertaking there will be more of that. And can the WTO, in addition to the role of protecting what has been achieved, can the WTO play a role in streamlining this and making sure that what gets agreed in a mini-lateral framework or in a bilateral framework, you know, isn't kind of undone -- doesn't undo what has been achieved on the multilateral front. So, to me those are some of the really important questions.

With that I hand it over to Susan.

MS. GLASSER: Thank you. I want to thank you for the warm welcome. Brookings has been a terrific partner. We are now on our second monthly installment of the new "Deep Dive" series and I think it's far exceeded even our expectations for it. The original idea and vision is that we would convene together with Brookings each month a deep dive conversation on an issue that really was at the intersection of Washington and the world and in a way that helped us think about the new arrangements that are being developed and reimagining the connections between Washington and the world. And I can't think of a subject better than trade to launch us on that conversation this month. It is not only very high on the Washington agenda at the moment, if you go up to Capital Hill, you'll hear conversations not only about the World Trade Organization, but about not one, but three pending free trade agreements that the Obama Administration is close to concluding with Colombia and Panama and South Korea. These are left over agreements that have been pending since the Bush era, and so we have the intersection of that occurring on Capital Hill at a time when President Obama is eager to position himself and trade as sort of a domestic political issue, a domestic jobs issue. At the same time you do have the renewed conversation about what the future of the Doha

Round now in its tenth year is going to be, and so I think you have both a very global discussion about trade at the moment as well as an American political conversation that makes this particularly well timed and not only do we have the very smart, in depth paper by Josh Meltzer that you'll hear more about today, but on foreignpolicy.com the conversation continues with sort of senior global decision makers on the issue of trade so that we also feature a piece by the WTO's director general, Pascal Lamy. We have the senior Republican member of the Senate Finance Committee to talk about the free trade deals. We look at individual aspects of trade, whether it's agriculture or the unlikely affect on the world's fish of a free trade conversation.

So, I think you get a sense of the broad range of interests that come into this particular monthly iteration of our collaboration. So, it's a fun venture and we hope that you'll all not only read these articles but participate by commenting on them, by spreading them around, by being part of the conversation as well, and we will make sure that we have plenty of time for your questions today after we get our panel going.

So, without much further ado, quick introductions to our panelists. Joshua Meltzer is not only a fellow here in the Global Economy and Development Program at Brookings, but he was also actually a practitioner. He was the first secretary for trade policy at the Australian embassy here in Washington, which I think is a unique qualification for someone bringing to the table, and he has really framed our discussion this month and you'll hear more from him about his paper, which dives into the future of the World Trade Organization and makes a very provocative points. My guess is that we don't all agree on all of them, in fact, which should make for a more lively conversation today, but it really looks at the balance between this new network of regional and country-to-country free trade agreements and the connection that they have to a World Trade

Organization that's still struggling to find out what it's -- you know, the next generation of global consensus is going to be. So, we're thrilled to hear from him today.

He'll be followed by Homi Kharas, who is a senior fellow and deputy director of the Global Economy and Development program here at Brookings. He has a star-studded résumé as well, was a member of the working group for the Commission on Growth and Development that was chaired by Professor A. Michael Spence, and was previously the chief economist for the World Bank's East Asia and Pacific Region, and director for Poverty Reduction, Economic Management, Finance, and Private Sector Development.

A chapter in his résumé I'm particularly interested in, in 1990 and 1991, he was a senior partner with Jeff Sachs and Associates advising governments in Eastern Europe and the former Soviet Union on transition. So, he brings a wealth of knowledge from around the world to this conversation.

And we're also joined by Jeffrey Schott from the Peterson Institution for International Economics, who's, I think, been a visiting lecturer just about everywhere and has also been a practitioner in a way that brings invaluable insights to this conversation. During the Tokyo round of multilateral trade negotiations, he was a member of the U.S. delegation and he's also been a member since 2003 of the Trade and Environment Policy Advisory Committee for the U.S. government.

So, we're thrilled to have all of them today and we'll start in by asking Joshua to sort of give us the context in which your discussion of the WTO and its future is taking part right now. Where did you see that we were entering this story?

MR. MELTZER: Yeah, thanks, Susan. And I just want to, you know, say thank you and I've enjoyed working with Foreign Policy on this paper and in fact we were commenting just before this event started about what perfect timing it is, of course intentionally, I mean, there's been so many, I think, near deaths and false storms with regards to the Doha Round and it's hard to say whether this is one or the other, but it certainly has focused attention on what's going on at the moment, so it seems like a really timely opportunity to sort of discuss, you know, the WTO and some of the key challenges facing it and thinking about, you know, what we can do about it.

You know, so the paper that I've written essentially looks at what are these key challenges and essentially, you know, discusses the sort of importance of the WTO, you know, strengthening the WTO's role in international economic governance as kind of a response to these challenges, but in the process of actually going down this path really requires us to address concerns about the WTO's legitimacy.

So, what are the challenges? Well, obviously there's the inability to complete the Doha Round, but really, this is sort of a window into some fairly fundamental changes that are going on in the international trading system and two of the key ones, I think, certainly they've been a proliferation of free trade agreements and the other has been sort of the changing economic balance of power caused, you know, in particular by the growth of China.

And this, in important ways, has really fed back into the Doha Round. So, for instance, as countries have basically managed to get some increased market access through free trade agreements. This has a tendency to reduce incentives to compromise in the round and in terms of growth of a large country such as China, this has presented opportunities in terms of new markets but really also challenges in terms of what -- China's increase, China's imports might mean for industries, domestic industries in some countries.

And really in important ways the Doha Round has really been unable to deal with these changing dynamics, which is really why we are here today where despite sort of repeated political commitments to -- completing around this year, the differences still appear to be unbridgeable and even today -- even as we speak today there's discussions possibly going on in Geneva about what next.

So, the inevitable question is: what does this mean? I mean, if the Doha Round is finally, formally declared over or if some type of alternative overtakes it, what does this mean? And one obvious consequence is lost global economic benefits, in particular for the more vulnerable developing countries. I think failure would also have and send important signals about key countries' commitment to multilateral trade negotiation.

In terms of our free trade agreements, these agreements are here to stay and my view is that we are going to see more free trade agreements irrespective of successful conclusion to the Doha Round. However, in the absence of a multilateral trade negotiation, free trade is essentially going to be the only game in town in terms of countries getting new market access.

Regarding the rapid growth, in particular of China, and the growing U.S.-China trade deficit, this has also had an important impact on domestic support for liberalizing trade. Combined here in the U.S. with the so-called Great Recession, high unemployment, slow economic growth, and I think a sense that China's trade practices, whether we're talking about under valuation of its currency or intellectual property theft, have either been inconsistent with its WTO commitments or at least constitutes some form of an unfair trade practice. And indeed, a Pew poll has shown that support in the U.S. for the WTO, for free trade agreements is at its lowest point, I think, in 13 years, which I think is when the poll first started -- was conducted.

And so, how the U.S. balances these concerns with China and its support for free trade is really a signature importance for the WTO because as the largest economy in the world, U.S. support for the WTO clearly remains indispensible.

The growth in these emerging economies, again, China in particular, I think is also shone a spotlight on really the significance also of the WTO in terms of integrating these countries into the global trading system and including their support for important global norms such as settling trade disputes according to the rule of law.

So, what should be done about this? In order for the WTO to really address and respond to these challenges requires a focus and strengthening of its role in international economic governance, and this really requires thinking about what can we do with its rules, with the secretariat, and with its dispute settlement mechanism. And for example this might include thinking through issues such as strengthening WTO rules with regards to free trade agreements, it might mean new rules on sort of emerging key issues such as food security, possibly expanding dispute settlement to include free trade agreements possibly providing additional flexibility at the same time for appellate body decisions.

However, in order to make sort of progress on this front of international economic governance really requires us to address this issue of the WTO's legitimacy because as we focus more and more on the WTO's role on international economic governance, what we do is we focus more on its power. And this essentially raises the question of where the exercise by WTO of the power is acceptable, which is really a question of the extent of its legitimacy. And, in fact, in important ways a failure to adequately address some of these legitimacy concerns that sort of came out of the

Uruguay Round and was reflected in the WTO ticks, has sort of come back to roost in a way in terms of some of the challenges we're seeing in the Doha Round.

For example, a sense around developing countries that the Uruguay Round was an unbalanced outcome or unfair, has played into, I think, the unwillingness of these countries to make the type of market access, commitments, being sold to them and has really made it difficult as well for them to respond to develop countries' demands in this sense.

The WTO, in many respects, has been alive to this legitimacy issue. For example, the appellate body in particular, through a variety of decisions, has found, for instance, that there exists a range of what would be called due process norms which, I think, have gone important ways to addressing its legitimacy and, you know, the WTO secretariat as well has, in its own way, been alive to the issue. It's sought to increase the transparency of the WTO as well as negotiating rounds.

But this issue of legitimacy is really an ongoing process and I think importantly requires members to sort of seriously engage with the issue and possibly think about taking up in some type of cross cutting sense when we start thinking about what next for the WTO.

MS. GLASSER: Thank you so much. I think one question that people will have is, inevitably, how seriously to take this prospect of a Plan B. Is the world prepared to scrap ten years of effort or to pare it back down in such a way as to get consensus to move forward? Do you have a take at this point on whether these new conversations are just a blip and another stage in this long, long process? Or could we see in the next year a move toward a different approach to scrapping Doha altogether or moving toward something different?

MR. MELTZER: I wouldn't expect to see a formal scrapping of Doha. In a sense, and there's been an ongoing conversation for a while now about what to do if it is not possible to complete the round. So, in a sense, discussion of a Plan B is not new. It's possibly interesting that it's sort of being spoken of so vocally, but it remains an open question as to whether now is really the time for Plan B or whether it's sort of a move in a sense to really highlight what's at stake.

MS. GLASSER: Homi, I'd love to bring you into the conversation now. Josh's paper raises a lot of interesting questions about the role of the rise of new economies and how much that has become part of the challenge in figuring out how to conclude this round, and I'm wondering what your take on that is.

MR. KHARAS: I think it's a really important point because when the Doha Round was started it was called the Doha Development Round, and the idea of calling it a Development Round was that it was something that developing countries should benefit from, but in their great wisdom, the WTO just simply thought of all developing countries as kind of, you know, one homogeneous group and the reality, as we've seen certainly in the last ten years, is that there are huge differences among developing countries. There are huge differences in their interests and huge differences in the interests of other parties with respect to developing countries.

So, I think it's quite useful to kind of take a step back from -- a little bit from the details of all of the negotiations that are going on and just think a little bit about what would it really mean if today we had a true Development Round.

And if I may, Susan, I'd just like to give a couple of thoughts on this.

I mean, first, there's one group of developing countries and you can call them the dynamic emerging developing countries, who for them, essentially, the current global trading rules system is working really well. I mean, these countries have essentially discovered that by leveraging the global economy they can grow at rates of 8 percent or 10 percent or numbers that are absolutely historically unheard of and they can only do that, and they know they can only do that, if and only if the world remains committed to an open multilateral trading system.

So, actually, you know, all developing countries have in many ways a far greater stake in the success of Doha and in the success of having an open global system than the advanced countries. I mean, for the advanced countries, you know, there have been some static calculations on, well, what are the benefits from achieving Doha, and actually there's a model done by some people next door at Carnegie? The answer is $1/1000^{th}$ of global GDP every year. It's not a huge number.

For developing countries it's 2, 3, 4 percentage points of growth every year. It's life or death. So, there's a huge, I think, imbalance in the importance of the issue and that's exactly mirrored by an imbalance in who gets to actually talk about the rules. And there's no question that up until this round, developing countries -- none of the developing countries, whether they were big, small, or whatever, really had a major say in the rules.

So, I think you can sort of say the large emerging developing countries, what they really care about is, let's make sure there's a status quo, let's make sure there's no backsliding. In many ways I think they're probably much more concerned that if you don't move forward with continued liberalization, that there would be a possibility of a retreat, a global retreat towards protectionism, and the damage to them from that would be far more severe than anything they hope to gain by this round in terms of active, new benefits.

So, for them, in some sense, the status quo is great except you can't have the status quo just by staying still. So, in some sense, I really feel that the kind of incentives for them are, let's have a deal, but let's have a deal where we do as little as possible. And that, very crudely, I think, is why we've had so much difficulty with this non-agricultural market access issue, because for the developed countries, the whole game is, what's the point of having a deal if we don't even get more access to these developing country -- big, emerging market, developing country economies? That's where all of the benefits are.

So, they don't want to do anything, they don't want to risk upsetting the trajectory which they've finally discovered is able to deliver 8 percent growth. And the advanced countries don't want to move forward if they can't get more. So, it seems to me, this is a big problem. I don't see much hope for an easy way through this simply because the underlying incentives seem to be so different.

And then, of course, the real tragedy is that the people who most people think of as being real developing countries, the people in sub-Saharan Africa whose share of world trade had been kind of plummeting and where people initially said the reason why we want a development round is so that something can be done for these guys. I mean, for them, this spat is completely irrelevant. They don't think they're going to get much benefit out of trying to, you know, compete in Brazilian manufacturing markets. That's not where sub-Saharan Africa is going to grow. They're concerned, really, about a very few selected sectors. It's, you know, a bunch of agricultural sectors, it's cotton, it's textiles and apparel, and there's no movement on any of these. These are all put into a box which one way or another gets called sensitive and it's taken off the table.

So, what you have is a situation where the rules have been quite seriously biased against these countries and there's no real mechanism for reversing those because the rules have been biased, not against those countries deliberately, they've been biased in favor of poor constituencies in developed countries, and it's just a kind of an unpredicted consequence of that effort to protect workers in the apparel industries in, say, the Carolinas in this country, small holder farmers in the U.S. and in Europe. It's a sort of second order consequence that that also happens to really badly affect some of the poor developing countries in sub-Saharan Africa.

So, I was looking at some numbers just to show you that this really makes a difference in practice. There are nine developing countries who pay more to the U.S. in actual duties collected on their exports to the U.S., than the UK or France in absolute dollar terms. This is not percentage stuff; this is just millions of dollars. The U.S. takes more from Cambodia, from Bangladesh, from Vietnam, from Pakistan, than it takes from the UK or France. It's an upside down world and that's because we do have a system where we've got cascading tariffs, we've got tariffs on the value added items that these poor countries can produce and export because those are the very items that are being produced by some of the poorest constituencies within the developed countries.

Until the politics of that changes in the developed countries, and I see no particular reason why there should be any reversal of this sense of solidarity for poor people in their own country, it becomes very difficult to make an offer that the other developing countries will really benefit then, and these efforts at so-called duty free, quota free access -- I mean, they've had some progress, but whenever there's a sort of a reasonably big country, a Cambodia or a Bangladesh, it's like, no, sorry, we can't really go there. So, you don't have a global commitment even there.

The one thing where there does seem to be some global commitment is something on aid for trade. That's rather easy. We give the aid anyway, let's say we'll still give it and we'll call it something else and pretend it's a major concession. It is -- I mean, it would be nice to have aid bound under a treaty obligation rather than just as a constant voluntary thing. But let's not misunderstand, this is not a major concession of new monies, this is a relabeling of old monies under aid for trade.

MS. GLASSER: So, I see that Jeffrey is itching to join the conversation. I want to ask you two things. One, the sensitive box, as Homi labeled it, and that's the place where we put the things where everybody actually disagrees on that are probably at the heart of this conversation, I'm curious if you agree with the description that we've heard so far, what exactly the stalemate is right now? And, more broadly, whether you -- where you come down on this characterization of the WTO as facing a sort of crisis of legitimacy?

MR. SCHOTT: Well, Susan, thank you. Thank you for inviting me as an alumnus of both Brookings and Carnegie, it's nice to be welcome back to a joint venture. I was here 40 years ago. Bob Solomon was a young man then. A younger man. So, I appreciate coming here.

The nostalgia is not only for the days when I was with Brookings and Carnegie, but the discussion has brought up a nostalgia for some of the pain and suffering I endured when I was in Geneva listening to the same arguments and part of the problem of WTO, or formerly GATT negotiations, is that it's dealt with like in a bizarre type atmosphere where you're trading back and forth in a very mercantilist fashion, and it ignores what is the dirty little secret of trade policy and that is is that most of the benefits that you derive from an international trade agreement comes from what you do to dismantle your own trade barriers. And it goes well beyond into the dynamic effects that Homi was talking about.

Developing countries have never bought into that. In the first four or five decades of the GATT era, post-war trading system, the developing countries basically stood on the sidelines and did not participate in the negotiations, did not contribute in terms of their own liberalization, and, not surprisingly, their priorities were not taken into account in the first six, seven rounds of GATT negotiations. So, that's why we have this skewed system.

While I think Homi is exactly right, there was a lot of -- there would be a lot of resistance in the United States, in Europe and Japan and elsewhere, to negotiating on some of these wage labor intensive manufacturing sectors, the fact that it was never done, even in an incremental basis over a number of decades, has meant that the gap has widened. And now we're faced in a negotiation with the fact that the United States and Europe and a few other countries, their markets are relatively open except in a few notable areas, and almost all of those areas involve priority export interests of developing countries and so trying to put together a reciprocal bargain becomes very difficult because it's very difficult for developing countries to meet the price of changing a sensitive apparel item or sugar or cotton, and so there needs to be a big enough deal on the table that allows a constellation of political interests in the United States to push for that reform because that reform is in our own interest. In fact the biggest payoff for the United States will come when we reform those longstanding protectionist policies.

But developing countries didn't do that. The Development Round was thought up in very different ways by different people, but it certainly had the problem that Homi mentioned, that it grouped developing countries as a whole when developing countries are fierce competitors of each other in many areas, but it -- it also brought up the fact that many developing countries thought that the Doha Round would be an entitlement round or a payback or compensation for the very extensive commitments that they were forced to undertake in the Uruguay Round, and I say “forced to undertake” because the Uruguay Round was a very special event. It was the last GATT Round and after that round, because of the agreement to establish the World Trade Organization, the big guys were leaving, and so the developing countries had the choice: accept the deal or stay alone in the GATT without the big guys. It was a one off event where the leverage was in the hands of the United States and the European Union and essentially could pressure a lot of far reaching commitments from developing countries which they in retrospect, but even at the time, it was pretty obvious that they would have great difficulty in implementing and enforcing.

These are only part of the problems of the Doha Round and Josh and Homi have mentioned a lot of the changes that have happened over the past decade, and the emergence of China, and the competitiveness of China in export markets and in home country markets in many other developing countries. The concerns that you hear in Congress today are echoed in many of the governments of countries around the world, in developing countries saying we can’t -- we’re concerned about the competition, fair or unfair, and therefore there’s a resistance to further liberalization. All of these things add up to a complication for Doha and leads to the important question that Josh raises and that is, is the system at risk? Because you were saying what is the legitimacy, but essentially the question is, is the system at risk?

MS. GLASSER: Right.

MR. SCHOTT: I take from what Homi said that the status quo is not necessarily sustainable, and I fully agree with that, but how do you value the systemic risk in the trading system? We've had -- we've been grappling with it and I know people in this building have been grappling with the issue of systemic risk in the financial system for the last couple years, but there is an equally difficult problem in dealing with how do you value systemic risk in the trading system.

MS. GLASSER: Well, that's a pretty big question to throw back at you, Josh. As you worked on the paper, where did you see the challenges to the WTO as being most acute? Is that a conversation we're going to have in the context of Doha? Is it -- you point out and we haven't gotten back to yet -- the new network of free trade agreements and the really explosion of bilateral and regional free trade agreements. Is that the main threat? Where do you see these pressure points being most acute on the WTO?

MR. MELTZER: It's interesting when you think about what free trade agreements have meant, I think, for multilateral trading systems, because a lot has been said and a lot has been written about this. I mean, I think as much as we might lament some of the costs of free trade agreements, I think the reality is they're here, governments have invested enormous amounts of energy and political capital into them, they're not going to go anywhere, and there's an in built dynamic in free trade agreements which is essentially that as more and more countries do them, essentially other countries are forced to do them just to maintain a level playing field for their own domestic industries. And you see this play out all the time. I mean, you see in Congress some of the arguments being made for passing the Colombia FTA market access for U.S. agricultural products, you know, losing out to Argentinean agricultural products who have an FTA with Mercosol or similarly the EU-Korea FTA disadvantaging U.S. auto industry. And so there's a sort of in built momentum and that's going to play out, essentially, for quite some time to come.

And so it raises the obvious question, what does this mean in terms of market access? Now, some stuff has to be done in the WTO. I mean, in many of the agricultural export subsidies, for instance, it's very hard to do, really it needs a multilateral framework, but countries are beginning to pick off their kind of main trading partners getting deeper access and really -- not deeper, but establishing rules which are just not possible to do in the WTO at the moment. I mean, an obvious one is on investment, which is really an essential sort of complimentary set of rules to your trade liberalization, and so the WTO, as the sort of key forum for getting market access, is essentially reduced over time by this.

Now, that then obviously plays into the negotiating dynamics and how countries approach it. It combines with what Homi was talking about in terms of the actual, you know, the gains, particularly for large developed countries not really being all that significant necessarily and so that is sort of certainly how that plays, I think, in terms of a key challenge there.

MS. GLASSER: So, you've all watched this discussion play out in the U.S. as well as globally for a long time. I'd like to go actually to the question of where the American politics of trade are at the moment, because I think that's a really interesting way of looking at these bigger policy debates. Do you -- Jeffrey, when you're looking back on your own experience and where we are now, we've got trade on the Hill as a big question, lots of anxiety on the Hill and more broadly in politics about China's rise, about the U.S.'s response or lack thereof to it -- where do you see the trade issue playing out in the political system right now?

MR. SCHOTT: Well, I think we have so much unfinished business from the last couple years that the legislative agenda on trade is going to be quite full.

MS. GLASSER: Right.

MR. SCHOTT: And there's going to be much more activity and probably much more constructive activity on trade in the Congress this year than probably on any other issue. And, you know, last year at this time if you had said that you would have been immediately committed.

So, I think now there is going to be extensive efforts and successful efforts to conclude the three -- to implement the three bilateral free trade agreements before the summer recess. I think there's going to be some planning about the future of fast track or trade promotion authority, thinking about setting the trade agenda going forward, and because it's necessary for new trade initiatives in the Asia Pacific and eventual multilateral agreements, and there are the big questions on how one goes forward with trade adjustment assistance, which I think is an integral part of this package to secure the bipartisan support that will be needed to pass legislation.

We had a very significant reform of the TAA legislation in the stimulus legislation in February of 2009, and that program has -- the funding for that program has now expired and the Republicans have been holding that program hostage for a strong political commitment by the White House to move forward with the trade agenda and trade negotiations.

I think as long as both sides follow a constructive path, that's a legitimate political strategy, but it requires that when one side fulfills its obligation, the other side does as well and I think under the tight budget constraints that's going to be difficult. But I'm optimistic that the trade debate is going to be less fractious than it was in the past and that assumes that we will continue to see improvement in the unemployment situation. If it gets stuck at 8 percent going forward, then ether's likely to be a bigger backlash.

MS. GLASSER: Well, right, because ironically President Obama's tougher sell clearly is among Democrats in his own party on some level, although you pointed out a sticking point with Republicans too.

MR. SCHOTT: Well, I mean, there are many people in this audience that know the granular detail of these issues very well, but trade agreements have not required a majority of Democratic votes in the house for a long time, so a substantial minority of Democratic votes with a substantial majority of Republican votes, because there will be -- there are protectionists in both parties, but that will be sufficient to, I think, have support for bipartisan initiatives in the Congress, so I'm much more optimistic on that than I was a year ago.

MS. GLASSER: Homi, where do you see this emerging conversation here in the U.S. and in Washington, on Capitol Hill, about the rise of the developing economies and whether that's been a constructive political conversation or not? Does it factor in this year's trade debates or is it just more of an anxiety that's surrounding them and on the outside of it?

MR. KHARAS: Well, I think that there's a growing realization that development is something important and there's a Presidential Study Directive on global development and, you know, within that context it's fairly clear that trade and investment are thought of as being more significant instruments than aid. And most developing countries also were saying, "give us trade, not aid".

So, in some sense, the kind of -- the politics of development, if you will, are shifting away from aid and towards trade, and I think that that's quite a positive thing.

Whether that gets reflected in more bilateral trade agreements or something more on the multilateral front, I think, still is an open question. But I did want to say that -- sometimes people look at the regional trade agreements as somehow being competitive with or a substitute for the multilateral system, and at least the regional trade agreements among developing countries, I don't think that that's the case at all. I think they're real compliments.

So, if you look in East Asia at ASEAN, I mean, the huge increase in trade both among ASEAN countries and between ASEAN and, say, China and the so-called ASEAN Plus Three, all of those agreements that have been set up, are all in parts and components, it's an intermediate trade, and it's all predicated on the idea that at the end of the day, the final assembler, it's typically China but could also be Korea, right, is able to sell that product to the United States. That's guaranteed by the multilateral system, not by the regional trade agreement. So, if it wasn't for the multilateral system being, you know, strong, in place, et cetera, I don't think you would have a lot of these regional trade agreements, especially the ones that are just involving the developing countries.

MS. GLASSER: Are you also an optimist, Josh, when it comes to the free trade agenda on Capitol Hill this year?

MR. MELTZER: Yeah, I'd certainly reflect what Jeffrey said. I think I was following the climate change negotiations closely over the previous Congress and it was -- one of the obvious kind of dynamics was how close, I think, Congress came, arguably, to passing something on climate change and how little was done on trade, and in fact -- and this dynamic has kind of played out a little bit in the international negotiations where strangely there seem to be more opportunity then, at least, that you would do some type of international deal on climate and not on trade, and I think that was something that we hadn't seen for a while and I think that kind of situation, at least, has changed to the extent that certainly you would expect trade to be front and forward, it's clearly a priority for the Administration, and in ways that it just hasn't been in the last two years, and I think with the Republicans inc control of the House now, there's just a new dynamic which is a lot more supportive of doing something on free trade. Yeah.

MS. GLASSER: I think it would be great to get started with some of your questions from the audience. We have several people here -- and if I could just ask you to identify yourself and your organization, and also to make it a question, which is not always the case.

SPEAKER: Thank you. Martin Moen [ph. 0:50:22.1] from the Canadian embassy. An academic contact of mine suggested, and it's a bit provocative, that there really hasn't been enough protectionism in the past few years to scare people into taking the Doha Round seriously and into taking the value of bindings and bound tariffs, for example, more seriously. Do you think there's any truth to that?

MS. GLASSER: Good question. Jeffrey?

MR. SCHOTT: There has been a lot of protectionism, a lot less than we would have expected given the depth of the economic crisis, but there has been a reaction and that protectionism isn't just safeguard measures, but also through other types of regulatory policies that can have equivalent effects.

There's also been a -- there was an explosion of subsidies for industrial restructuring or protection, that is going to be more difficult now in the current fiscal climate here but still possible in other countries, so we see that. And currently, in some developing countries, there has been a renewed trend to raise applied rates up towards bound levels. In part, it's a free safeguard, essentially, and it is being used by some countries who have seemingly overvalued currencies to confront trade from countries that have presumably undervalued currencies. So, you know the names.

MR. MELTZER: I think if we had -- if we literally had no trade barriers, a borderless world, we'd probably have a volume of trade that is, I don't know, four times, six times larger than what we have today, so the idea that things are already pretty open, job done, let's sit back -- I honestly don't think really flies. There are a number, and this goes well beyond tariffs, but there are a number of border barriers that are still very active and thinking that we need some more in order to encourage people to move forward, I find tough to swallow.

SPEAKER: And that point should be well understood in Canada where they have barriers within their provinces -- between their provinces.

MR. KHARAS: Not to mention barriers between Canada and the U.S. with NAAFTA.

MS. GLASSER: Yes, right here.

SPEAKER: Thank you, Steve Landy [ph. 0:53:23.2], Manchester Trade. A question for Homi, I think. I have found that there's some canards that people keep repeating and repeating and then they become part of the lexicon, and I'm hoping Foreign Policy might even be willing to do a couple -- a little article on this, but the fact of the matter is that most least developed countries are in Africa and they will be harmed like the dickens if one completes the Round as currently planned, and the reason for that is that Africa was divided up into 47 countries in 1960 and people have assumed that the way you have economic growth is by economic regional communities because you're not changing the borders by force, which you did in Europe 100 years earlier and so on.

But yet because of this very obtuse definition called DF -- called least developed countries, you are making it impossible for the regional economic communities to get to the level of customs unions and to get to the level where they create the regional infrastructure so you will have the trade. The U.S. was one of the few times the U.S. was very farsighted and they said, when we give our GOA benefits, we're going to give them to both least developed and non-least developed countries. I'm going to sum up quick, but I'm not going to give a speech. The Europeans did the opposite and they divided Europe up and they did these horrible economic partnership agreements that have just frozen progress.

I sympathize with Bangladesh and Cambodia on textiles, but you can solve that issue with political muscle, but as long as you don't treat Africa as a group and recognize that their regional communities also deserve special treatment and so on, even if they don't meet Article 24, you're going to have a problem. So, I just repeat, you know, please pay attention or please study this issue before you keep saying least developed countries are going to benefit, because I'd hate to see regional integration disappear and that's what might happen.

MS. GLASSER: Is there a question?

SPEAKER: The question is, am I correct? And my real question is, why can't we treat all the African countries, special rules of origin for Egypt and South Africa, of course, but why can't we treat them [inaudible 0:55:28.4] countries and begin to treat them as "least developed countries" at least for purpose of preferences and for purposes of reciprocity until they are able to form their own effective regional communities?

MR. KHARAS: If we had a system where we could extend preferences more widely, I think that would be wonderful. If we had a system where rules of origin were actually quite simple and so when you do have some regional trade you don't have to worry too much about the origin and documenting. I think that would go a long way. I think that there is already, quite outside of trade, there's already an understanding that building the requisite infrastructure in Africa is important and that a -- you know, as one indication of this, you can imagine that the ports of some countries -- Mozambique, Tanzania, right -- can be thought of as regional projects because actually if you improve those ports it would do far more to improve the trade prospects of some of the landlocked countries that they serve than for the countries that are actually there. All of that kind of thinking, I think, is already starting to happen, so this notion of a more regional, more integrated approach, I think, is already there. And I apologize for repeating the least developed country, duty free, quota free.

MR. CHEN: Yeah, Chia Chen, freelance correspondent, [inaudible]. I didn't see your article in this book, but I just borrowed your article from my neighbor. I think the problem is this, you got starting point wrong. The current negotiation round launched in Doha in 2001 aimed to better integrate developing countries into the global grading system. Basically this is very wrong, and the problem said by the two other speakers, I think the importance is to how to integrate the developed country into the system.

You see, developed country tells the developing country, no subsidy to the agriculture, but EU and U.S. keep the agriculture subsidized, and the basic -- there are lots of reason why the Doha get nowhere, but the big thing is this, there's a big argument between the EU and USA, see which one have a subsidy more. So, I think this is the -- sure, the system is needs to have some modifies, some change, but basically -- I have a last thing to say, but I just want to ask you a question. How do you get developed countries, particularly USA, to get rid of their farm subsidies? You can see every year the farm bill. Thank you.

MR. MELTZER: It's a good point, and I think you can sort of read this reference to integrating developing countries is also referring to increasing market access opportunities in developed countries. Coming from Australia, we're very familiar with the process of the farm bill and the extent of U.S. agricultural subsidies in this country. And so -- I totally agree with your --

SPEAKER: You are the one of country too.

MR. MELTZER: Yeah. And I think it's an absolutely accurate point. I mean, in order to get -- to allow developing countries to take a lot of advantage of the multilateral trade system, the United States and the EU in particular have to do a lot on their agricultural subsidies and domestic support programs, absolutely, and that's a key part of the Round.

SPEAKER: My last point is how to integrate developed countries to the WTO? That's more important.

MS. GLASSER: Thank you.

SPEAKER: Doha get nowhere, like U.S. try to do the bilateral FTA like mad and every country follow to it. So, WTO is gone already.

MS. GLASSER: Thank you very much. I see a question towards the back there.

SPEAKER: Hi. David Orden from the International Food Policy Research Institute. I'm going to get to a question but I wanted to just make a comment on this exchange about agriculture first. It may surprise you to know, but given what's on the table in the Doha negotiations now on agriculture, and it's not such a great deal that's on the table, but given what is on the table and has been on the table since 2008, the

United States and the European Union, based on their notifications of support in 2008, already, by those rules, meet the final Doha commitments that are being asked of them. That is probably a little bit of a shocker to people. It doesn't mean agricultural support has fallen that much, but it just makes a point that what's on the table right now, unless that has completely opened back up, that is actually not a barrier for the U.S. and EU to agreeing to a Doha agreement given the way they've chosen to notify their support for 2008 already and given what the rules allow them to do and would under Doha allow them to do.

So, that's a comment I wanted to make about the agricultural side. The question I have is for all the panelists, but Jeff, let me start with you. I mean, you have a lot of experience, so does the feel right now, to you -- is it a feel of this current battle over the sectoral tariffs and so on, is that the feel like the end of a round or the beginning of the end round serious negotiations? That would be my question. You partly implicitly answered it because when you talked about action in Congress you never even mentioned Doha, but -- so that's the question.

And then related to that is, you know, there are certain entertainers who are now speaking a lot manipulation of the Chinese currency, and gee, they might even become presidential candidates. Well, gosh, we've had entertainers who have become president. So, the question -- the serious question is, is there some sort of deal that could be struck or implicit, so to speak, basis for bringing the round to closure that would sort of trade off some tariff concessions versus some easing up on pressure about currency manipulation? Is that a possible deal that could bring us out of the current impasse?

MS. GLASSER: The end of the beginning or the beginning of the end?

MR. SCHOTT: Neither. The situation in Geneva right now is very tenuous and there is an effort underway with proposals that were supposed to be tabled today on manufacturers to attempt to prevent the round from collapsing or going into suspension, and I don't know what's in that proposal or how it will be received in the coming days and weeks. But even if it provides a change in position among the major trading countries, both developed and developing, it would not be sufficient to move the Doha Round to an end game or to real negotiations.

We have had a period of almost six months since the Seoul Summit where very little has been done, almost no negotiation, a lot of technical work, but almost no negotiation despite a very concrete mandate from G-20 leaders. They've dropped the ball. They have not followed up on what they said they were going to do in Seoul to push their negotiators to do more and actually sit down and negotiate a more ambitious deal.

Doing more on NAMA, Non-Agricultural Market Access, is only one part of it, and it can be sliced and diced a number of different ways. Negotiators are good at doing that. But that doesn't bring enough political support for the round to the table because you have nothing on services and because you will still have to do more on agriculture. The 2008 deal, I don't think is sufficient. I think the United States and the European Union will have to do more. I agree with your point that it probably is not that painful in economic terms, but politically it is, as you know better than I, and the ability to maintain those commitments over a period of time when the current high prices will likely go down, and therefore increase pressure under current programs to raise the level of subsidies, is still a problem.

So, I am hopeful that there will be some change from the past six months in debate in Geneva over the next two or three weeks. If that does not happen I think the round and the WTO is in serious trouble.

MS. GLASSER: Do you agree?

MR. MELTZER: Yeah, no, I agree, and I just want to -- I mean, I like the suggestion in terms of linking it with the China currency issue. I mean, I think it's hard to see that sort of playing out, just simply in terms of how you could actually sort of make a commitment in a way, which wouldn't lead to backsliding on the currency issue at least down the track. I mean, even a political commitment like that wouldn't be sustainable where -- whereas, obviously, an end deal in Doha is going to be a binding trading commitment.

MR. KHARAS: Given the incredible difficulties of dealing with the currency issue even under a much softer regime of the IMF's MAP, I see no chance at all of bringing it into a treaty-like obligation like Doha. So, I think that that's, to be honest, a bit of a red herring.

MS. GLASSER: Here and then to the back.

MS. STERN: Thank you. Paula Stern, The Stern Group. I'd like you to talk a bit please about the secretariat at the WTO and the trade policy review mechanisms, which exist there. The G-20 has, from one meeting to the next, empowered the IMF to do more, to produce more reports that are more frank and more open and have, I believe, helped move a lot politically towards reform, economic and financial reform. I don't see the G-20 asking the secretariat of the WTO to use its policy review mechanisms that are already on the books for review of certain things, in particular, subsidies. And Jeff mentioned the fact that we had, in this period that led up to the formation of the G-20, because of the great recession, enormous numbers of subsidies that were piled on. China, which you address in particular here, has been a strong subsidizer and in the clean energy area and in the green tech area is something, which, it seems to me, is a source of collision.

So, my question is, knowing that some of these subsidies may not be tackled -- able to be tackled by the dispute settlement mechanisms within the TWO given the current rules, what can we do to legitimize the WTO to deal with really some of the most important problems with regard to China and the U.S.? And can they be doing something more with what they've got now?

MR. MELTZER: It's a very good question. I think on the subsidies issue a lot has -- can, in fact, be addressed through the WTO rules. I mean, you're sort of seeing already the U.S. taking some WTO dispute settlement action on subsidies in the wind sector, and so there is -- I think there's certainly demonstrated scope to address some of these concerns.

In terms of the trade policy review mechanism, it's sort of like there's a built in review depending on how significant your country -- each country is in terms of trade and I think that has been a particularly useful process in the WTO for bringing to light policies that countries may be implementing which may or may not be consistent with the WTO commitments. It's not a judicial mechanism. It doesn't actually make -- draw conclusions on whether they're consistent or not, but it provides very useful information and the process that members engage in in preparing those reports with the secretariat is what generates -- can generate the type of scrutiny which can lead members to adjusting policies at times.

The WTO -- so, look, I mean, in terms of -- we're doing the -- we saw during, for instance, the financial crisis, separate to this review mechanism, WTO did actually prepare reports on sort of where countries were moving in terms of whether they were introducing new protectionist measures, and I think in terms of keeping track of that type of process, that could be like another sort of useful way of keeping track of that type of process. That could be like another sort of useful way of getting at these issues.

MS. STERN: They did that. But I'm not asking for ways in your reform of building on what more could be done. I mean, this is the deep dive, I think that is begged -- the question is begged in this paper.

MR. MELTZER: Well, so in a way, right, the legitimacy issue is fairly cross-cutting because there're two key components to it. One is the process that we undertook to negotiate these rules, and that's sort of, in a sense, an ex ante look at whether those processes were legitimate, and then there's really a – take these rules and after they achieve what we want to do. Now, that can cut both ways, right, because it can mean from one perspective that they don't do enough, right, so in terms of China you might say that there are some practices of China's that still lay outside the WTO rules. I mean, one of the examples I gave in the paper was the fact that they're not a member of the Government Procurement Agreement has meant that there was difficulty addressing those rules on an indigenous renovation policies, but it can also mean that in some areas there's a perspective that the WTO rules have gone too far, right, so it's not necessarily in every instance a ramping up of the WTO rules. It sort of depends on what we're looking at.

So, I mean, in terms of -- I think in terms of China, the key point there really is that you want to have a situation where as much of the relationship -- the trading relationship can be addressed in a WTO context, right, I mean, because it's clearly the case that the U.S. will use whatever means at its disposal and you would expect that to address those trade problems, and this really then becomes a process of, well, what next for the WTO, right? So, a concrete example might be, there was a process underway for China to sort of provide new offer to become a member of the Government Procurement Agreement and when you think about, say, for instance, the clean energy issue, which also raises the subsidies issues, you could possibly conceive of a post-Doha situation where you had negotiations actually sort of focused on these key issues, which sort of brought these type of issues -- because a lot of them are not being addressed at the moment and that might not only include the subsidies issue, right, but it might be a broader set of issues which look to, say, for instance, barriers to trade in a broader status of clean energy technologies and those type of things.

MS. STERN: Only post-Doha?

MR. MELTZER: Well, it's formally part of the round now.

MS. GLASSER: Okay, so we have time probably for one or two more questions. I know there was one toward the back there.

SPEAKER: Hi, I'm Matthew Bornfriend; I'm a student at GW Law. I have a question maybe for Mr. Meltzer touching on two things you mentioned briefly in your paper. How much of a threat to legitimacy is it if the WTO gets passed by on certain issues like e-commerce and trade and financial services if these things keep progressing so rapidly of the past ten years and the WTO doesn't actually move to address any of those?

MR. MELTZER: Again, it just depends, right. It depends on how these issues are being dealt with and where they're being dealt with. Again, there's sort of this fundamental question about what -- for the WTO going forward, what's its role going to be? How effective is it going to be as kind of the key institution for managing global trade? In a sense, legitimacy is intimately tied up with that, right, because to the extent that countries are unable to achieve market access gains, so you have the inability to move forward on the Doha Round, and so the really new areas of trade are not being address in the WTO rules, then essentially it is what it is, which remains important, but this stuff starts being looked at in bilateral arrangements, et cetera.

So, from an effectiveness lens, it loses legitimacy.

The other dynamic to that is how these rules get addressed in free trade agreements and that's where there might be some interesting sort of positive synergies for the WTO and I talk about this in the paper about the extent -- and Homi talked about this as well, FTAs are not necessarily just a complete bad story for the WTO. I mean, they certainly have provided opportunities to go forward on areas that are just not possible at the moment in the WTO and I think really the challenge going forward is thinking about how we sort of bring these back into a multilateral system.

MS. GLASSER: So, this gentleman here has been very patient. We'll give you the last word -- or among the last words.

SPEAKER: I'll be brief. I'm Robert Shrader [ph. 1:16:45.8], president of International Investor. We believe in free trade. We think there's great positive economic value in trade. My question, though, goes to the title of this conference, "The Legitimacy of the WTO". We're unconvinced that a global platform is absolutely necessary and we still don't think a strong enough case has been made for that. During -- I mean, despite all the merits of free trade, one can understand why citizens, not just in this country but in Greece and a hundred others, are confused of its value considering all that we've seen in the last decade. So, to quickly cut through this, is there economic evidence -- I'm not talking about the moral authority now, but is there economic evidence that a global platform would serve us as a world any better in terms of economic development for all parties, more than regional free trade agreements or bilateral free trade agreements? And I don't know if we should be so disheartened by the fact that we may not have a global platform in the future.

MR. SCHOTT: Well, I think your premise is a little off, though the objective of question, I think, is very important. To a large extent we have a global platform and it's built up through the past eight rounds of multilateral trade negotiations based on the rulemaking and liberalization of 60 years. That is already priced into business trade and investment strategies, so in a sense you can see that as a given. People may not think about it as a value, they already have priced it into their equation. They also see it as an insurance policy against a policy reversal, and so in that sense it has economic value. It doesn't mean that you won't have reversal, but it means the cost of policy reversal is much greater.

So, with that greater policy predictability, then you have a good platform, not a complete platform, and the problem that you site, I think, at least if I'm interpreting your question correctly, is that as international commerce has evolved, there are many aspects that can affect, encourage, or distort international trade investment, that are not subject to that multilateral discipline, and is it necessary for those aspects to be brought into a coordinated or harmonized platform in Geneva, or can you do it on a regional basis? Or is it the cost of obstruction more than businesses wanting it?

SPEAKER: And what I'm saying is, we're not convinced, and I think many people aren't convinced, no one has made a convincing case -- I'm sorry, I don't mean to interject, but convince us is my real question in this. Is there good economic data that you can offer to suggest that if we can even out all these distortion we'll all be better off?

MR. KHARAS: I don’t know if you want to continue?

MS. GLASSER: We can also take it outside too.

MR. SCHOTT: And this is a good -- this should be a good article for you to write in the next issue of Foreign Policy. I’m sure Homi knows lots of good research that has been done at the World Bank. There have been other studies that would look at what would happen if we did have that policy reversal, to look at that counterfactual, and there the costs are quite significant. Without the platform that we already have in Geneva, if that was reversed or if countries raised their applied rates up to bound rates, the cost would be in the hundreds of billions of dollars.

MR. KHARAS: I mean, for developing countries I don’t think there’s any question about this and there have been plenty of regional trade agreements that developing countries have tried to put together that have collapsed in absolute failure, so when push comes to shove, I mean, think about NOCOSUR [phonetic], think about some of the old Andean Pact [phonetic] things. When push comes to shove, because those, in some sense, are easy to do, they’re also easy to undo and one of the great benefits, I think, of a global system is that, yes, there’s sweat and tears that goes into its construction, but it’s nature as a treaty obligation makes it quite difficult to then undo. And for developing countries, in particular, the value of that insurance is enormous because without that it’s not just the trade they wouldn’t be getting any of the investment. A lot of the investment that flows to developing countries is in turn designed to create the platforms from which the trade happens. No guaranty on trade, no investment. So, I don’t -- I mean, I think there are plenty of studies that link -- you know, for developing countries, that for the larger countries, you know, in some sense prior to the Doha Round, what we actually had was a set of regional trading agreements. Sorry, Jeffrey, but in some sense it was like a U.S.-Europe-Japan sort of trilateral agreement. If you want to think of that as a regional trading agreement, yes, everybody else joined in, but as Jeff said, they joined in because essentially they were told, if you don't join in then you just get excluded. So, it's your choice.

But the way in which it was constructed was, in essence, a construction amongst three large important blocks. You couldn't do that any longer. The world is just far too multi polar.

MS. GLASSER: Okay. Well, thank you so much. I think this is a good note to end on, the actual value of the whole system itself. So, wonderful panel, and thank you for all your contributions.

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