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THE FUTURE OF TRADE:

A CONVERSATION WITH WORLD TRADE ORGANIZATION DIRECTOR-GENERAL PASCAL LAMY

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P R O C E E D I N G S

MR. ANTHOLIS: Well, welcome. Good afternoon, everyone. Thank you all for coming to Brookings. We are delighted to welcome Pascal Lamy, director general of the World Trade Organization, and Kemal Derviş, the vice president of Brookings here who runs our Global Economy and Development Program, and all of you, welcome.

We are fortunate from time to time to have world leaders on the Brookings stage, and today we can thank the person sitting next to Pascal for that. As you all know, Kemal runs our Global Economy and Development Program, and before that he was a former leader himself as the leader of the U.N. Development Program, and before that, a distinguished career at Princeton, at the World Bank, and as the finance minister of Turkey. And through him we're lucky to have Pascal.

For two or three people out there who do not know Pascal's career, he has serve as the director general of the World Trade Organization since September 2005, and before that was trade commissioner at the European Commission from 1999 to 2004. He became the E.U.'s trade commissioner just after the U.S. and the E.U. launched the WTO as an organization, and they were trying to launch its first round as a new organization at that wonderfully organized meeting in Seattle that a number of us had the pleasure of attending. Almost two years later, that round finally launched at Doha in 2001, less than two months after the 9/11 attacks. And that was thanks to the tireless work of Pascal and his good friend, Bob Zoellick, a friend to many in the room here.

Now, 13 years after Seattle, 11 years after Doha, we are still in the middle of a very complicated and difficult trade realm. Pascal has led the WTO in that time period with patience, perseverance, and passion, and he has needed all of those qualities. He, and over 150 trade ministers, are now dealing with a far more complicated global situation than the one that faced them and us just over a decade ago.

Back then, world trade still largely focused on the export of raw materials from one nation, the manufacturer of finished products in another, and the sale of those goods overseas. Poor and developing countries were still largely focused on agricultural exports and very basic manufactured goods, and we're hoping that Doha would see a breakthrough, eliminating U.S. and E.U. subsidies and quotes in agriculture and basic manufacturing.

The trade and services was still relatively limited to a small list of high value added activities. Indian call centers were in their infancy. China had just fully joined the WTO, and no one spoke of emerging markets, a phrase coined by a Brookings trustee, Antoine van Agtmael.

Regional trading relationships were just beginning to challenge the WTO. Back then most phones still had cords, most music listeners had just made the transition from vinyl to CDs, and almost all televisions still had tubes. The conflict between trade laws and other global treaty obligations were only starting to be questioned by non-governmental organizations. Now, 13 years later, and 11 years after Doha, our products and our politics have become ever more complicated. Take a glimpse, my iPhone functions as a phone, a record player, a newspaper, a television, and a post office. And especially when my kids grab it, it's a video arcade.

As Pascal will discuss, the materials assembly, intellectual property, manufacture, labor, and energy that goes into making this phone is not only managed by the WTO, but also potentially touches on a network of other global and regional agreements. On top of that, the global financial crisis put millions out of work and led to a surge in government spending and subsidies to favored industries. Pascal and others have tried to sort out which subsidies and taxes are allowable and which are protectionist practices. In other words, the rise in global supply chains, non-tariff measures and other global public goods and the onslaught of a global crisis have all conspired to make Pascal's job among the hardest in the world.

Yet, even with all those headwinds, Pascal will probably still be the first to tell you global trade is responsible for some extraordinary accomplishments. Those gains have continued to come in the last decade, and they could not have happened without the dedicated work of Pascal and his not-so-merry band of trade diplomats who helped to build this current system.

So the global manufacturing and services boom has promoted enormous development for people in emerging markets worldwide, helping to lift hundreds of millions out of poverty, and developed countries have benefitted, too, with trade helping dramatically lower the cost of goods and services to people across America, Europe, Japan, and elsewhere.

So we are very lucky indeed to have someone of the intellectual breath and physical stamina of Pascal at the center of these issues and negotiations. So with that, the director general will speak to us for a few minutes and then he and Kemal will speak with you all in a conversation.

Thank you very much, ladies and gentlemen, Pascal Lamy.

(Applause)

MR. LAMY: Well, thanks, Bill, for your kind words. The topic of these remarks is looking at trade in the future, a very uncertain future, and the one thing we can say for sure about the future, that it will differ from the present. I think history has been a good guide to the future, and the recent past has brought so many startling changes that the future certainly promises more of the unexpected.

In the last decade alone, as Bill was saying, China has risen to become the world's second largest economic power and its biggest exporter of goods. The Arab Spring has swept away longer established regimes with consequences still to be determined. The global economy has been shaken by a series of cataclysmic events, which may have been foretold but for which we certainly were not prepared. The U.S. and Japanese debt levels have risen to unprecedented heights. Europe's experiment in generating serious super national governance is being severely tested.

On the other side, skeptics and optimists alike have been surprised to see important millennium development goals, like halving the global rate of extreme poverty or slashing by half the proportion of people without access to clean water achieved five years ahead of the 2015 deadline. The way we talk to each other is nothing like it was 20 years ago. Human interaction, and that's already been said by Bill, has been transformed by social networks, application software, mobile telephones, iPad, and so on. And who could have possibly imagined even two or three years ago that a baseball team from Washington, D.C., would be within striking distance of the World Series for the first time since 1924 when Calvin Coolidge was president.

So what's true for geopolitics, for technology, or even for baseball is true as well for trade. Advances in technology and transportation systems have slashed the expense and the uncertainty of distance. The rapid growth of a global value change, the rising use of a regulatory base, nontariff measures, and the shift in trade patterns as south-south trade grows rapidly, have totally transformed trade in the last decade, and I believe that these forces will keep transforming trade in the 10 years ahead.

Trade as a share of global GDP has risen from roughly 40 percent in the '80s to around 60 percent today. In the U.S., a country long considered less dependent on trade than many others, this share has risen from 10 to 25 percent over the same period of time. The U.S. exports of goods and services in the last 10 years have more than doubled to over two trillion. One reason for this dramatic expansion is that U.S. exporters have entered new markets in a big way. When China entered the WTO in 2001, U.S. exports to the Middle Kingdom were 20 billion. In 2011, 100 billion. Fivefold more.

In addition to the well-known case of China, many new trading powers have emerged. Brazil, India, Mexico, Malaysia are now in the top 25 leading exporters stable and all posted exports growth of 15 percent or more in 2011. And today, developing countries' share of trade is about 50 percent compared with a global share of around one-third in '08.

Probably more important, the nature of trade has also changed. High-tech used to be made in the U.S., Japan, Germany. Today, they are made in the world with components and parts fabricated in many countries. The country where the final assembly takes place may contribute only to a small fraction of the final added value of the product. Today, nearly 60 percent of the volume of world merchandised trade is trade in components. In Asia, this figure is roughly two-thirds. The import content of average exports worldwide is 40 percent, up from 20 percent two decades ago. So these value chains have not only changed the way companies trade; they are also changing the nature of the trade debate.

When products were made in a single country by a single company, the argument that exports were goods and imports bad were more easily defended. This mercantilist approach was, for centuries, a driving force of trade policy, as by the way was the concept of reciprocity, which derived directly from this vision.

Global value changes have turned all of this on its head. Companies wishing to be globally competitive in the U.S. marketplace need access to the best possible inputs, goods, services at the lowest possible prices. Hindering companies from seeking such imports only renders them less competitive globally. It's become just self-defeating. And this fact, together with strict monitoring by the WTO probably explains why governments have largely resisted the white scale application of 260 measures on imports since the beginning of the crisis, although as we know, we've seen slippages here and there.

Now, not everyone has fully understood this important shift, but the debate is evolving, starting with the way we measure trade. If we were to measure trade in value added rather than gross statistical terms, bilateral balances, for instance, would look very different. True, the iPhone is assembled in China, but the goods and services leading to the final assembly come from 15 different companies in many different countries. The value added to the iPhone in China is around 4 percent, far less than the value added in the U.S., Japan, Germany, South Korea. Yet, a $400 iPhone is sold in the United States. Standard trade accounting lists it as $400 credit to China's side of the ledger, and $400 debit for the United States.

WTO economists believe that China has sort of $300 billion trade surplus with the U.S. would be reduced by half if two-way trade were to be measured in value added terms. And given the tremendous importance of these volatile relationships for both countries -- and by the way, for the rest of the world -- I believe looking a bit more closely at these numbers really makes sense.

The broader trend to use more of global supply chains is likely to grow as we competition to host this production facilities and the cost of labor is by no means the only valuable companies consider when deciding where to manufacture or where to source their component. Sound domestic policies, good education, adequate social services, business environment, quality infrastructure have become critical demands in determining where foreign investment in order to localize these production facilities will flow in the future.

And this explains why many companies building everything from aircraft to automobiles to furniture and paddocks have increased investment in U.S.-based production facilities. I don't intend to enter into this offshoring-onshoring debate that I know is rather heated in this country, but the point is that companies from around the world continue to invest billions of dollars in bricks and mortar in the U.S. And one often overlooked area of policy, which has a growing impact on competitiveness as global value added change disseminate production, is customs procedures. The longer a producer has to wait for the needed important component, the less competitive she or he becomes. Clearing a container in one day instead of one week has become probably much more important than coping with the 10 percent industrial tariff. Trade facilitation also happens to be one area of rulemaking where we may be able to reach a WTO deal in a reasonable future.

Customs procedures, paperwork, border delays today comprise roughly 10 percent of the value of world trade, which is 10 percent of $1.4 trillion. A trade facilitation deal in the WTO to curtail fees, paperwork, create greater transparency, reduce obstacles to goods in transit would cut those costs in half. So half of 10 percent of $1.4 trillion available.

Now, in this new world of trade, tariffs are less of a problem when doing business in foreign markets. They have not disappeared. They remain high, too high on certain products, and recent increases in applied tariffs by certain WTO members have again brought to the forefront the value of slashing tariff feelings in the WTO, in our jargon, absorbing the water between bound tariffs, seating tariffs, and applied tariffs.

But in the meantime, governments are implementing a whole variety of nontariff measures which impact these new trade flows and sometimes profoundly. These measures are regulatory in nature and are aimed at protecting consumers' health, safety, or even culture or lifestyle.

And they include areas like standards, norms, testing, certification, procedures. But removing these types of regulations, as we used to try and remove tariffs, is often neither desirable nor politically feasible. The challenge for the WTO and other multinational organizations is therefore, not necessarily scaling back these measures but seeking to reduce the discrepancies between them so that they do not conflict or do not unnecessarily restrict trade; a different way of leveling the playing field.

And as bilateral or regional preferential trading agreements multiply, the risk of disharmony between nontariff measures threatens to grow. These trading arrangements often include elements not covered by the WTO agreements, such as social or environmental standards, method of recognition, standards or qualifications, and there is an obvious danger that the regulatory elements of each of these accords may not only differ, but clash, creating perhaps unintended but very real barriers to trade.

So, global trade corporation is still needed to address these measures, and yet, as we know, the international economic crisis has drained much of the political energy which we need in the multilateral system. It's now pretty clear to everybody that the goal of achieving a dual package encompassing 20 topics among the 157 members is out of reach in the short term, but in this difficult environment the possibility still exists in advancing in smaller steps in a variety of areas. We saw this happening with a recent agreement on the Government Procurement Agreement and with the recent deal on simplification of the accession of least developed countries to the (inaudible). Members are presently negotiating a new version of the Information Technology Agreement (ITA), which has been a win-win deal and I think good progress can be made on such a major issue of international trade today in the coming month.

The goal of WTO members have also embarked on a pure lateral negotiation to reach a deal to further open trade in services. No need to say that they are a key element component of our economies and a key driver of the competitiveness of our industries, and this is why I believe that these efforts are welcome and that they should be made to negotiate it in an open manner, encompassing a maximum of WTO members and with a high level of ambition. We need as well short term to consider, for instance, how to multilateralize this welcomed recent agreement in APEC on environmental goods.

Now, if the WTO's negotiating function has been, let's say, disappointing in recent times, the organization has become more effective in other areas, in monitoring, tracking, reporting on trade developments, whether trade restrictive or trade opening. Our role has grown through the monitoring of measures taken since the beginning of the crisis. The WTO dispute settlement system continues to be the most effective mechanism of its kind. I know that some lawyers in Washington have not always been happy with the outcomes produced in Geneva. The fact that the U.S. is the most active participant in dispute settlement indicates the sort of, in a factual way, the degree of confidence that the U.S. government and U.S. companies have in our ability to resolve these disputes effectively. In an atmosphere of escalating trade tensions, this dispute settlement mechanism has taken the heat out of disputes through a process which is rules based, predictable, and most importantly, respected. And it's, I think, no accident that we've already had nearly three times as many cases filed this year as in 2011.

In other ways, too, the WTO has become more effective or coherence work with the U.N. system, the Bretton Woods Institution. Regional development banks have never been closer. The Made for Trade program, which I just discussed with the president of the World Bank, is evidence of this global partnership to build productive capacity in the developing countries. We've together, and I discussed this morning the IFC, have averted a shutdown in trade finance to businesses, banks in countries in the developing world.

So, to conclude, what of the future? How will the WTO adopt to these very rapidly changing circumstances which I believe will keep changing in the near future? To provide answers to this question I have assembled a panel of 12 experts with the U.S. contribution of Don Donahue from the U.S. Chamber of Commerce to report on their findings by the beginning of next year. Of one thing we can be certain, the role of emerging countries in trade is where we will continue to grow. We are in a multipolar world, certainly in trade, harboring many centers of influence lends great legitimacy to the work of the WTO, but it also brings greater complexity to global decision-making.

A global consensus is needed on the role of trade for growth, for job creation, for development, for poverty alleviation, and in many ways, I think it's time for us to restate why and how this virtuous causality link works. Once we've done that, and again, I think we need to redo that, this debate will not succeed without higher political will. And it can be beat.

Fifty years ago, President Kennedy signed the Trade Expansion Act. October 1962 was a time of uncertainty. The world at the time was crippled by the Cuban Missile Crisis. The U.S. was looking with some perplexity at the conciliation of the European Common Market, and yet, President Kennedy noted it was no time to stagnate behind tariff rules but to promote increased economic activity through increased trade.

Now, we face lots of uncertainty, like in 1962. We know the future will bring unexpected events, unpredictable consequences, but there's also something we know, which is that these challenges will be no less complex, nor challenging than those we face today. And in fact, there is every reason to believe that the economic, social, and environmental conditions we have created today will make these changes and challenges even more difficult to deal with. But one thing is, I believe, for sure, which is that more openness is needed. Openness of trade, openness of minds. And I look forward to Brookings keeping leading this debate. Thanks for your attention.

(Applause)

MR. DERVIŞ: Pascal, thank you very much for coming. I know it's a very short trip and you took time to visit us. And your last sentence particularly will encourage us a lot. I think Pascal Lamy is, you know, the head of the WTO as Bill Antholis said, but he's a thinker, a leader on all issues relating to the world economy, to Europe, and I will warn you; I will have one question on Europe before we open it to the floor because Pascal, of course, worked with Jack Delaw and he's one of the architects of the European Peace Project, which I still think remains one of the most impressive projects that world history has produced, although it is, of course, facing these huge challenges.

So I'll start by asking you a few questions and then we'll open it up for debate. Now, there is one question. You started almost at the beginning of your speech, Pascal, underlining the difference between looking at trade from the point of view of the final products, what we measure in the balance of payments, and the value added that lies behind that. And I think this is -- you took the initiative, I think, yourself, in launching data work on this because while we can, you know, we can comprehend the idea, there's no systematic data that was available to kind of look at this. And I think this is very, very important given the degree of interdependence that exists now and the kind of productivity increases that are linked to it, but also some of the imbalances and problems in the political economy.

But my question is the following. You know, when you look at it from the micro side you have flows of goods going back and forth. But when you look at it from the macro side, the current account deficit of a country is the difference between total investment in that country and total savings. Okay? And that will remain true no matter how you measure the flow of the goods or of the value added. And this is, you know, a challenging kind of conundrum in a way. I must say quite -- I mean, I've thought about it but I haven't come fully to the grips with it. You said, for example, I think you said the China-U.S. deficit would be only half of what it is if it was measured in value added. Okay. But the current account of China and the U.S. will remain the same. So how do you explain that? How can you help us think this through?

MR. LAMY: You're absolutely correct. Measuring trade in added value will not change the fact that the U.S. has an overall trade deficit and that China has an overall trade surplus. It will simply give a totally different picture of where is this made of?

Years ago the U.S. had a big trade deficit with Japan. Now, China has a big trade deficit with Japan and the U.S. has a big trade deficit with China because in large part what China ships to the U.S. comes from Japan. And this is a confirmation of what we all know, which is that current account imbalances are not trade related. They have to do with macroeconomic realities, which basically is the relative proportion of investment, consumption, savings. So, all economies know that the trade balance is the other side of a macroeconomic balance. But what measuring trade in added value is doing is realizing that this is not a trade problem. And by the way, probably even more importantly, that these imbalances cannot be corrected through trade measures. And that's something, again, which we've known for a long time. Simply the way we measure trade until now couldn't help us realizing this.

Now, the first numbers for, I think, 60 countries or so will appear at the end of this year. We've been working, as you said, very hard for the last three or four years with whole networks of academics, statistician, OECD, which has been doing the heavy workload. It's, by the way, a very interesting way of a network of various bits and pieces, places. The ability of which to collect these numbers and put them together is incredibly helped by, you know, the Internet and other systems. And I think the moment we start looking at the new numbers will change the way we look at that. And, of course, with, I hope, positive consequences on the trade debate.

Now, everybody knows that in the U.S., for instance, and not only during electoral campaigns, there is a huge sort of, you know, China focus. And the bilateral trade deficit between the U.S. and China, the way we measure it today just, you know, hypes this as a formidable issue, where if you look at it properly, what really matters in trade policies at the end of the day for the people is whether it's job creating, job disrupting. We know it is both creating and job disrupting. We know that overall for a country like this one, trade participation enhances the quality of jobs. Not always the numbers, but the quality.

MR. DERVIŞ: I think this is a very interesting and very important answer, and I think the work that we're really very impatient to see, we got glimpses of it, is going to change a lot of the way we think about the world economy. So I really congratulate you and all the network with whom you work. I mean, just to kind of, I hope, clarify a little, I mean, not clarify but add to what Pascal said, maybe part of the problem that the U.S. thinks is with China is that actually Germany and Japan are exporting some of the stuff to China that the U.S. could be exporting or should be exporting from the U.S. point of view. And that is more the point than just looking at the bilateral Chinese U.S. balances. And I think to have the data to illustrate that and to analyze that will be really a great contribution to the analysis of the world economy.

My second question, Pascal, is, you know, across the street we have our competitors, the Peterson Institute. Actually, some of them are down here. No, actually, they're all over there. And Fred Bergsten, you know, keeps saying that the WTO should be used as a tool to fight against what he thinks are unfair exchange rate policies and there should be trade sanctions attached to macroeconomic and reserve policies that go against the kind of -- purely market-determined, whatever that means, equilibrium and exchange rates. I'm exaggerating a little bit.

But I have a very different view. I think that, you know, using the WTO for all kinds of purposes from environmental to macro to exchange rate is quite a dangerous matter. But I wonder, particularly on the exchange rate issue and managing global imbalance and the exchange rate and it's very much, of course, an issue which was until the euro crisis took over almost all the space, which was at the center of the

G-20 discussions you were, of course, a participant in. But what do you think about the kind of relationship IMF, WTO, trade and current account deficits and exchange rates?

MR. LAMY: Well, there's the lawyer answer to your question, there is the economist answer to your question, and then there is the politician issue to your question.

MR. DERVIŞ: Okay.

MR. LAMY: Now, the lawyer's question is as follows: And I always have to be very careful because my lawyers are extremely serious people and when out in public I have to really watch my steps. But what lawyers would say is sanctions, Fred Bergsten-like, are about breaching rules. And there's no rule that would bind a country in today's international system, whether in WTO or in the IMF, that says that you have to have a free market on your currency.

MR. DERVIŞ: You can choose your exchange rate regime.

MR. LAMY: There's nothing like a rule which would imply that, again, your current account must be free and that your currency must be traded on a normal market. Now, the same lawyer, hence, sanctions for what rules? Unless such a rule would need to be built. Now, the same lawyer would say among you there is an Article 15 of GATT, which the legion said was written by Keynes himself, and which basically says that on the one side you cannot frustrate your trade opening commitment through exchange action -- whatever that means, you know, that -- and in the same article recalls the commitment which IMF members have been themselves, which says that you cannot frustrate your exchange -- I mean, your exchange rate system through trade action. But the same lawyer, and I'll finish this on the other side, would say that was written at a time of fixed exchange rates, which is true. And this Article 15 GATT rule has never been tested in any dispute.

So, what would the economist say? The economist would say (inaudible) on the one hand, on the other hand, very complex question. And by the way, that's what is happening in a debate which we have restarted in WTO after six years of flat (inaudible) on trade and currencies. Why? Because Brazil two years ago, which had started the sort of crusade on currency wars and the rest, asked for this to happen. So for the last two years we've had a very good, scientific, academically-loaded debate about this, which leads to a very complex sequence which is an exchange rate undervalued or overvalued. Does this have a consequence on trade flows?

You should take the example of China and assume China's exports have a 50 percent China added value. If you reevaluate the renminbi, for sure it all affect short term the competitiveness of Chinese exports on the export side, but it will seriously improve the import capacity and pricing of China. So then you have to make the whole demonstration that it really -- and for the moment, for the moment there's no clear cut conclusion to that. What we know is that sometimes exchange rates do impact short-term trade flows, depending on how firms absorb or do not absorb these variations in their profit margins, depending on their capacity to hedge or not hedge on a number of markets. So very, very complex.

And, you know, let's leave China aside for the moment because we are in Washington, and let's look at what Switzerland has been doing for the last year in capping its exchange rate to 120 Swiss francs to the euro. Through what lot gains would have caused exchange rate action. Does anybody have a problem with Switzerland doing this? Not that I'm aware. Look at the graph which is the real exchange rate of the currency for the last 20 years. Real weighted exchange rate. You'll see a picture which looks like exchange rate action. Has anybody complained? No.

Now, fine, then for the politician answer. The political answer is that the place where exchange rates are meant to be seen as overvalued or undervalued is not the WTO but the IMF Washington.

MR. DERVIŞ: All right. All right. Well, I like the economist on the one hand; on the other hand, very complicated. So we'll have to try to simplify it. But I think it is an important question. And my own feeling, frankly, is that the WTO has in its own field been very effective. It's one of the most effective organizations in terms of global governance in its own field obviously. And putting all the burden of all kinds of things on the one because through trade you can affect the other I think is in itself a somewhat dangerous enterprise. So I do disagree with my colleague and friend across the street from that one.

Now, let me ask you the last question and link it to Europe a little bit before opening up to the floor. It is actually connected to the last one. Despite the fact that the European Union has never, I mean, has claimed to want Turkey to be a member but, you know, but it's not about to happen tomorrow, and I am a very fervent European as a Turk. But when you look at Europe going through this major crisis, I computed some of these balances. Okay? The first fact is that Germany now has the largest current account surplus in the world in absolute terms, larger than China. the second I think even more interesting fact is that if you take Northern Europe, the Northern European countries, although some of them are not in the euro zone, some of them are, but Switzerland, for example, closely thanks to the euro. So does Denmark, Sweden, and Norway is a little bit of a different question. But if you actually take Northern Europe, the current account surplus of the last 12 months of

Northern Europe is about $520 billion. Larger than the Chinese surplus ever was. Now, you know, through the same kind of reasons we criticize China, is it not fair to criticize Northern Europe in similar terms? It's a question; I'm not affirming it. Both from the point of view of, you know, just global balances and global macroeconomics subtracting $500 billion from effective demand in the world economy, but also very much, of course, from the point of view of the European debate. And here I will say something which I heard with my own ears, you know, a Northern European finance minister in Davos, he was asked what is the secret of your success? By the way, it wasn't the German finance minister. He said, well, very simple. You have to have a current account surplus and a budget surplus. And since we cannot trade with outer space, it's not feasible, of course, to do that worldwide. But anyway, what about this Northern European huge and growing account surplus?

MR. LAMY: I mean, it's just a confirmation of what we said a moment ago, that these current balances have nothing to do with trade policy because by definition the EU members, have the same trade policy. So it's a good test case of why this is not the problem. And why it cannot be addressed through trade policy action. It's a macroeconomic problem. It is a competitiveness problem and we know that part of the present crisis in the euro system has to do with too much divergence in competitive realities of the economies. And that's something which us, or more precisely, the ones which were the diplomats at the time that decided on the disciplines of the eurozone had missed. Not that the issue had not been raised. If you take the law report that preceded (inaudible), there's quite a lot of that sort of solidarity, competitiveness issue in his report. But for reasons which are their reasons, diplomats took in that what they thought would be acceptable to their governments and populations and not what was not acceptable.

But this needs to be fixed. And in a way it is slowly being fixed, probably in conditions which are socially and economically not good but it is what's happening for the moment. I spent two hours with Mario Monti a fortnight ago in Rome. That's what he is doing. Now, of course, he's doing it the hard way. It probably would have been much better to do it within a system of disciplines. That would have been more binding, including in the case of Greece.

MR. DERVIŞ: But Keynes would have said that at least part of the adjustment should be done by the Northern European surplus countries.

MR. LAMY: But this is what will happen with time, as it is, by the way, this is what's happening with a Chinese surplus.

MR. DERVIŞ: It's happening with the Chinese because they actually have an appreciating real exchange rate and the macroeconomic consequences of it.

MR. LAMY: Moderately. Moderately. That's the IMF.

MR. DERVIŞ: But shouldn't German wages rise much faster?

MR. LAMY: I think -- I think it will happen.

MR. DERVIŞ: I sure hope so.

MR. LAMY: It will happen.

MR. DERVIŞ: All right. Let's turn to the floor now for some questions and answers.

Uri, you're always fast. Even on the tennis court.

SPEAKER: I have a pressing question. Yeah. Well, thank you very much, Pascal, for that masterly review of trade relations, and also Kemal, for your excellent questions today.

My question is about multilateral negotiations. Many have come to the conclusion that we are not ever going to make progress through again -- through a round that includes 150 countries trying to decide, as you put it, on 20 different, highly complex agenda items. So the proposal has been made that more should be done through plurilateral negotiations. You mentioned those as well.

I'd like to understand from you what you see as the obstacles to plurilateral negotiations. Is it, in fact, inevitable that before we launch a plurilateral negotiation we have to have agreement of all the members to launch a plurilateral negotiation, which of course, is an enormous constraint. Is it, in fact, the case that in order for a plurilateral negotiation to be concluded it has to be done on an MFN basis, which means that everybody benefits, even though who did not participate in the agreement leading to all sorts of free rider and deterrents on the part of countries that do want to engage in agreements?

MR. LAMY: Well, multilateral negotiations are not difficult because they are multilateral; they are difficult because, so far, and that's the evidence of the Doha Round, there was no convergence between a few very major players. Like in the Uruguay Round, which only unfolded when the U.S. converged on an issue which they hadn't been able to solve before. And that's what happened to the Uruguay Round on one specific issue. At the time the U.S.-E.U. problem was agriculture. This time the U.S.-China problem was industrial tariffs. So it's not so much a multilateral problem. If the U.S. and the E.U. -- if the U.S. and China would agree on a compromise on industrial tariff reduction, I can tell you the whole picture would change.

Now, plurilaterals, you've got, as you know, two sorts of plurilaterals. Closed plurilaterals and open multilaterals. Closed plurilaterals, like the Government Procurement Agreement, which are done on a pure reciprocity basis. Only the members of the club benefit from the trade opening they do between themselves and by the way this necessitates a specific decision by all WTO members that they accept some of these members to do a closed plurilateral. But for services where there is an Article 5 that allows this to happen without a waiver, but the Government Procurement Agreement is covered by a waiver where all WTO members have accepted that government procurement is written this way.

Now, that's one version. Then the other version, which is the one you mention, is the open plurilateral where a number of countries start trying to be a critical mass and when this critical mass of, let's say, 80, 90 percent of trade is there, they clinch a deal and they open the benefit, this deal, to de minimis, which is the remaining 10 or 15 percent or 20 percent of world trade.

The problem being that in today's world of trade, an open plurilateral without both the U.S. and China in the deal, is not doable. It doesn't make sense. So in a way you're back to the starting point, which is that you need the U.S. and China to agree. So in many ways there's no difference between a multilateral deal and a plurilateral deal as long as you talk about an open plurilateral deal.

This is what probably can happen with the ITA 2, the Information and Technology Agreement Number 2, which is the one that where the U.S. and China are both working in that direction. This is what happened in the Vladivostok APEC deal on the environmental goods where there was an APEC agreement to go to 5 percent in environmental goods tariffs, which is the one we might be trying to multilateralize in the WTO. So in a way, it's not the fact that it's multilateral or plurilateral as long as it's open; it's the fact that the U.S. and China can or cannot agree. Yes?

MR. DERVIŞ: Please do identify yourself for the rest.

MR. SITAVA: Sure. My name is Andre Sitava. I'm a Russian reporter. Thank you for mentioning Vladivostok. It gives me an opening. Russia probably, yes, played the role in that result because it was interested in achieving a result. Maybe it leaned a little bit on the U.S. and China to achieve that. But it's just conjecture.

If you remember, sir, I used to ask you over the years how soon Russia will be in the WTO. And it was almost a game, at least for me. Now that Russia is in the WTO, I want to ask not only what you still expect from Russia but also what Russia can probably do for their organization in the current situation for itself and for the world to get out of the crisis. Thank you.

MR. LAMY: Look, Russia is a new, fresh member of the organization and as experience shows, there will be a better time to learn, get acquainted with the special life of this trade, which has its own specificities, rules, rights, feathers of war, of peace. It takes a big of time to get acquainted to that, and probably you can find a good sort of anthropological description of the way the system works. Obviously, this takes quite a bit of time, and China entered into the WTO there was often media, often care the media often compare China's and Russia's entry, so that 10 years different it's very different.

The main point of Russia entering the organization in a way is similar to China entering the organization, which is to provide political energy for the modernization of the country under the constraint of multilateral rules which have been subscribed. But true, this will take a different rhythm, a different shape, given the fact that as compared to China at the time, the Russian economy is still little diversified in international trade. They still have 70-plus percent of Russia's trade, which is in basic fuels, minerals, and sort of basic commodities.

So the good news for the others is that they will have an important new partner in WTO without Russia, who is not really a world trade organization. So that's medium term. Short term the only real good news is that Russia will contribute to the WTO budget, which will reduce the fees of the others.

MR. DERVIŞ: Yes, do you have a question there? We have a few more minutes. No, sorry, I wanted to go to the first, yeah, that's right. I'll come to you after that.

MS. HERRERA: Thank you very much. Adriana Herrera from SAIS.

MR. DERVIŞ: Good thing you're not from Peterson.

MS. HERRERA: Do you think that the private sector could play a major role in order to impose or to get the political will to unlock the (inaudible) negotiations?

MR. DERVIŞ: I'm going to take two more questions, three in all, Pascal, if it's okay with you, and then give you the -- yeah.

MR. BEHSUDI: Yes. It's Adam Behsudi from Inside U.S. Trade.

Given the last ministerial, there were outcomes on GPA and Russia's succession, of course, but we saw no big outcomes on broader multilateral initiatives within the Doha round. What is your hope for delivering a package in 2013 at the Indonesian ministerial? And how important will an early harvest be to sort of providing the WTO's credibility as a negotiating body? And is this the last chance? I mean, how many more minsiterials can we have? Is this the last chance the WTO can prove itself as a multilateral negotiating body? Thank you.

MR. DERVIŞ: All right. And the last question -- okay, sorry, you have one there and then one more. No, two more. But quickly, please. Okay? Pascal can handle five at once.

MR. BEARY: Brian Beary, Washington correspondent, Euro Politics. The E.U. and U.S. have this high level group that's about to come up with a conclusion on whether to launch negotiations for an E.U.-U.S. Free Trade Agreement. What's your view on whether that would be a useful exercise?

MR. DERVIŞ: Thank you. Up here.

MS. WALLACH: Laurie --

MR. DERVIŞ: Laurie, go ahead. Go ahead. Caleb will be last.

MS. WALLACH: Laurie Wallach from Public Citizen.

It follows on your question about adding nontraditional issues environment you mentioned or exchange rates to WTO, and given the rules already have some nontraditional issues say from the GATT area of procurement or services. My question for the director general is in the context of the WTO adapting to changing circumstances, why post financial crisis? Does there seem to still be this divide between the view of the secretariat with respect to the limits on financial regulation in the

WTO GATT’s rules relative to the member states who today in the Committee on Trade and Financial Services agreed that they do need a dedicated discussion about the problems of how the current rules limit the use of capital controls, certain kind of regulatory rules, et cetera. The issues UNCTAD and others have identified. It seems addressing. It seems addressing some of those issues going forward would help the organization adapt to external realities.

MR. DERVIŞ: Thank you. Very good question. Pierre, the last one. It will be the last one. We don’t have time. We’re running out of time.

MR. JACQUET: Thank you. Pierre Jacquet from the Global Development Network (GDN).

Pascal, you tended to dismiss current accounting balances and exchange rate issues as nontrade and it’s hard to disagree. At the same time, I suppose these issues make your life more difficult in terms of trade negotiations so there is a connection to trade, at least indirectly. So my question is what kind of world architecture would make your life easier?

MR. DERVIŞ: All right. Pascal, we have a few minutes to answer all these.

MR. LAMY: Okay. On whether -- on whether business influences should influence, does influence trade negotiations, the answer is obviously yes. Most contrary to what many people believe, most trade negotiations, like most international negotiations are not negotiations between countries but by countries with themselves with their own domestic constituencies. And true, business does inform, shape, more or less, depending on political cycles, depending on the country, what their governments say. But the WTO remains an intergovernmental organization. It's not an interbusiness organization. It's not an inter-NGO organization. It's an intergovernmental organization.

And if you take the example of services, for instance, you know, the coalition of services industry in the U.S. has had a big impact on framing the Doha mandate and in reviving this International Services Agreement, which is worked out for the moment, whether it's closed or open plurilateral, the future will say. So it's an obvious case where, you know, business is a key component. And in the stakeholder group I've already mentioned which will report for next year. I have included roughly half the representatives of business because my own sense is that they are the ones who know where trade obstacles are. They are the ones that can help drafting a total list and we should start by this and this and this and this. They decide. Of course, this has to be mixed with many other factors and that's what governments are there for, but they have a major --

they have a major influence now.

They certainly influence the direction as their reality of their business changes, and the business agenda for WTO 10 years ago is not the same as the business agenda for WTO today. Why does trade facilitation, for instance, suddenly become a major issue, whereas frankly speaking, at Doha or Cancun, nobody ever heard of trade facilitation. It's because the world has changed. And again, the relative importance of the frictions to trade have changed.

On whether a package would be available, I think there are two words that are worn out in WTO for the moment, which is deadlines and packages. It's a reality. I'm sure a number of these are doable – trade facilitation, environmental goods, information technology agreement. Accession of China to the Government Procumbent Agreement is a huge negotiation which is perfectly doable. It's $100 billion of trade a year that's at stake. What we did on facilitating (inaudible) accession to WTO is an important contribution to extending more rapidly the perimeter of WTO rules to countries who for most of them are heavily dependent on reaching out in the global market to develop.

So, a variety of these things is doable, but again, I would refrain if we want to be efficient to call this a package. And, you know, there's no last chance saloon in international organizations. Take disarmament, take wage fixing, take negotiations in WTO about rules of origin, which have been going on for 25 years. Take the E.U.-GCC bilateral agreement, which has been going on for 32 years. Time is long for the international system.

E.U.-U.S. Free Trade Agreement, whatever transatlantic sort of bilateral trade deal frankly speaking depends on what would be in there. It's not a question of philosophy. It's not a question of theology. It depends on whether this would be a step to a level field which is a multilateral one, or whether on the contrary it would create a convergence which would then create a problem for the others that would have the choice of either stepping in without having participated in the negotiation or remaining out. But again, it all depends on what's in there, and frankly speaking, I have no clue what will be in there. The only slight approximation of what could be in there is to be seen in the E.U.-Canada agreement, which they are negotiating, which mostly has to do with regulatory issues and not with tariff issues. And that's the problem of these bilateral agreements.

When it was about tariffs, there was sort of an automatic convergence. The more preferences you have in tariffs, the less preferences you have. And by the way, this is evidence by the numbers and the average tariff preference today from the 350 bilateral agreements that are in force, the average level of tariff preference is 1 percent. And the amount of world trade that takes place under bilateral agreement tariff-wise is 15 percent of world trade. So in a way on the tariff side, not a problem, but as what really will matter in the future is nontariff measures, then you bump into how do you level the playing field in nontariff measures and whether bilateral preferences are not self-eroding. And there the answer is exactly the reverse of what it is in tariffs. In order to trade more cars, Kemal and myself agree on a specific car emission standard, and if I do this with John, whether this car emission standard will be the same or not and whether, if it's not the same, what is going to happen in car trade between you and him, it's a totally different picture. So in a way, if I'm right with this view that the problem of the future is addressing regulatory discrepancies much more than tariff differences or even competitive restrictions, then you have to relook at this bilateral versus multilateral in a different way.

Laurie Wallach. One more of these many exchanges we've had where we've very nicely and very frankly disagreed. And I won't change my view this time, Laurie, sorry about that. You have the view, which is your view, that the rules of the GATT prevent countries which have accepted to open their financial market services to regulate their activity on prudential grounds. That's your point. It simply is not true.

Whether I open or not my services market is one thing. The only commitment I take when I open my services market when I do this, and as you know, not all do that and some have done it in very, very different proportions, the only commitment that impacts my regulation if I do that is that I take the commitment to regulate domestic operators and foreign operators the same way. But it doesn't hinder at all my capacity to regulate them, including on prudential grounds. So if I want to decide that they have an equity ratio or (inaudible) or liquidity coefficient, no problem. And by the way, and we've already discussed it many times, but once more is never too much.

If you want an example of this, take Canada and the U.S. Why did, in '08, two systems which were totally open to one another trade wise, Canada and U.S. in financial services is a totally level playing field. Why did the system explode on one side of the frontier and not on the other side of the frontier? Simply because it was properly regulated on one side and not properly regulated on the other side. Both members of the WTO, both members of the GATT, both have taken serious financial opening commitments under the services agreement. The problem was not a problem of trade opening; it was a problem of proper regulation. And again, there is nothing in the GATTs that prevents me as a WTO member having accepted financial services opening commitment to regulate the way I want to do it. Nothing.

So as we say in French, (speaking French). I'm saying this because Pierre has asked the last question. Of course, as WTO DG, I would dream, and I am dreaming, of a stable, worldwide, well-ordered currency system. Of course that would be a very important contribution to trade opening. It would ease many of the remaining frictions, risks, hedging necessities, calculations of whether I should do this or not. It would be stable, predictable, which is what the WTO is about, which is why it all started with a fixed exchange rate on the one side with the Bretton Woods Institution, and with the theory of an international trade organization, which as you know, was built and agreed in the Havana Conference, which aborted and then became the GATT, but that's not the philosophy we're in since exchange rates have disappeared.

So I'm sure it will be a great contribution to trade opening and to the stability of creating efficiency through trade opening if we had a more stable system. But I also know that it's a dream for the moment. But we can continue to cream.

MR. DERVIŞ: Anyway, thank you very much.

(Applause)

MR. DERVIŞ: I think, you know, as expected always from Pascal, it was incisive, comprehensive, analytical, even political at some point. You figure out which point that was. But many, many thanks, Pascal, for coming.

MR. LAMY: Pleasure.

MR. DERVIŞ: And these are issues that we will debate very intensively here at Brookings, and I hope we'll have you again at some point. Thank you.

MR. LAMY: No problem.

MR. DERVIŞ: And please let Pascal be seated for a while.

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