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KEYNOTE ADDRESS
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My purpose this morning is to introduce our discussion with what I see as the global picture - the background scene of our topic for these three days- and also with a few perspectives for the future of global trade regulation.

Starting with the global picture, it is clear that we are going through a turbulent period for international trade, international trade relations and international trade policies. I think this is not a short-term problem. It is not just a crisis that suddenly appeared and that can be fixed easily.

I think there are four basic shaping factors of the present situation. They are all global. However, each of them has different time dimensions. The first one is the US-China rivalry, the second one is the reinsertion of China into the world economy, the third one is the Western fatigue with globalisation and the fourth one is, in one word, Trump.

The first one has a time horizon of a century. The second one (China into the world economy) has a time dimension of half a century. The third one, which is this problem of some parts of the Western world with globalisation, is a quarter of century. The last one is five to ten years, depending on the result of presidential elections next year in the US.

About the US-China rivalry: major power reshufflings create conflicts brings tensions, as Thucydides wrote it a long time ago. When a major world power is in has relative decline and another world power is growing, expect wars. Hopefully not this time, given the stage of globalisation we have reached. Still, this rivalry will remain the main feature of international relations, of international geopolitics and of international geo-economics for the 50 years to come, as on both sides there is now a view -which has grown extremely rapidly during the five to ten last years- that they have become too vulnerable to each other.

The reason of this vulnerability lies in tech, as digitalisation, IoT, artificial intelligence, quantum computing are penetrating security issues. The view in Washington today –and this is not Trump, but the view of the US entire political system- is that China has become a danger that needs to be pushed back. Decoupling as the way to go. There is now the same view within the Politburo in China –notably after the ZTE affair last year-: there is a majority in the Politburo for which China has become too vulnerable to the US and that it also needs to regain autonomy.

This issue has evolved in slow motion mode for the last 20-30 years –remember Kissinger “containment” of China doctrine. We are in a different, more confrontational paradigm now.

The second one is the reinsertion of China into the world economy, which is one of the key features of globalisation, as it developed since the 90's. It was initiated by Deng Xiaoping in the 80s and it has developed since, with one huge positive, which is that the trade surplus of China has moved from 10% of GNP 20 years ago to zero now, meaning that imports into China have grown faster than Chinese exports, which is the best answer to those who say that including China in the WTO was a stupid thing to do. Provided, of course that you accept to consider facts and numbers.

But what is also true is that the expectations at the time of Chinese accession to the WTO that this country would converge long term towards a market capitalist western like economic model did not prove true. The reason why this has not happened is that China stopped converging with this model at the time of the financial crisis in 2008 when it decided to re-increase its state owned sector from 15% to 30% of the economy. One of the paradoxes of globalisation is that a default of regulation of the US financial system triggered a reinforcement of communism in China. This is also the context of the Belt and road mega plan of communication infrastructures.

What we have now, as a result, is a huge elephant with a huge exception hence an unbalanced playing field which WTO disciplines do not properly address, hence making competition less fair hence trade opening more problematic. This is not a US problem, but a global problem, although for various reasons only US and EU have so far been vocal about it.

The third element is the Western fatigue with globalisation, a process well known to be both efficient and painful, efficient because painful and painful because efficient. Having more winners than losers is a great economic result, but does not convince the losers without proper measures or policies to compensate for inequalities resulting from this Ricardo-Schumpeterian process. The reality is that, in the Western world we have not properly taken care of the losers. We left too many losers aside. That does not change the reality that there are many more winners than losers globally, but simply the pain on the losers has become stronger and simultaneously their capacity to voice their pain and their discontent has increased. Hence protectionist pulsions of various kinds.

And finally, of course, Trump, the cherry on this cake, a product of antiglobalism in the US, who was elected on a protectionist platform, and who has built his US trade policy on totally erroneous premises, starting with the fact that the US trade deficit is a weakness for the US. Wrong: on the contrary, the US trade deficit, permanent as it is, is a sign of strength, the strength of the \$ a currency in such demand that the financing of this deficit is not a problem. Hence Trump's view that a trade war is easy to win when you have a trade deficit, hence this flurry of tariff measures based on dubious national security provisions, which I have already said publicly are like trout fishing with a hand grenade. Big destruction for little result. Big cost for little gain. And a corner situation in the arm twisting game with China will likely result in some dirty mercantilist bilateral arrangement loudly trumpeted as a major success that will not seriously address the structural issues I already mentioned.

The interactions between these four shaping factors can lead to different outcomes depending on their relative weight and on the posture of the main actors, including EU, Japan, and others. Let me outline three different possible scenarios.

The first one is fragmentation, a costly retrenchment from trade openness. This is advocated by some, including in the close entourage of Donald Trump. This fits with their larger geopolitical agenda about deglobalisation, about nationalism and about sovereigntism. I believe that this scenario is unlikely, because it would be extremely painful. While globalisation is efficient and painful, de-

globalisation would be inefficient and painful. This is what most businesses, which developed the value chains that now span the globe will tell you. Brexit is a lab test of this scenario.

On the other side of the spectrum, a scenario of resilience of the global rules-based system, and of the interconnections which now structure production systems of goods and services, even if relative prices may change, for instance following a proper pricing of environmental externalities. Globalisation would adjust, but it would remain globalisation, and the fact that trade is open would facilitate this adjustment.

The third one is probably, like often in this sort of geopolitical approach, a little messy. It is an in between scenario where we will have a partial decoupling of US and China, whether or not limited to the tech sector. With challenges for some and opportunities for others. A kind of digital deglobalisation, or absence of further globalisation such as in data regulation.

I believe most of us in this room would vote for scenario n°2, which is certainly what the EU would do, which does not mean that the necessary critical mass to support it will appear, including in the WTO, unless carefully crafted which is a topic for discussion also in APEC. But let's recognize frankly that it will not happen without serious WTO reforms short, medium and long term.

Short term: solution to the US hostage taking of the Appellate Body, and to the flaws of the ASCM (subsidies) agreement to make disciplines on state support stronger, including for public entities competing in the marketplace.

Medium term: making trade more environment friendly in order to better synergise trade opening and environment protection which has become the n°1 priority of the international agenda, issues around digitalisation such as free flow of data, plus institutional issues having to do with WTO governance, the role of the secretariat, special and differential treatment, or modern forms of plurilateralism.

Long term, I believe the main challenge for trade opening lies in the shift from the traditional focus on protection of producers to the focus on protection of consumers, ie "precaution" which opens a new frontier for trade regulation. Obstacles to trade relate less and less with the former and more and more to the latter. As the level of "precaution" will keep rising with economic development and the growth of the middle class worldwide, levelling the playing field in this area will have to become the main focus of a multilateral rules based system. A very different and much more complex mandate for WTO and regulators.

I wish us all good luck for tackling the packed agenda that is awaiting us.