



**Australian Government**  
**Productivity Commission**

# The Future of the Multilateral Trading System

Pascal Lamy

Richard Snape Lecture  
26 November 2012  
Melbourne

© Commonwealth of Australia 2012

ISBN 978-1-74037-424-8

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, the work may be reproduced in whole or in part for study or training purposes, subject to the inclusion of an acknowledgment of the source. Reproduction for commercial use or sale requires prior written permission from the Productivity Commission. Requests and inquiries concerning reproduction and rights should be addressed to Media and Publications (see below).

*This publication is available from the Productivity Commission website at [www.pc.gov.au](http://www.pc.gov.au). If you require part or all of this publication in a different format, please contact Media and Publications.*

**Publications Inquiries:**

Media and Publications  
Productivity Commission  
Locked Bag 2 Collins Street East  
Melbourne VIC 8003

Tel: (03) 9653 2244  
Fax: (03) 9653 2303  
Email: [maps@pc.gov.au](mailto:maps@pc.gov.au)

**General Inquiries:**

Tel: (03) 9653 2100 or (02) 6240 3200

**An appropriate citation for this paper is:**

Lamy, P. 2012, *The Future of the Multilateral Trading System*, Richard Snape Lecture, Melbourne, 26 November, Productivity Commission, Canberra.

JEL code: F130

***The Productivity Commission***

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)) or by contacting Media and Publications on (03) 9653 2244 or email: [maps@pc.gov.au](mailto:maps@pc.gov.au)

---

# Contents

<b>Foreword</b>	<b>v</b>
<b>The future of the multilateral trading system</b>	<b>1</b>
The international trade environment	2
Geo-political transformations	4
South-south trade with a focus on Africa	4
Trade in tasks	5
Value chains — growth and jobs chains	7
Non-tariff measures	8
How is the WTO addressing these changes?	10

---

## Richard Snape Lecture Series

- 2012**      **The Future of the Multilateral Trading System**  
*Pascal Lamy, Director-General, World Trade Organization*
- 2011**      **The Political Economy of Reform in Mexico**  
*Dr Roberto Newell, President, Mexican Institute for Competitiveness*
- 2010**      **The Challenges for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective**  
*Dr Mari Pangestu, Minister of Trade, Republic of Indonesia*
- 2009**      **China's Policy Responses to the Global Financial Crisis**  
*Professor Yu Yongding, Chinese Academy of Social Sciences*
- 2008**      **Latin America in the Global Economy: Challenges and Opportunities**  
*Dr Vittorio Corbo, Governor of the Central Bank of Chile 2003–2007*
- 2007**      **Economic and Regulatory Reforms in Europe: Past Experience and Future Challenges**  
*Professor Patrick Messerlin, Director, Groupe d'Economie Mondiale  
Institute d'Etudes Politiques de Paris*
- 2006**      **The World Economy in the New Millennium: A New Golden Age?**  
*Deepak K. Lal, James Coleman Professor of Development Studies  
University of California Los Angeles*
- 2005**      **Will Asian Mercantilism Meet its Waterloo?**  
*Martin Wolf, Associate Editor and Chief Economics Commentator  
Financial Times*
- 2004**      **Spreading Prosperity and Resisting Economic Divergence:  
The Significance of Richard Snape's Academic Legacy**  
*Dr Anne O. Krueger, First Deputy Managing Director  
International Monetary Fund*
- 2003**      **40 Million Aussies? The Immigration Debate Revisited**  
*Max W. Corden, Emeritus Professor of International Economics  
Johns Hopkins University*

---

# Foreword

Richard Snape capped a long and distinguished career as Professor of Economics at Monash University with a new and accomplished career at the Industry Commission, and then as Deputy Chairman of the Productivity Commission. In the eight years that he spent at the Commission before his untimely death in October 2002, he played a pivotal role in overseeing our research program, as well as participating in major public inquiries.

This is the tenth in a series of lectures in memory of Richard Snape. With Richard's own interests and high standards in mind, the lecture series elicits contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wide audience.

We are honoured to have Pascal Lamy, Director-General of the World Trade Organization, present this year's lecture. Mr Lamy's distinguished career includes high level appointments in both the public and private sectors, as well as in academia. Prior to taking up his current position in 2004, he was Commissioner for Trade at the European Commission, and before that, CEO of Credit Lyonnais.

In this year's Richard Snape Lecture, Pascal Lamy draws on his extensive insight into international trade liberalisation to discuss the future of the multilateral trading system in the present era of global economic uncertainty.

I am extremely grateful that he was able to take time out of his busy schedule to come to Melbourne to deliver the 2012 Richard Snape Lecture.

Gary Banks AO  
Chairman

November 2012

---

## **Richard Snape 1936 – 2002**

Richard Hal Snape was Deputy Chairman of the Productivity Commission and Emeritus Professor of Monash University. He was a Board Member of the Australian Research Council, Fellow of the Academy of the Social Sciences in Australia and a Distinguished Fellow of the Economic Society of Australia.

## **Pascal Lamy**

Mr Pascal Lamy has been Director-General of the World Trade Organization (WTO) since September 2005.

Mr Lamy holds degrees from the Paris based Ecole des Hautes Etudes Commerciales (HEC), from the Institut d'Etudes Politiques (IEP) and from the Ecole Nationale d'Administration (ENA). He began his career in the French civil service at the Inspection Générale des finances and at the Treasury. He then became an advisor to the Finance Minister Jacques Delors, and subsequently to Prime Minister Pierre Mauroy.

In Brussels from 1985 to 1994, Pascal Lamy was Chief of Staff for the President of the European Commission, Jacques Delors, and his representative as Sherpa in the G7. In November 1994, he joined the team in charge of rescuing the French bank, Credit Lyonnais, and later became CEO of the bank until its privatisation in 1999. Between 1999 and 2004, Pascal Lamy was Commissioner for Trade at the European Commission under Romano Prodi.

After his tenure in Brussels, Pascal Lamy spent a short sabbatical period as President of 'Notre Europe', a think tank working on European integration, as Associate Professor at the l'Institut d'Études Politiques in Paris and as advisor to Poul Nyrup Rasmussen (President of the European Socialist Party).

Mr Lamy was reappointed Director-General of the World Trade Organization by its Members for a second mandate in May 2009.

---

# The future of the multilateral trading system

## **Pascal Lamy**

I am very pleased to have been asked to deliver a few remarks on the future of the multilateral trading system at this the 2012 Richard Snape Lecture Series. Since 2003 these lecture series have served as a cornucopia of ideas and opinions and I hope the dialogue this evening will also offer new and compelling perspectives on the changing topography of international trade.

I say international trade, but the reality of twenty-first century economics is that the notion of geography and of a defined marketplace is becoming increasingly irrelevant as the DNA of trade continues to transform. The edges between international, regional and national trade are becoming increasingly blurred which means that trade-related decisions that would previously have been taken in silos must now be based on a whole of economy tableau. Policies and decision making must become external in reach given that their impacts are now felt beyond the borders of the nation state. As Existentialists would say, we are in an ‘age of transition’.

This evening I will speak briefly about this changing landscape of trade — a transformation premised on the geo-political shifts that have occurred over the last two decades and the exponential reach and impact of technological advances. I will also address the growing reach of value chains and touch on the new features that I see forming the trade agenda of the future such as trade in value added and non-tariff measures. Finally I will provide some insight into how the World Trade Organization (WTO) is seeking to respond to these changes.

The rising weight of influence of emerging economies has shifted the balance of power. This clearly implies a number of transitions to which we have not yet adjusted as classic Westphalia concepts of sovereignty are being challenged by the realities of interdependence. Some may consider this a problem, it is perhaps better to think of it as an opportunity to look at the real shaping factors of trade.

---

## The international trade environment

First, a word about the current macroeconomic environment and trade growth climate — subdued. That is the word I would use. Subdued prospects and subdued expectations. I know this may sound a bit too downbeat here in Australia, given the high growth rates this country has seen in the last years. But the fact is that the global financial crisis of 2007-2008 has left a ubiquitous imprint on international trade and global growth. There have been false recoveries, unpredictable growth rates and a reassessment in many quarters as to the very theological basis of our economic models.

The old theories and hypotheses which governed the way we looked at trade in the twentieth century will require better calibration with the new reality of trade in the twenty-first century. Decades from now scholars and policy makers will look back on this period as a watershed moment in how we approached trade and economic policy. Whether we, collectively, recognised the missteps of the past and learnt from them or whether we continued to forge ahead on the road already traversed. Was it not Confucius that said one should ‘*study the past if you would define the future*’?

As we near the end of 2012, the signs are not positive. We are living in a global macroeconomic environment in turmoil. Countries are still trying to find appropriate exit strategies from the economic crisis and global unemployment remains far too high. Although we have seen some positive signals recently, the European sovereign debt crisis has not yet retreated and this continues to have implications for fiscal adjustment in some of the euro area economies and the economic prospects of developing country markets, particularly those in Africa, given their strong trade links with Europe. And these economic uncertainties continue to lead to social unrest and political turmoil which have far reaching implications for global security.

The WTO recently revised its forecast for trade volume growth in 2012 to 2.5 per cent, down from 3.7 per cent in spring. Exports of developing countries and Commonwealth of Independent States (CIS) are expected to grow by 3.5 per cent while exports of developed countries by around 1.5 per cent. These weakening prospects reflect the toll that the European sovereign debt crisis and slowing global output growth have taken on international trade.

These figures are hardly surprising. They are in line with the downward revision of the International Monetary Fund’s forecast for global growth for this year and the lower growth forecast by the World Bank for East Asia of 7.2 per cent this year and 7.6 per cent in 2013, down from earlier estimates of 7.6 per cent and 8.0 per cent,



---

respectively making this the slowest growth rate in the Asia Pacific region since 2001. The 2012 growth forecasts for sub-Saharan Africa and Latin America have also been revised downwards. On the side of employment, the ILO has forecast that in 2013 an additional 7 million people will join the 200-million-strong ranks of the unemployed — a vast section of which will be unemployed youth.

For developed countries, the hindrances to growth include fiscal consolidation and bank deleveraging. The euro-zone will see negative growth this year and still faces elevated downside risks despite the European Central Bank's recent policy actions. Forecasts earlier this month confirm that Europe's economic prospects have dimmed considerably, with a more drawn-out recovery expected before any discernible return to growth. The US is expected to continue along its sluggish recovery (2.2 per cent growth). Despite the Federal Reserve's announcement of measures to aid the economy, the U.S. will continue to face headwinds in the form of households burdened with large debts and high unemployment as well as policy uncertainty because of the looming 'fiscal cliff'.

While emerging and developing economies continue to grow, rates are lower than in the past. This suggests that the slowdown in advanced economies is spreading to emerging countries through lower exports and smaller capital flows. There is some volatility in commodity prices which could harm commodity exporters. One silver lining is that because of their better economic position, developing economies have greater ability to respond with fiscal and monetary stimulus if conditions worsen.

With such a challenging international background there is always the risk that countries may seek to rebalance domestic growth by seeking to protect domestic producers. As I described in a recent editorial entitled 'Learning from the Crisis: The Fallacy of Protectionism' there has been worrying signs of the traditional propensity of nation-states to turn inwards when the global economic outlook is bad, but for the most part, countries have exercised restraint. There is the fear however that if unemployment and economic stagnation persists, this discipline may be tested. Protectionism does not work however. Closing off markets would be a mistake in a world where hampering imports will actively harm prospects for exporting success. Protectionism does not protect. It does not strengthen economies and it does not save jobs. Governments protect people by supporting domestic economic growth and social protection, not by resorting to short-term policies that may benefit the few at the expense of the many.

---

## Geo-political transformations

This is no longer the world of the twentieth century dominated by the US pillar on one side and the European pillar on the other. We are in a twenty first century multi-polar world. *Ricardians* would see this as a natural progression of comparative advantages while the *Westphalia model* would see this as a breakdown of the order of the nation state. I see this as the contemporary form of multilateralism with notions of sovereignty being challenged by realities of interdependence. I see this as an opportunity. Opportunities for policy makers to take a new look at the forces moving trade and political-economic discourse.

The emergence of some developing countries as key players and as real contributors to global dialogue on trade and economics is a fundamental feature of this new geo-political reality. These emerging powers — China, India, Brazil, Mexico, Indonesia, Malaysia, South Africa — and many others — Thailand, Chile, Turkey — are no longer policy takers. These countries now increasingly influence the pattern and scope of international trade, creating new supply and demand pulls and flexing their influence in international organisations. These changes in the geo-political and economic topography essentially led to the formation of the G-20 as we know it today — a group of countries which have an important stake but also a big responsibility in global economic governance.

The global network of imports and exports is no longer just the North-South paradigm of the past century. Increasingly we are seeing developing countries as producers and as markets for each other and this is one of the growing patterns of the new landscape of trade. To illustrate the growing shift, we only have to look at the evolution of merchandise trade between developing countries, which has expanded considerably in the past twenty years growing much faster than North-South trade. A recent report by UNCTAD notes that in 2010 South-South exports made up 23 per cent of world trade compared to just 13 per cent in 2000. Developing countries are now the largest market for other developing countries. While this is encouraging, the contribution of developing regions to South-South trade is highly skewed. Asian countries make up more 80 per cent of South-South trade with the shares of Africa and Latin America being just 6 per cent and 10 per cent respectively in 2010.

## South-south trade with a focus on Africa

We are also seeing growing ties between Africa and China and Africa and India. Trade between China and Africa will likely hit upwards of US 200 billion in 2012, up 25 per cent year on year. If this trend continues, reports are that Africa could

---

surpass the EU and the US to become China's largest trade partner in three to five years.

The importance of other developing countries to Africa is even more apparent if one excludes fuels and mining products from the calculations. The share of Africa's non-fuels and mining products exports that went to developing countries rose from around 30 per cent in 2000 to 50 per cent in 2011. This reflects the fact that Africa's exports to developing countries tends to be more diversified than its exports to developed countries. A similar shift in trade from developed to developing economies can be seen on the import side as well. The share of developing economies in African imports rose from around one third (34 per cent) to more than half (53 per cent) between 2000 and 2011.

If we dig deeper into the types of products being exported we see an interesting picture. Recent research conducted by the International Trade Centre on '*Africa's Trade Potential: Export Opportunities in Growth Markets*' showed that exports to traditional markets — Europe — were decreasing and exports were increasing to Asia — primarily China — BUT that the share of value-added goods to Europe were increasing while the majority of exports to Asia were in primary products.

The research also confirmed the increase in trading intra-regionally with a shift to more value-added goods. Over the period 1995–2010, Sub-Saharan Africa's exports of processed goods and semi-processed goods grew faster than exports of non-oil raw products and in terms of intra-regional exports, processed and semi-processed goods comprised the largest share of exports at 46 per cent and 41 per cent respectively. This trend towards greater intra-regional trade is one that we see happening across the globe. It is partly a reaction to the decreased demand, or foreshadowing possible loss of future demand, in traditional extra-regional markets as a result of the crisis coupled with a realisation of the untapped potential of countries in the immediate economic space. The African Union's decision of January 2012 to focus on boosting intra-African trade and identifying 2017 as the target date for the completion of the Continental Free Trade Area are examples of how policies are beginning to reflect the economic viability of trading closer to home in addition to traditional extra-regional trading.

## **Trade in tasks**

In addition to the reconfiguration of the actors in the multilateral trading system and the changing patterns of trade moving away from traditional North-South lines and also incorporating greater intra- and inter- regional trade, we are also seeing new trends in the way that goods and services are produced and traded. In essence there

---

is a new narrative developing on trade which governments and business have to take notice of and align their policies and priorities around.

In WTO jargon, we have termed this ‘Made in the World’. Increasingly countries are trading in intermediates not final products. The concept of made in country X is becoming obsolete as we see the exponential increase of trade in intermediates or trade in tasks — where components of goods and services are produced and assembled in different countries. The old adage of ‘imports bad and exports good’ is made irrelevant when we look at the evidence — today almost 60 per cent of trade in goods is in intermediates or trade in tasks and the average import content of exports is around 40 per cent. This is why, as I intimated earlier, enacting protectionist measures, which could be trade distorting or trade diversionary, will actually have an inverse reaction in economies which are increasingly reliant on imports to complete their exports. This narrative is already transforming the policy debate on trade and hopefully will lead to be more nuanced and evidence based decision process that truly reflects the impact that trade can actually have on growth, employment and innovation.

The spoils of trade in tasks are all amongst us. Let us take an iPhone. The legend inscribed on the back of an iPhone declares ‘*Designed by Apple in California. Assembled in China.*’ This does not do justice to parts made in China, Korea, Japan, Germany, and the US, by companies headquartered in Tokyo, Seoul, Bavaria, San Diego, Stuttgart, Texas and Geneva. The pieces, as we know, are put together in Shenzhen, China — by a company that happens to be based in Chinese Taipei. The iPhone, like more and more products, defies identification by a single country of origin. It can only be described as ‘Made in the World’.

And this is not necessarily a new phenomenon or one that is exclusive to high-tech products. By the 11th century AD, a regular trade had evolved in which African ivory was shipped to India, where craftsmen carved it into jewellery for export to Europe. And consider the story of an opal mined in the highlands of Ethiopia: Brought by middlemen from a rural miner to traders in Addis Ababa; Air-freighted to a family-owned company in Jaipur, India for cutting and polishing; sold to a US-based jewellery designer/retailer; and dispatched to Thailand to be set into a bracelet and then finally, placed on offer to customers at one of the retailer’s authorised dealerships in China, Europe, the Caribbean, or North America. With value addition occurring in at least four different countries, that bracelet too, is ‘Made in the World’.

This confirms that the way we measure trade needs to change. Our traditional methodology assigns the total commercial value of an import to a single country of origin. This was an accurate formula when trade was in final goods produced from

---

domestic inputs. It might even have worked when imported raw materials were processed in a single country. But when applied to ‘Made in the World’ products, the methodology can exaggerate bilateral trade balances and under-state where value addition occurs. This incongruence has two main impacts: one, inflated bilateral trade numbers which can inflame anti-trade sentiment and two, lead to policies which are not aligned with the pace, direction and reality of world production and trade. Having an accurate, evidence based methodology of the true value of trade is necessary if policy makers are to make informed decisions on trade and economic policy. The WTO working with the OECD and many other partners will contribute to this effort when we release the first set of comprehensive statistics on trade in value added during a conference in Geneva in mid-December this year. And I want to pay tribute to the excellent cooperation that we in WTO have fostered with our colleagues in the OECD, an example of how inter-agency cooperation can help move the policy debate forward.

## **Value chains — growth and jobs chains**

The increase in trade in intermediates coupled with decreasing transport and communication costs, and greater fragmentation of production across the globe requires us to change our narrative on trade. Facilitating this movement in trade in tasks are the growing network of national, regional and global value chains which are increasingly characterising the trade conveyor belts of the twenty-first century. Value chains are not new constructs. They have been around for almost as long as the concept of trade has been.

Value chains represent a dynamic method of organizing production internationally. It involves the unbundling of stages of production across different countries based on their cost advantages. Increasingly, this process has moved beyond the outsourcing of manufacturing production and now involves services activities as well, primarily office tasks. Services are fundamental to value chains comprising an ever growing component in the value of final products. One sure way to add value to raw materials is to increase the range of services you can offer alongside it in the form of transport, logistics, insurance, and distribution. This is particularly important for those economies which may not have land or mineral wealth and which rely on human capital as a form of economic competitiveness.

Value chains in agriculture, such as in the Agro food or processed agricultural products are also important examples of the multi-polar and multi-modal form of production and distribution. Just take a recent study by the Food Safety Authority of Ireland that found that just one processed chicken food stuff had fifty-three separate ingredients. And each of these ingredients had multiple suppliers from different

---

regions in the world. One must also consider the backward and forward linkages which connect the agriculture sector to other sectors such as the sugar cane sector with its multiple consumer and industrial applications.

While value chains are not a new phenomenon, their importance is increasing in several regions of the world, such as East Asia and Central and Eastern Europe. There are two principal reasons why these value chains are valuable to developing countries in particular.

First, they create a lot of trade among the developing countries who are members of the value chain. This is because each participating country is likely to specialize in a specific segment of the manufacturing process or on a particular office task and the resulting intermediate goods will need to be moved among the countries.

Second, value chains can be vital catalysts for expanding the productive capacity of developing countries. Participation in value chains allow enterprises from developing countries to find suitable foreign partners, gain access to FDI, become familiar with international business practices, and upgrade their skills and technology. The shift towards trade in tasks creates opportunities that did not exist when trade was dominated by exchanges of final goods. Particularly for smaller developing countries, value chains lower the bar for entry into the global economy. Companies need not try to produce entire cars, for example, that are internationally competitive — they might simply focus on getting a particular auto part right. We have seen this in Malaysia and Morocco for example.

The fact that intermediate goods need to cross the border of developing countries involved in value chains multiple times means that the cost of any type of trade restriction will be magnified. Not only must tariffs be low but regulatory regimes have to be compatible, otherwise non-tariff measures and regulatory divergence will prevent the efficient functioning of value chains. This regulatory convergence is important in ensuring that value chains really work for countries.

## **Non-tariff measures**

Ensuring this regulatory convergence is particularly critical given the increase in non-tariff measures (NTMs) which we have seen over the past decade. These are an important factor in international production chains as the broad decline in tariff levels has meant that non-tariff measures such as technical standards, conformity certification, health and safety requirements, and services regulation loom larger in international trade than before.

---

This year's edition of the World Trade Report, the WTO's flagship research publication, examined the evolving landscape of NTMs. One of its most important findings was that the nature of NTMs has shifted: the traditional protection-motivated quotas and safeguards have increasingly given way to a precaution-oriented emphasis on health, safety, environmental quality, and other social considerations. These concerns are wholly legitimate, and cannot — indeed, should not — be blindly trumped by a desire to keep trade completely unobstructed. That said, the nature of the measures taken to pursue public policy objectives, and the way those measures are administered, can have widely varying effects on trade, both positive and negative. NTMs should ideally, not increase trade costs more than the minimum necessary to achieve their objective. Similarly, it is reasonable to argue that NTMs should not be constructed in ways that unduly favour domestic interests. Yet, in light of the complex societal objectives and policies in play where NTMs are concerned, finding the right balance will require cooperation and dialogue.

Unlike tariff negotiations in the WTO that aim to negotiate to a zero level of tariffs, discussions on non-tariff measures must instead focus on transparency, coherence and capacity. Transparency is critical. Producers and traders need more information about existing NTMs, which are by definition harder to measure and compare than tariffs. At the WTO we have created the Integrated Trade Intelligence Portal (I-TIP), a one-stop shop for accessing all information notified to the WTO by Members, including NTMs, tariffs, trade remedy use, and trade statistics.

Coherence is needed to ensure that companies do not have to face a series of competing standards and requirements and capacity to help companies, in particular Small and Medium Enterprises, better understand and adapt to these measures. The issue of private standards is particularly important in this regard. In the field of co-operation there is a need to develop shared understandings about why particular measures are used for a certain goal. Distinguishing whether NTMs are being used for legitimate ends, or for protecting domestic producers, makes NTMs an elusive trade policy tool.

As NTMs, such as technical product standards, health and safety requirements, and related testing procedures, become increasingly pervasive, they can create real problems for traders. These measures can be complicated and confusing for business, costly to comply with, and can vary significantly from country to country, and from sector to sector. It is of course, not the role of the WTO, nor should it be, to eliminate NTMs, or even to harmonize them to level the playing field. Rather countries must continue to rely on WTO rules and enforcement to avoid any discriminatory and unnecessarily trade-restrictive NTMs, and for the rest that are in

---

line with WTO rules, seek to promote regulatory convergence between countries in the relevant fora, to minimize differences that can cause trade friction.

I recognise that convergence among countries at very different levels of development is rarely straightforward. Moreover, mutual recognition and harmonization can raise tough questions about trust, good governance, and domestic regulatory autonomy. Co-operation among governments, in standard-setting bodies, regional fora, and multilateral organisations, remains the best way forward. However, continuing to provide effective capacity building to help exporters comply with NTMs in important markets, or helping governments participate in standard-setting are two absolutes. The WTO, through its Standards and Trade Development Facility (STDF) continues to provide this assistance to our developing members in the field of sanitary and phytosanitary standards.

## **How is the WTO addressing these changes?**

The WTO will be eighteen years old in January 2013. In the majority of countries we will now be considered an adult! How has the WTO sought to adjust to the changes in the multilateral system? When the organization was established in 1995 there were 76 original GATT members and another 50 nations at various stages in the membership process. Today we have 157 members having recently added Samoa, Montenegro, the Russian Federation and just recently Laos to the fold. The technological and logistics changes in the world of trade have been nothing short of transformational and the increase in trade in intermediates has meant we have had to find new angles to look at the contribution of trade to growth and development.

How has the WTO sought to remain relevant in a world where the geo-political changes have meant we exist in a different structure today than we did in 2001 when we launched the current round of negotiations (termed the Doha Development Agenda)? As I mentioned at the opening of the WTO's annual public Forum in September this year how do we deal with a system where there is a 'redistribution of the geopolitical deck of cards on a global scale'?

The WTO has four main pillars of work. The negotiating function which in some respects is at a standstill although there is some progress being made in some quarters; the Aid for Trade function which includes both coordinating the work on Aid for Trade but also providing trade-related technical assistance and capacity building to developing country officials; the monitoring and surveillance function; and the litigation function housed in our Dispute Settlement arm, which I might add is the only global trade judiciary of its kind.



---

The WTO, in many ways, is one of the most successful examples of rules-based multilateralism at work. Its capacity to administer and enforce the global trade rules especially through its monitoring and surveillance function has been a major input into preventing a widespread resort to protectionist measures. Both our in-house monitoring and our reporting to the G-20 in this area have kept the international community involved and informed. The WTO is not immune to the geo-economic and geo-political transformations of our time. The standstill in the negotiations — when taken to its very basic level — is premised on the relative contributions that Members at different levels of development could or should make. As in other organisations and on other issues, such as on climate change, this is a question that the international community cannot ignore. To move forward on multilateral negotiations this basic question of ‘rights’ versus ‘responsibilities’ must be addressed.

However, it is not necessary to reshape the whole WTO agenda to address this issue. Some academics believe that the WTO should start from the beginning again. However, this academic approach has limited political relevance. The issues under debate in the Doha Development Agenda remain relevant, but the reality is that, at some point in the future, the WTO will likely have to combine these issues with new areas if the global rule making agenda is to ensure it aligns with what is actually happening in markets.

To quote Vincent Van Gogh ‘*Great things are done by a series of small things brought together*’ and in the WTO Members are seeking to move forward step by step in some key areas. One of these where progress is being made and which is intimately linked to many of the issues I mentioned earlier such as value chains and non-tariff measures is that of trade facilitation. In many respects trade facilitation is economics 101. At its core it is about making trade easier and less costly and in a world increasingly focused on value chains and trade in intermediates, effective trade facilitation is simply not a choice — it is an unquestionable core element in any country or business policy decision if the aim is to grow and attract investment.

The evidence speaks for itself — every extra day required to ship goods, reduces trade by 1 per cent. On an average sea voyage of 20 days, one extra day at sea results in 4.5 per cent drop in trade between any two trading partners. Overall, the OECD estimates that for its Members, the fees, formalities and clearance procedures constitute roughly 10 per cent of the value of any trade transaction. This is almost double the worldwide average trade weighted tariff. Globally, that is close to \$2 trillion. A WTO deal on trade facilitation would reduce those costs from 10 per cent of the value of trade, to 5 per cent of its value.

---

The negotiations at the WTO have the potential to deliver real and tangible results to countries at all levels — a truly ‘win-win’ deal. And for the first time, we have the structure of an agreement which would be premised, not on exemptions for developing countries, but rather on helping them to build the capacity to adopt the same measures that even the most developed member will adopt. This is an important, and some may say, seismic shift in how countries are approaching negotiations.

There has also been some important progress on issues related to Least-Developed countries (LDCs) with the recent adoption of a package to streamline the accession of LDCs to the WTO, and work is moving forward on the operationalization of a waiver allowing WTO Members to provide preferential access to LDCs in the area of services.

Work on the Government Procurement Agreement is proceeding well with the deal reached in December 2011 to expand the sectors covered by around \$100 billion worth in new market opportunities. Not only will this inject greater transparency into the tender processes thereby helping fight corruption in procurement, but greater competition in the bidding will also enable governments to shop around for the best prices, delivering better value for money for taxpayers and keeping tighter rein on spending. Members are currently finalising the accession of new members such as China to this agreement. The implications of that are self-evident. Work is also continuing on expanding the Information Technology Agreement which has the potential to spur innovation and create jobs in the important area of information technology.

On the Aid for Trade front, the WTO continues to lead, along with the OECD, on the Aid for Trade global work programme. The resource mobilisation pillar has been incredibly successful with over US\$45 billion committed in Aid for Trade in 2010, the highest amount ever. The programme has fostered a culture of trade mainstreaming and results orientation and is increasingly profiling an important complement to traditional Official Development Assistance and that is South-South co-operation. I want to take the opportunity that I am in Melbourne to praise the role of Australia in the area of trade capacity building, not only committing to support developing countries and in particular LDCs, but actually delivering on its commitments. The focus of the fourth Global Review of Aid for Trade in July 2013 will be on ‘Connecting to Value Chains’. This will show how Aid for Trade can help developing countries create, access and benefit from value chains and will profile the private sector so that there is a better appreciation for what private actors look for when they invest in value chains in countries.

---

One final element before I close is on a Stakeholder Panel on Defining the Future of Trade which I established in April 2012 to analyse challenges to global trade opening in the 21st century and look at the drivers of today and tomorrow's trade, and to examine trade patterns and what it means to open global trade in the 21st century. This very impressive group of individuals have been working assiduously on these issues and the findings of their work will be presented in the New Year. Much like Richard Snape's intellectual work helped shape the Australian Productivity Commission, I believe the work of the Stakeholder Panel can provide a useful contribution to WTO and its Members as it continues to navigate this changing landscape of multilateral trade.

I believe the future of the multilateral trading system is bright. It will be different — and in some cases unrecognisable — but bright. I am confident of that.