



Future Challenges for the Multilateral Trading System

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These are challenging times for trade and economics ministers.

After six years of negotiations we are still struggling to complete the WTO Doha round.

Even with the evidence that freeing up trade has increased net world wealth, jobs and living standards, protectionist pressures have not gone away.

With the heightened risk of a global economic slowdown following the financial market crisis, the danger is that some will call for greater protectionism which would compound the risks of recession.

Commodity shortages and soaring food as well as oil prices are putting pressure on consumers, particularly in countries which rely on food imports and on the poor, creating unrest and the potential for instability in the developing world.

Poor countries rightly blame subsidies and trade barriers for denying them the opportunity to earn a living in the global marketplace, and for contributing to poor investment in agriculture and infrastructure in the developing world.

Meanwhile vested interest groups and some consumers in rich countries blame free trade as one of the causes of climate change, using flawed food miles arguments to argue against imports from developing countries and efficient agricultural producers.

In response to these challenges we need to reassert even more strongly the need for a robust rules-based multilateral trading system. For that system to move forward rather than to stagnate it needs flexibility by negotiating parties to allow the conclusion of the Doha Round.

We need good international governance in trade as much as in environment, human rights and security. Global trade rules limit discrimination and provide certainty for traders.

Market opening is also critical. Cutting trade barriers through successive GATT rounds underpinned post-war growth and rise in living standards.

The immediate challenge we face is to complete the WTO Doha negotiations. The potential gains, for poor countries as well as OECD members, are large.

There is a special urgency about this right now. The global credit crunch and higher commodity and fuel prices have created real economic uncertainty.

World fuel prices according to the FAO rose 40 per cent last year, and already this year a further 50 per cent. For all of us this is a problem. For increasing numbers it is a crisis. For poor households in developing countries, the consequences are not just pressure on family budgets but malnutrition and hunger. Food price inflation means that another 100 million will be thrust into poverty and the Millennium Development Goals will be further away than ever.

A key long-term challenge is to reach agreement on international action to tackle climate change. The trade community has to be part of that debate. In Bali in December a group of trade ministers met on the margins of the Kyoto climate meeting. There was broad agreement that trade had to be made available to support multilateral efforts on climate change, including reducing trade barriers to movement of environmental goods, services and technology.

With the WTO Doha round approaching its seventh year without an outcome, then it is not surprising that many trading nations are turning to bilateral deals. These can address a wider range of trade issues, and more quickly.

New Zealand for example has recently concluded an FTA with China. We were the first country in the developed world to achieve this.

The negotiations were successful despite huge differences in the size of our countries and in our political and social systems.

In the end we secured agreement covering all aspects of trade which included comprehensive and near full elimination of tariffs on goods, including agriculture. We were also able to secure agreements on labour and environment, another first.

We are however conscious of the risk that bilateral deals will undercut the non-discrimination principles that underpin the multilateral trading system. That is why it is important to hold out for agreements that are comprehensive, high quality and offer WTO-plus outcomes. Our experience shows this is achievable.

We are also looking at regional agreements. That is our aim with the pathfinder agreement between New Zealand, Chile, Brunei and Singapore which we call 'P4'. We have recently launched an extended negotiation between the P4 group and the United States on investment with the aim of broadening this into a full free trade agreement. This will hopefully expand to include an increasing number of countries committed to a high quality plurilateral deal.

But ultimately we need the security of global trade rules and we need a multilateral agreement which can encompass issues such as elimination of subsidies. The key question is what we can do to get a deal in the WTO.

What is on the table in the negotiation right now is much less than many of us had hoped for, though it would still be worthwhile. We have to consider whether we should hold out for a big enough outcome on tariff and subsidy reform to make this a high quality round. Or should we adjust to the idea of a soft result, bank it and look for better results in a future round? The worst outcome would be to put the negotiation on ice, with no certainty we will be able to resurrect it.

The stakes are high. The costs of failure are considerable in particular for poor countries.

The next few weeks will answer the question of which path we will pursue. I still hope and would urge that all parties show the flexibility needed for a successful outcome. Each country has to try to understand that it is not on its own in having bottom lines but that other countries likewise need to justify the outcome to domestic constituencies.

But we all have to also understand that giving up something is necessary for a result that returns higher overall benefits.

We have made good progress in agriculture, reducing outstanding issues from 175 to just 30.

With political will from key parties we might also achieve enough advancement in the negotiation on industrial tariffs to proceed to a Ministerial Green Room over the next month. We will however have to do better than what most recent reports from the negotiating group from the last week suggest.

The future progress and perhaps even survival of the multilateral trading system depends on it. It is critical that countries and negotiators increase their commitment to successfully concluding the Round.