**As Prepared for Delivery**

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Washington, DC
October 30, 2001

# "The WTO and New Global Trade Negotiations: What's at Stake"

In ten days, the United States will meet with 141 nations in Doha to launch new global trade negotiations. Our aim is to lower barriers to trade and raise hopes for economic recovery, development, growth, and openness.

This will be the first global meeting since the tragedy of September 11. If we are successful, this mandate for trade negotiations would be the first such agreement since the creation of the World Trade Organization in 1994.

Today, I will try to answer four questions about what is at stake with this endeavor.

First, what can we learn from the past that might influence our perspective about this meeting on global trade?

Second, why is this WTO meeting important for America and the world right now?

Third, what are the potential economic benefits for the United States of these global negotiations?

Finally, but very importantly, what are the potential benefits for developing nations?

## What are the Lessons from the Past?

Fifty-four years ago this very day, representatives of 23 nations assembled in the Palais des Nations in Geneva to sign what would become an historic agreement: the General Agreement on Tariffs and Trade.

The autumn of 1947 was a time of both anxiety and nascent opportunity. Amidst the devastation after World War II, the United States was beginning to frame a political, security, and economic strategy for what became known as the Cold War. Earlier in the year, President Truman had announced a doctrine about using economic and financial aid to support free peoples resisting armed minorities operating through networks of subversion. In June, Secretary of State Marshall had launched a comprehensive program for the "revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist."

It was clear to those individuals meeting in Geneva 54 years ago – and to the American statesmen who backed them – that trade was inextricably linked to recovery, development, and security. Within the course of their lives, they had seen the optimistic modernization of 1900 transformed into the modernist nightmare of World War I. Then the Great Depression, fed by virulent protectionism and parochial isolationism, led to an age of dictators, another devastating war, and even a Holocaust. Indeed, if they required a further reminder of what was at stake in 1947, they need only consider their meeting place: It was the once hopeful home of the failed League of Nations proposed by President Wilson.

Yet Woodrow Wilson's forlorn causes had planted the seeds of other ideas that were of great use to the diplomats meetings in Geneva. When one of Wilson's internationalist disciples, Cordell Hull, became Franklin D. Roosevelt's Secretary of State, he placed trade at the heart of America's foreign policy. During the depths of the Great Depression, and only four years after the passage of the protectionist and destructive Smoot-Hawley tariff act of 1930, Hull had persuaded the New Deal Congress to authorize the President to reduce U.S. tariffs by up to 50 percent through reciprocal trade agreements. Hull's handiwork, the Reciprocal Trade Agreements Act of 1934, was the forerunner of later grants of "fast track" trade negotiating authority; indeed, the trade negotiating bills of today still include some of the original authorizing language that Hull drafted in 1934.

Secretary Hull, who was – in the words of one biographer – a cautious visionary, used this trade promotion authority to negotiate 32 bilateral trade pacts with 27 countries. His labors reduced tariffs with these countries by an average of 44 percent.

Hull did something even more important than cut tariffs: each of his agreements advanced a principle of "most favored nation" that created a dynamic to reduce trade barriers among all countries subscribing to this principle. If country A treats country B as "most favored," and then country A grants country C a tariff reduction, country B gets the same reduction. The more countries that accept this "most favored nation" principle, the greater the multiplier effect of any negotiations to lower barriers. The diplomats meeting in Geneva enshrined this "most favored nation" principle into the new GATT. And over the next 50 years the rule of MFN became so commonplace that in 1999 the U.S. Congress declared MFN to be "Normal Trade Relations" – or NTR.

The Geneva meeting of 1947 was originally envisioned as a first step toward a grander plan to institutionalize trade liberalization in the world economy. The generation of "Wise Men" wanted to create an International Trade Organization that would work with the new International Monetary Fund and International Bank for Reconstruction and Development to remedy the mistakes of the 1920s and '30s. President Truman submitted the ITO charter to the Senate in 1949, but the Senate never scheduled a hearing on ratification. Lacking the support of the United States, the ITO expired.

The fragile GATT network sought to fill the gap, sponsoring eight rounds of negotiations to lower barriers to international commerce over the next half century. In doing so, the GATT contributed to the greatest era of growth, development, and democratization in world history. As the UNDP reported, the world has achieved a greater reduction in poverty over the past 50 years than occurred over the previous 500 years – in large part because trade increased seventeen-fold and world output grew six-fold.

In effect, it took the past 50 years to reverse the mistakes of the first half of the Twentieth Century. Despite this expansion, trade as a percentage of the global economy is not much greater than it was 100 years ago.

Now we have to decide whether to keep advancing the international trading system or to let it slip backward.

The last of the GATT negotiations, the Uruguay Round, finally reversed the defeat of the ITO by creating a World Trade Organization. Yet no sooner than was the WTO launched than it, too, came under attack.

Given the complaints about the WTO, it is important to clarify what the WTO is and what it is not. The WTO is simply a set of rules, agreed by sovereign states, to limit the discrimination against the trade of one another; these rules are backed by a forum that adjudicates disputes but cannot compel any action. The WTO is not an international regulatory body; it has no independent power to develop regulations; it cannot force any government to change its laws.

The WTO's role is to provide a means for countries to monitor compliance with the rules and principles to which all have agreed. If there is a dispute, the WTO offers the mechanisms to render opinions and resolve differences – whether through changes in policies, compensation through trade benefits, withdrawal of trade benefits, or other negotiated results. By enabling countries to agree on rules for global commerce, the WTO smooths economic interaction and integration while respecting national sovereignty.

Indeed, as Professors John McGinnis and Mark Movsesian pointed out in the *Harvard Law Review* last December, the WTO's procedural approach to counter protectionism and discrimination against commerce reflects many of the insights that underpin our own Madisonian Constitution. The WTO respects decentralized authority – and state sovereignty – while sponsoring transparency and rules that discourage discrimination in trade, restrain protectionist groups, and encourage the mobilization of groups that promote the general welfare and democracy. As the authors conclude, "the task facing the [WTO] resembles that facing all constitutions: to encourage the protection of public goods – in this case, free trade and improved democracy – while resisting the attempts of politicians, bureaucrats, and interest groups to hijack government for their own purposes."

Since its establishment in 1994, the WTO has been a magnet for countries that see the benefits of accepting the liberalizing rules of trade – 14 additional nations have joined. At the meeting in

Doha, the WTO will accept both China and Taiwan as new members. In past months, Moscow has intensified efforts to negotiate Russia's accession to the WTO.

Yet the WTO stumbled badly in its first effort, in Seattle in 1999, to launch a round of global trade liberalization. It has not been keeping up with the challenges of a changing world economy.

The meeting in Doha needs to get the WTO back on track.

## **Why is this WTO Meeting Important Right Now?**

So let me move to the next question: Why is this WTO meeting important for America and the world right now?

The events of September 11 have set the stage for our work, just as officials meeting in Geneva 54 years ago needed to consider the imperatives of their time. America and the world have been attacked by a network of terrorists who are masters of destruction, but failures at construction. They stand for intolerance and abhor openness. They fear foreign ideas, religions, and cultures. They see the modern world as a threat, not an opportunity. They leave people in poverty and half of humankind, women, in subjugation. Their strategy is to terrorize and paralyze, not to debate and create.

The international market economy – of which trade and the WTO are vital parts – offers an antidote to this violent rejectionism. Trade is about more than economic efficiency; it reflects a system of values: openness, peaceful exchange, opportunity, inclusiveness and integration, mutual gains through interchange, freedom of choice, appreciation of differences, governance through agreed rules, and a hope for betterment for all peoples and lands.

Therefore, just as the Cold War reflected a contest of values, so will this campaign against terrorism. Just as our Cold War strategy recognized the interconnection of security and economics, so must America's strategy against terrorism. By promoting the WTO's agenda, especially a new negotiation to liberalize global trade, these 142 nations can counter the revulsive destructionism of terrorism.

Second, the WTO is falling behind developments in the world economy. It needs a new mandate for negotiations to keep up.

Since the completion of the Uruguay Round in 1994, international commerce has been transformed by new technologies, networks, business models, and investment patterns. It has also been buffeted by financial crises and other economic shocks. Governments are under increasing pressure to protect local producers. The bicycle theory of trade is again in force: If the trade liberalization process does not move forward, it will, like a bicycle, be pulled down by the political gravity of special interests.

To counter the slippage, nations are turning to regional and bilateral agreements. The United States is committed to pursuing trade liberalization globally, regionally, and with individual countries. We are seeking to create a competition in liberalization with the United States at the center of a network of initiatives. Yet the international economic system will prosper most if the regional and bilateral agreements fit within a global framework of rules.

Third, the launch of new global trade negotiations is important for economic recovery in the short run and for economic growth over time. As the *Financial Times* has written, “Starting a trade round would calm jitters about the global economy by checking protectionist impulses and laying the basis for the resumption of sustained growth.” A signal that the world’s trading nations are committed to open markets – and that they will resist protectionism – would inject additional confidence and energy into financial markets. Businesses will focus more on opportunities to be created and less on competition to be thwarted.

Additional trade liberalization through the WTO will also enhance productivity and efficiency, while helping to keep inflation in check. As Fred Bergsten of the Institute for International Economics has pointed out, trade liberalization and globalization can be credited with about half of American productivity growth from 1996-2000. Moreover, import prices account for virtually all the decline in U.S. inflation during that period. Together, these effects reduced the unemployment rate in the late 1990s by at least 1.2 percentage points, permitted the creation of at least 1.5 million jobs, and pulled many people thought to be unemployable into the workforce.

Fourth, America’s ability to sustain coalitions against terrorism will depend in part on our attention to the problems faced by our partners. Many democratic governments in developing nations, already struggling with economic challenges before September 11, now face staggering difficulties. Countries throughout Latin America and Asia, and increasingly nations in Africa, depend on trade with G-7 nations for growth. Through August, the dollar value of trade by the United States, Japan, and Canada had declined 3.6 percent compared to a year earlier. During the same period last year, the trade of these nations was up more than 19 percent. If the pace of this decline continues, the volume of trade for these three countries will be $121 billion less this year than last. Put differently, the size of this projected decline is greater than the entire GDP of Ireland. And if this slowdown continues for the United States, as I expect it will, 2001 will be the first year since 1982 that our trade numbers will actually fall.

## What are the Potential Economic Benefits for the United States?

A successful trade policy initiative requires, however, more than strategic and macroeconomic benefits. We also need to answer another question: What are the potential economic benefits for the United States of these global negotiations?

America’s farmers, workers, businesses, and families stand to gain much from new negotiations. Already, exports support an estimated one in five U.S. manufacturing jobs. Jobs in export industries, 90 percent of which are in manufacturing, pay an average of 13-18 percent more than other jobs. And multilateral negotiations help us set the standards – in areas such as manufacturing, services, agriculture, and e-commerce – that will define the future.

Furthermore, given that U.S. tariffs are already very low, new negotiations are likely to bring other countries' tariffs closer to ours. U.S. tariffs on industrial products average only about 3 percent – or even less given our various trade preference programs. America will have almost no non-tariff barriers outside agriculture once we have followed through on our obligation to end textile quotas in 2005. The world's most rapidly growing markets – especially in Asia and Latin America – have barriers three or four times higher than U.S. levels. Therefore, the United States stands to gain much more access abroad if others cut tariffs and liberalize, while America will continue to benefit from lower priced imports.

America's farmers and ranchers are among those who have the most to gain from a new trade round. For too long, agriculture was left outside the disciplines applied to industrial goods. Over the past 50 years, tariffs on manufactured goods decreased some 90 percent; agricultural tariffs barely budged. It took the Uruguay Round even to compel countries to move from quotas to tariffs for agriculture. The average permissible agriculture tariff is 60 percent; for non-agriculture goods, 4 percent.

Therefore, we need new negotiations to continue the process of fundamental reform of the agricultural trade just begun through the WTO rules. Already, U.S. agricultural exports account for about 25 percent of farmers' gross cash sales; one in three acres is planted for export. But we can do even better.

Agriculture also faces a host of non-tariff barriers, particularly through the misapplication of sanitary and phytosanitary standards. We need fair rules, based on reason and science, for the development of biotechnology that can help feed the developing world, improve nutrition, safely prevent losses from pests and disease, and reduce the use of inputs that can harm the environment.

America's service sector now constitutes 62 percent of our economy. Yet in this area, too, the rules to ensure fair competition were only first established in the Uruguay Round. A new negotiation needs both to advance liberalization and prod governments to keep up with rapidly evolving business networks and opportunities for growth. As Fred Bergsten and Catherine Mann have pointed out, rapid growth in the services trade could also narrow the U.S. current account deficit because, unlike in manufacturing, U.S. service exports appear to grow more quickly than our imports when world and domestic growth rates are equivalent.

The WTO rules also need to be updated to tap the potential of high-tech innovations and e-commerce. Transactions over networks are providing enormous growth opportunities for any service that can reach customers electronically – be it retailing, financial, information, or entertainment services. The opportunity for developing countries is vast – providing them with new, more efficient means to reach global markets for products and services in which they have a competitive advantage.

A new negotiation would also provide an opportunity to promote transparency in governance. There is support among many WTO members to promote greater openness in the operation of government procurement practices and to make customs rules and other trade-related measures more efficient. Trade facilitation efforts are increasingly important to ensure that bureaucracies and institutional rigidities do not block trade that would otherwise flow freely. Such reforms will help to combat corruption. We hope a new negotiation can also promote greater transparency in the proceedings of the WTO.

Given America's relative openness, we can only maintain domestic support for trade if we retain strong, effective laws against unfair practices. Although some nations are critical of the U.S. application of these rules, other countries are using them to an increasing degree – and without the transparency and standards applied by the United States. So we will continue to insist that any consideration of WTO rules focus first on getting the practices of others up to U.S. standards so that American businesses and workers can compete on a level playing field.

We also recognize that some businesses – and the communities that depend on them – cannot move as quickly as global financial and information markets. So we will need to have effective safeguard provisions that help industries if they are willing to take serious steps to regain competitiveness within defined and limited periods of adjustment.

We believe that the meeting in Doha can take further steps to emphasize that trade and economic growth can and should support a cleaner environment. A number of trade-distorting subsidies and barriers – for example in fisheries and agriculture – are harmful to the environment. Moreover, the WTO jurisprudence has been very respectful of non-discriminatory national environmental policies. Rather than have the WTO slip into environmental regulation, we believe sovereign nations must have the right to choose their own levels of protection for the environment, health, and safety standards, even when higher than international standards. Furthermore, the United States would welcome increased interaction between the WTO and the secretariats of Multilateral Environmental Agreements, because we believe international trade and environmental regimes should operate cooperatively.

The United States will promote increased adherence to internationally recognized core labor standards. With our support, the International Labor Organization has undertaken work on the social dimensions of globalization. Over time, we will seek to persuade other nations to permit the WTO to contribute to this work while reassuring them that we understand their concerns about protectionist agendas.

An essential benefit of further trade liberalization is for America's families, who supply the backbone, muscle, and genius of the country. It is common to talk about export gains from trade liberalization, but lower prices and more choices from imports are important, too. Together, the benefits from NAFTA and the Uruguay Round, through lower tariffs and higher incomes, are estimated to amount to between $1,300 and $2,000 for the average American family of four each year.

There is even more to be gained. A University of Michigan study forecasts that another global round of trade liberalization focused simply on tariff reductions on industrial and agricultural products would deliver an annual benefit of nearly $2,500 for American families.

These are hefty tax cuts for families watching their budgets. And the biggest beneficiaries of increased trade and competition through a new round are lower-income Americans, who are least able to afford the higher prices for food, clothing, and appliances.

At the start of this school year, Maryland and the District of Columbia offered a week of sales tax relief so parents could save 5 to 6 percent when they bought clothes or supplies for kids going back to school. So why not support lower prices of 6 or 8 or 10 or 12 percent for food and clothes and school supplies not just for one week, but every week of the year?

**<u>What are the Potential Benefits for Developing Nations?</u>**

Developing nations will have much to say about whether we succeed with the launch; they represent 80 percent of the membership of the WTO.

So what are the potential benefits of a new WTO trade round for developing nations?

Trade is a critical element – perhaps the most important element – in economic development, offering the biggest, and most lasting, dividends. A recent World Bank study examined developing countries that opened themselves to global competition, and those that did not. It concluded that the income per person in globalizing developing countries grew more than three-and-a-half times faster than it did in non-globalizing developing countries. The absolute poverty rates for globalizing developing countries fell sharply over the past 20 years, and the income levels of the lowest income households grew in line with the overall economy.

Recent history illustrates the transforming power of trade and open economies, and the perils of protectionism and economic mismanagement. Consider the experiences of South Korea and Ghana. In 1967, South Korea's per-capita income was an inflation-adjusted $550, and Ghana's was $800. Over the next 30 years, South Korea implemented a series of domestic economic reforms, became progressively more integrated with the global economy, and reduced its tariffs. Ghana, by contrast, maintained a closed economy and was wracked by political instability. Thirty years later, South Korea's per-capita income had surged to $10,360 – a figure that will grow even more rapidly once South Korea opens up some of the closed sectors of its economy. And Ghana? Its per-capita income had fallen to just $370. Fortunately, the new democratically-elected leaders of Ghana – whom I have had the pleasure to meet – are also now committed to trade liberalization.

These are not isolated examples. A number of other countries – Singapore, China, and Malaysia – have achieved growth rates approximating South Korea's as they have opened up their economies. And dozens of countries, too many of them in Africa, have had their economies stagnate – if not contract – as a result of economic mismanagement spanning decades.

As President Bush has said, "Trade creates jobs for the unemployed. When we negotiate for open markets, we are providing new hope for the world's poor. And when we promote open trade, we are promoting political freedom. Societies that open to commerce across their borders will open to democracy within their borders."

Special preferential trade liberalization measures – such as the Generalized System of Preferences, the African Growth and Opportunity Act, and the Caribbean Basin Initiative – have helped developing nations to help themselves. Yet more needs to be done. Most developing nations have yet to experience the benefits of trade and open markets. The world's 49 least developed countries, where more than 10 percent of the world's people reside, account for fewer than 1 percent of the world's exports. The data are only marginally better for many of the world's other developing nations.

One of our primary objectives in launching a new global negotiation is to use trade and openness to bring new opportunities and new hope to the poorest among us. United Nations Secretary-General Kofi Annan has succinctly spoken to the need for developing nations to become more active participants in the global economy: "The poor are poor not because of too much globalization, but because of too little." Similarly, Jim Wolfensohn and Horst Kohler, leaders of the World Bank and IMF, respectively, have pointed out that while debt relief will help poor countries conserve their existing resources, increased exports are critical if they are going to generate new resources.

The flagging fortunes of so many developing nations, coupled with the difficult economic times, underscores the importance of launching new global trade negotiations. The trade liberalization ushered in by the Uruguay Round highlights the potential of more trade for developing nations. In the six years following the round's completion, exports from developing nations grew by nearly $1 trillion, to a level of $2.4 trillion. Last year, developing countries exported $73 billion worth of information technology to the United States – a 43 percent increase since 1996, the year before the multilateral Information Technology Agreement had been implemented. Similarly, the dramatic reduction of tariffs in the chemical sector helped developing countries increase exports to the United States by 87 percent between 1994 and 2000. The total value of these exports now exceeds $10 billion.

A study by Joseph Francois, of Erasmus University in Rotterdam, forecasts that new global trade negotiations could generate approximately $90-$190 billion a year in the form of higher incomes for developing nations. In particular, liberalization of the global agriculture market – a top priority for the United States – is arguably the single greatest contribution that new negotiations can make to poverty alleviation in the developing world. The U.S. Department of Agriculture has estimated that complete elimination of distortions in the agriculture trade would produce a 27 percent increase in the annual agriculture exports of developing nations.

These benefits from more trade are not denominated in dollars alone. Open trade advances political reform. Open trade swells the ranks of independent businesses, and reduces the level of government intervention in national economies throughout the world.

Some in the developing world have complained that the difficulty of implementing the obligations of the Uruguay Round has caused them to miss out on benefits. The United States is working with other developed nations to address legitimate implementation concerns at Doha. We will be willing to consider other concerns as part of a new negotiation. We also recognize the need to provide aid and other financial support, including through the multilateral development banks, to help developing countries build the capacity to take part in trade negotiations and to follow through on agreements. Over the past year, the United States has provided more than $555 million in trade capacity assistance – more than any other single country.

But developing nations must also do more to open their markets to the world's goods, particularly each others' goods. While tariffs on manufactured goods average 8 percent in developed nations, they are 21 percent in developing nations. If these countries want to experience the benefits of the global economy, they need to do more to open themselves to it.

As the United States and our trading partners pursue free trade, we need to do so in a way that is consistent with our values and draws on our compassion. For example, the Bush Administration is implementing a flexible policy on intellectual property as it relates to medicines to treat HIV/AIDS and other pandemics. This flexibility, afforded by the major international trade agreement on intellectual property, enables countries and companies to help deal with this tragic pandemic by encouraging low-cost access to critical medicines. At the same time, the preservation of intellectual property rules ensures incentives to develop medicines and biotechnology that can help us cure and treat diseases that have plagued humankind since our origin.

I recognize that some of the least-developed countries in the WTO find it difficult to fully comply with the pharmaceutical patent rules governing world trade. In response to these difficulties, the United States has proposed granting the least developed countries a 10-year extension, to 2016, to come into full compliance with all pharmaceutical-related patent obligations under the TRIPs agreement. We have also proposed a moratorium of at least five years on WTO challenges to the actions of other sub-Saharan African developing nations as they respond to HIV/AIDS, infections related to AIDS, and other health crises, such as malaria and tuberculosis. I hope that other members of the WTO will join the United States in supporting these measures.

In sum, when we open markets we are opening new opportunities. As much as developing nations may need debt relief and development aid, a prerequisite for their long-term economic growth is full participation with the global economy and trading system. Doha is the best opportunity we will have in the next 10-15 years to expedite this integration. It an opportunity neither we, nor the developing world, can afford to miss.

**Conclusion**

Since early this year, the United States has been encouraging the development of a coalition to launch a new global trade negotiation in the WTO. This task has been complicated by the WTO's governance procedures, which require consensus decisions on complex topics by over 140 countries – big and small, developed and developing, islands and land-locked.

The United States started by forging a close partnership with the European Union. Although the United States and the EU have different priorities, we have a shared strategic interest in fostering the health of the global economy, strengthening of the world trading system, and encouraging the economic vitality of developing economies. In a small way, perhaps we can demonstrate how in this new era the Euro-Atlantic democracies can work through differences reasonably in order to advance important interests globally.

The United States and the EU have also reached out to an informal network of countries on all continents, nations that reflect a variety of concerns, yet which are drawn together by a shared interest in promoting further trade liberalization. We have tried to listen and learn from one another.

Some of these countries have met in informal meetings of ministers in Mexico and Singapore. Other sessions have reflected regional interests, such as those of Africa, Southeast Asia, and Latin America. Other groups are based on stages of development, such as the developed nations of the "Quad" and the Least Developed Countries. And some assemblies focus on particular topics, such as the Cairns Group of agricultural exporting economies. All these sessions and groups help inform the WTO's work in Geneva, where our representatives work in one forum.

Together, we have concluded that a key to a successful launch at the Doha Ministerial is an agreed agenda that will accommodate the essential interests of the various members and that will also gain public support. Our goal is to achieve a mandate to launch negotiations, not to complete them. The draft texts prepared by Stuart Harbinson, the Chairman of the WTO General Council, have provided a good basis for moving forward.

The last stages of our work will prove most difficult. I do not know whether we will succeed. The United States must, of course, pursue our national interests as well as promote a global interest. If other countries refuse to cooperate and compromise, we cannot compel a result.

If the WTO falters, the United States will continue to pursue trade liberalization, turning to regional and country-by-country alternatives. We are already engaged in regional negotiations, with the Free Trade Area of the Americas, and in bilateral negotiations with Chile and Singapore. Given the size and innovation of the U.S. economy, we can be an attractive partner for others seeking to liberalize trade.

It is our strong preference, however, to launch these global negotiations in order to achieve a common good. Like those individuals who met in Geneva 54 years ago today, we hope the representatives who meet in Doha will perceive the larger stakes.

We hope to contribute to a result that will be the starting point for another half century of development, growth, opportunity, and openness. That is a goal for Americans that keeps faith with our past and pursues the promise of the future.