

“A Multilateral Approach to Today’s Challenges”
19th November, 2010, New Delhi

Address by Pascal Lamy, Director-General, World Trade Organization

Ladies and Gentlemen

It is a pleasure to meet again with the Federation of Indian Chambers of Commerce and Industry (FICCI) – the largest and oldest business organisation in India, with a history closely linked to India’s emergence as one of the fastest growing economies in the world. FICCI has been a staunch supporter of a strong multilateral trading system. You will therefore not be surprised if I tell you that I feel at home here.

I would like to begin my remarks today by looking at the state of the world economy. I think it is fair to say that in the last months we have witnessed a mix of good and bad news.

The good news first. Coordinated fiscal and monetary stimulus has worked to bring back the global economy from the edge of a depression. There has been a return to economic growth, led by particularly strong growth in several emerging economies such as India, Brazil and China. Steps have been taken to strengthen financial sector regulation, which as we all know was at the heart of the crisis. We have seen progress in the reforms of the World Bank and the IMF, through greater representation of dynamic emerging markets and developing countries, making them even stronger institutions for promoting development and global financial stability respectively.

The recent G20 Summit in Seoul agreed to place the interests of developing countries, and in particular low income countries, at the heart of the G20 agenda, with the adoption of the “Seoul Development Consensus”. Finally, the G20 also took much needed first steps, if yet insufficient, in addressing macro-economic imbalances.

But what about the bad news? Economic growth in advanced economies remains sluggish and risks remain on the sovereign debt front. But the most serious challenge today is that of unemployment. For it is generating employment which is at the heart of the strategy of some countries to keep their currencies undervalued. Just as it is also at the heart of other countries’ loose monetary policies.

What lies behind concerns macro-economic imbalances is in reality a concern about unsustainable and socially unacceptable unemployment levels. Whether it is the worker in Bangalore, in Ohio or in Guangdong, the real issue is jobs.

The Havana Charter of 1948 which envisaged the creation of the International Trade Organisation, but never came into being, considered employment as an integral part of a global trading system. In its Article 2 it recognized the fact that “while the

avoidance of unemployment or underemployment must depend primarily on internal measures taken by individual countries, such measures should be supported by concerted action". What was true more than 60 years ago is even more so in today's globalised economy.

This is why the G20 has repeatedly emphasized the importance of international cooperation in global economic issues. Cooperation means listening to each other, understanding each others' constraints, and entering into compromises towards commonly identified goals. Today the constraints of countries may be different, the individual actions required from individual countries may be different but they must all be directed towards these common goals.

Consider, for example, the issue of macro economic imbalances. Addressing them will be inevitably complex. It will require looking into monetary policies, investments in social safety nets, competitiveness, public finances or taxation systems to name but a few. No single indicators will be enough to address the issue. And it will require time, since this is a medium to long term collective enterprise. But make no mistake! These imbalances do not originate in trade. And therefore addressing them through trade restrictive measures will not work. Worse, it will trigger tit-for-tat protectionism.

In the short term, the uneven growth in the world and high unemployment carry the risk of countries diverging from global solutions and embracing go-it-alone measures. Such uncoordinated 'beggar-thy-neighbour' policies, however, will not result in increased employment. Hence, for a sustainable global recovery, there is a need for coordinated policy action across countries, which would lead to a progressive reduction of these global imbalances and to a greater number of jobs.

Let me now turn to global trade. Trade - both exports and imports - can increase income or output levels through efficiency gains from specialization based on comparative advantage, through greater competition and through economies of scale. In turn, an increase in incomes creates jobs in different sectors by increasing demand. A recent report on the benefits of trade for employment prepared by the OECD, the ILO, the World Bank and the WTO cites cross-country evidence suggesting that a 10 per cent increase in total trade openness is found to reduce unemployment by about 1 per cent.

Trade is also likely to contribute directly to the reduction of unemployment in the recovery phase following the crisis. This is because the share of employment which depends on exports and imports is typically large. Recent studies for India show that nearly 14 million jobs were created directly or indirectly as a result of increased exports between 2003 and 2008. Furthermore, rough back of the envelope calculations for India suggest that on the basis of the average pre-crisis growth in real merchandise exports, an average of 7.5 million jobs may be created in from exports each year.

Any negatives? Well of course, greater import competition associated with trade opening may lead to job loss in certain sectors of the economy. There are both winners and losers. This is also true with more competition stemming from structural reforms within a country. Programmes of worker training and greater mobility in labour markets can enable those displaced to find jobs in the more efficient, expanding sectors of the economy. And social safety nets can help them bear the burden of transition in the short-run. In India, the National Rural Employment Guarantee Act (NREGA) of 2005 is an important example of a social safety net for the unemployed.

In sum, economic evidence tells us that opening up to international trade is better for growth than remaining a closed economy. However, to maximize the development-enhancing effects of trade opening, the process needs to be accompanied by actions and policies that leave no-one behind.

The recent G20 and APEC leaders' summits in Seoul and Yokohama recognised the importance of open trade for the global recovery. They sent strong signals of political resolve to conclude the Doha Development Round. Leaders recognised the 2011 window of opportunity to achieve this goal. They called for intensified engagement and for negotiations across the board to conclude the end game. They also committed to seeking domestic ratification once an outcome is reached. In short, they provided a clear signal that they expect the Doha Development Round to be a deliverable next year.

And I would like to take this opportunity to publicly acknowledge the engagement and support of PM Dr. Singh and Minister Sharma, whose initiative to convene trade ministers last year helped re-invigorate the Doha Round.

The question ahead of us is clear: how to supplement what negotiators have already put on the table, with new give and take in order to build a final package that each member would take to their respective Parliaments.

WTO Members are now working to translate this political will into the negotiations in Geneva. In recent months they have been testing flexibilities in various formats. This process must now intensify in order to "walk the talk".

Experts and commentators in the media would stress the "mercantilist" aspects of concluding the Doha Round: they will talk about concessions, market access and give and takes. Fine with that. But few will talk about the hidden face of the Doha Development Round: the importance of the multilateral system which represents the collective cooperative effort of 153 members.

If the Doha Development Round was to fail, it would be the first in the history of the GATT/WTO since 1948. It would weaken the only institution which governs the rules of world trade and has the ability to adjudicate in the event of disputes between countries.

Economic crises are a reality of the world we live in. They have occurred in past and will in the future as well. At present, the global economy finds itself recovering from one of the worst in history. Economic crises, naturally, create problems at home. It is in these times that proponents of unilateralist, populist policies which discriminate against foreign workers and goods become more vocal. Instead, during tough economic times, those of us who believe in multilateralism must let our voices be heard. Some may call us naive, or even idealists. But the lessons of history are there: they show us that it is coordinated action through international cooperation that maximizes benefits for citizens of the world.

I hope that when this crisis is over, it will be this lesson of cooperation that will have prevailed. Other options would certainly leave each of us much worse.

Thank you for your attention.