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**The Rules of International Trade:  
Experiences with Globalization**

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Historically, many of the earliest recorded trade links were between European and Asian nations, with some well-established and famous trade routes that are part of international trade folklore. A wide variety of products were exchanged during those interactions, including interestingly gunpowder, which contributed to a complete change in the power equations and international relations for a long period of time, the remnants of which are in some sense evident even today. With growing trade, investment and technological change, the nature of globalization has evolved over time and will continue to do so in the future as well.

I would like to share with you three statements that are worth bearing in mind as we discuss globalization.

One is the by eminent economist Paul Samuelson who said that, “*Globalization presumes sustained economic growth. Otherwise, the process loses its economic benefits and political support.*”

Another is a statement by Gerhard Schroder, erstwhile Chancellor of Germany who said, “*We must take care that globalization does not become something people become afraid of.*”

Yet another is Richard Grasso, the chairman and chief executive of the New York Stock Exchange from 1995 to 2003, who said that, “*This is a basic requirement. The meaning of globalization is that we should admit that the economy of each country is dependent on the economy of all the others.*”

The experience with globalization over time has been very diverse. For long international trade was left to ad hoc interactions. To sustain the positive aspects of globalisation we need to recognise factors which strongly affect trade relations and based on that understanding, put in place a system of rules which are fair, inclusive, growth oriented and flexible enough to deal with key

concerns: a framework of rules such as those in the multilateral trading system which was initially encompassed in the GATT and now in WTO Agreement.

The multilateral trading system, established in 1948 and augmented since then, provides a framework of rules which have imparted stability and predictability for growing opportunities through trade.

I would like to provide a quick summary of international trade experiences over time, share some detail on the present situation and likely changes in trade rules as we gain experiences with globalization. One of my main messages is that the process has become very complex and we all need to find systemic solution for trade rules to deal with globalization and attendant developments. In such systemic efforts, though the focus at present is on bilateral and plurilateral initiatives, the most sustainable framework of rules will have to be a multilateral one.

### **Determinants of trade rules with globalization**

**The past:** To give you a quick flavour of the historical experience, a few insights from the WTO's World Trade Report of 2007 which analysed sixty years of multilateral trade co-operation:

*“Many historians regard a part of the last half of the nineteenth century as a golden age of international cooperation in Europe, characterized by fast growing economies and a spontaneous emergence of multilateralism in trade ... but this period was short-lived. ... Crumbling international cooperation and deteriorating economic conditions towards the end of the 19th century provided the backdrop against which Europe was plunged into war in 1914. ... The inter-war years were marked by far-reaching government failure, limited international cooperation, acute economic hardship in many countries, and erratic trade policy punctuated by bouts of protectionism, discrimination and policy tension, both in the trade and monetary fields – in short, a set of conditions conducive once again to armed conflict. ... Trade policy largely remained in disorderly limbo until the establishment of post-World War II institutional arrangements and the birth of the modern multilateral trading system. A lesson from the first half of the 20th century is surely that effective and sustainable international cooperation requires a predictable institutional framework that embodies a pre-commitment by governments to a defined policy stance.”*

**Trade rules: the system:** The story of international trade rules over time is a story linked with:

- greater complexity of trade measures used in different periods of time;
- increase in trade inter-linkages;
- changes in technology of production, transport, storage and transmission of information;
- evolution of product compositions of trade;
- greater prevalence of supply chains and trade in tasks;
- growing importance of several countries in world trade; and the
- the link to the rise in income levels and trade and investment linkages which increase inter-dependence.

In the initial phase of establishing trade rules, there was an eight-fold focus.

- stabilise the trading regime and provide it with predictability and transparency so that investment and growth could take place without *ad hoc* policy interventions and disguised forms of protectionism could be prevented.
- include elements which impart fairness and non-discrimination, together with flexibility for those with less capacities and with small economic presence in international trade markets.

- provide greater access to markets by steadily reducing tariffs, the main trade barrier, and converting this greater access into a legally binding promise to keep tariffs below a specified level. Likewise, aim at not using quantitative restraints on trade as part the legal framework. This framework nonetheless allowed for the possibility of breaching the upper limit of tariffs (or tariff binding) or allowed imposing quantitative restraints, provided specific justifiable reasons gave a basis for breaching this tariff upper limit or imposing the restraint.
- identify concerns under which trade restrictions could be used with justification. Thus, the rules allowed the possibility for addressing a number of concerns by breaching the main disciplines like non-discrimination and tariff binding. These reasons included for example food security, balance of payments problems, natural resource scarcity, unfair trade etc. These flexibilities were linked to the need to follow due process, informing others within the system about the action in a timely manner, and justifying the basis of the action.
- have as many nations as possible within the framework of rules, so that the established system of rules could be truly multilateral.
- allow bilateral or plurilateral trade agreements provided certain conditions were met, including ensuring that these initiatives would lead to real

liberalization and no adverse effects on the parties excluded from the bilateral or plurilateral agreement.

- establish a dispute settlement process which allowed the parties subject to the rules bring their perceived breaches of rules by others for settlement through discussions, clarifications or a quasi-court like dispute settlement process.
- establish Bodies within the system that would monitor the implementation of the rules, be a forum for discussion of issues, for seeking information or clarification on trade policies, or linked initiatives in other fora, and to provide the possibility of expanding the scope of the framework of established rules.

These eight points of focus have provided the framework of rules even as the multilateral system has expanded in scope and coverage over time. Let us see how these rules have evolved and where we find ourselves today in this context.

**Trade rules: the evolution of rules and trade relations:** With time, various rounds of negotiations at the GATT reduced the impact of tariffs, especially in the markets of developed nations. Today the worldwide average applied tariff is around 5%. However, vested interest groups slowly found ways of replacing some of these tariffs by non-tariff barriers. With a significant reduction in

tariffs, other trade policy issues came to the forefront such as such subsidies, anti-dumping and countervailing duty measures, regulatory standards, and the fuzzy protection through voluntary export restraints. These were addressed in significant detail in the trade negotiations under the Uruguay Round.

Likewise, some important areas became a focus of attention in the newly emerging system of trade rules, for instance agriculture, services, trade related intellectual property rights, trade-related investment measures, and government procurement. While the first four were addressed as part of the results of the Uruguay Round, the Agreement on Government Procurement was a plurilateral agreement which provides its benefits only to those who are signatories to this agreement. There is yet another type of plurilateral agreement within the WTO system which extends the benefits under the agreement to all WTO Members. This is the Information Technology Agreement. So effectively, at least two types of plurilateral agreements are potentially possible, one with benefits limited to the members of the agreement and the other extended to all Members.

The complexity and scope of trade regimes has increased over time, and there has been a felt need to monitor developments within different regimes and to understand them better through discussion. Under the Uruguay Round this was done by establishing a Trade Policy Review Mechanism, which provides



detailed reports on the trade regimes of WTO Members and a possibility for a peer review of these regimes.

What do these various developments indicate to us? They show that we have to be open for continued periodic consideration of new types of measures and areas which may become major cause of trade concerns.

Yet another important aspect arises due to the growth experience of developing countries. This category of countries spans a very large range of income levels and it was felt even during the Uruguay Round that developing countries could no longer be considered as a homogenous group. For the first time within the multilateral trading system, we saw in the results of the Uruguay Round agreement a segmentation of developing countries with different rules applying to different sub-categories of developing countries: This is evident for instance in the Subsidies Agreement which separates developing countries into different groups: LDCs, developing countries with per capita income less than US\$1,000 per annum, and all the rest. This segmentation has continued as evidenced in the Doha Round.

Another change that emerged during the Uruguay Round was the emergence of new coalitions, such as the Cairns group of developed and developing countries.

Over time, during the Doha Round, we have seen the birth of the group of G-20 coalition comprising agriculture exporting and importing developing countries, the G-90, composed of the ACP countries, African group and LDCs. We have also seen developing country groups negotiating with each other as in the case of tropical product exporters and developing countries who would lose preference margins with a decline in tropical product tariffs.

These developments show that both international trade and trade negotiations are becoming more complex, and we have seen the emergence of new trade measures. In such a situation, we need to enhance our understanding and clarity about the situation through research, which shows us a strong potential growth of international trade in services and also increasing inter-linkages through supply chains and trade in tasks.

Supply chains and trade in tasks in turn show a close link between a nation's imports and exports because supply chains imply using imports as inputs for exports. Since supply chain transactions work under strict time constraints, we can see the importance of timeliness in clearing and processing imports for domestic use or rapidly facilitating the process of exports so that domestic enterprises can be considered as efficient partners by others within the supply

chains. In this situation, the importance of trade facilitation becomes self-evident, as does the need for less developed countries to have assistance to improve their trade-related infrastructure.

Some other important insights into trade policy include:

- due to supply chains, trade restrictions can have an immediate adverse impact on exports;
- with growing supply chains, it becomes very difficult to have different local or restricted standards for several product areas. As the supply chains keep expanding in the scope of their coverage across regions, standards will have to be global in nature for the products which are part of such supply chains;
- with the growth of services, we need to consider the appropriate regulatory regimes that are often required for services sectors. Thus the system of trade rules would have to take into account the relevant regulatory capacities and good practices in regulation;
- there is a close link between trade and investment, because supply chains are often linked through inter-connected investment in production facilities;

- focusing only on trade policy would not be enough to cater to trade interests. Instead, our globalisation experiences suggest that there would be a need to consider rules that facilitate both trade and investment.

Over time, with a decline in importance of tariffs as trade policy instruments, technical standards or health and safety standards have become far more important. Certain rules to address them are specified in the WTO Agreements on Technical Barriers to Trade, and on Sanitary and Phyto-sanitary Measures. However, there is a major recent concern in the context of standards, namely the use of private standards. Perhaps for them, we could consider establishing a system with the basic requirements of good governance, as encapsulated for instance in the Code of Good Governance in the Agreement on Technical Barriers to Trade. Any such system to address standards would have to be applied in a general manner across countries, rather than in limited ways such as within the FTA context. The importance of multilateral solutions therefore becomes evident.

Private standards may develop in new areas together with pressure for regulatory policies to address new concerns based on a perception of non-level playing field in competitive interactions. This may arise in areas such as environmental standards, health and safety related standards, social issues,

operating conditions of state enterprises, use of sovereign funds, or other similar issues. It is important to handle such concerns with a sensitive understanding of different positions.

For several of these issues, the main initiatives would perhaps have to include agreements on global standards, disciplines relating to competition policy, co-operation amongst relevant national authorities, exchange of information between different international organisations which primarily address such concerns, and establishment of some fora to discuss best practices. These could include for example, efforts similar to the Reference Paper on Telecom, i.e. specifying the principles which address key concerns while allowing for some flexibility of operation.

Other issues which may need to be addressed include for instance those arising in the context of generation, dissemination and application of various technologies, including ICT. It is not clear whether or not the established rules are adequate for this purpose, and if not then what kind of efforts would be needed to address the concerns. Whatever advance does take place in such context, it is important that the eight-fold focus that I mentioned in the development of a robust multilateral system of trade rule, that focus must not be lost.

Due to the impasse in the Doha Round trade negotiations, efforts have intensified to establish FTAs or plurilaterals which are far larger in scope than previous efforts. Some of the unresolved issues are being addressed in these plurilaterals. Examples of this are the **Transpacific Partnership Agreement (TPP)**, the **Regional Comprehensive Economic Partnership (RCEP)**, and the **Transatlantic Trade and Investment Partnership (T-TIP)** between EU and the US.

The TPP negotiations include new cross cutting issues covering regulatory coherence, competitiveness and business facilitation, state owned enterprises, and trade and investment in innovative products and services. This would include a focus on electronic commerce and rules and procedures for trade in goods and services through electronic means, and rules regarding the free flow of information and data through the internet.

RCEP will build on existing agreements of ASEAN and cover for instance, market access in goods and services, investment, economic and technical cooperation, intellectual property, dispute settlement as well as "WTO plus" elements such as competition and other issues to be identified during the course of negotiations. Other WTO plus issues that are already included in some of the

ASEAN plus 1 agreements are environment and non-tariff measures but it is not yet clear whether and how they can be extended to all the partners.

Today, in my view, we are moving towards a situation where the conditions will become far better for achieving a multilateral solution to our trade concerns. In fact, I make an even stronger point that while the FTAs will continue to be pursued strongly for some time, after a few years we will see conditions emerging importantly due to the growth of the middle class and investment linkages across nations that FTAs will become less and less preferred and multilateral solutions will be the ones which will be sustainable.

In T-TIP, in addition to market access in goods and services, negotiations would cover investment, procurement, standards, regulatory coherence and co-operation, IPRs, environment, labour issues, customs and trade facilitation, competition policy, state owned enterprises and other enterprises that benefit from special government granted rights, localization barriers to trade (benefits favouring domestic industry, services providers, or IP over foreign industry, service providers or IP holders), raw materials and energy, small and medium sized enterprises, and transparency.

Despite such major FTA efforts, why am I suggesting that the only sustainable rules based trade agreement would be multilateral. Consider just two of the likely developments during this decade. One is the likely increase in global middle class, which in this decade is expected to increase by 1 billion or 50% of the present number. The significantly higher demand and trade requirements will also mean a significant increase in imports of natural resources from African countries. As they become more important in these transactions, they will assert their interest in international relations by demanding systems which are fairer, more inclusive and provide greater benefit sharing. No FTA will meet these concerns, only a multilateral system can do so. Likewise, with extended investment flows from developed countries as well as certain developing countries such as China, there would be a stronger basis for establishing a multilateral agreement for trade and investment.

The growing importance of poorer nations would mean a greater focus also on technical assistance for them, such as has been done through the WTO's Aid for Trade programme. Every two years, we have a major Aid for Trade review. Next week we have such a review and I am sure the lessons and insights from that review will help improve technical assistance initiatives. It would also pave the way for a more positive potential for experiences with globalisation,



and help discussions towards larger multilateral solutions that accommodate different interest in a cohesive manner.

At present, the forces which will lead to making FTAs less and less sustainable are already under-way and in my view the conditions which will enable addressing the constraints to solutions in the Doha Round of trade negotiations are already under way. In fact, by the end of this decade, the multilateral system would have gained substantial importance in terms of becoming the trade and investment agreement emphasised more than the FTAs because with the new evolving economic inter-linkages, it will much better meet the criteria of inclusiveness and fairness.