

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

**CRISIS, PROTECTIONISM, AND
DOHA – WHAT FUTURE FOR THE
WTO?**

WELCOME AND MODERATOR:

PAUL BLUSTEIN,
JOURNALIST IN RESIDENCE,
BROOKINGS INSTITUTION

SPEAKERS:

URI DADUSH,
DIRECTOR,
CARNEGIE INTERNATIONAL ECONOMICS PROGRAM

STEVE CHARNOVITZ,
ASSOCIATE PROFESSOR OF LAW,
GEORGE WASHINGTON UNIVERSITY LAW SCHOOL

GARY CLYDE HUFBAUER,
REGINALD JONES SENIOR FELLOW,
PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

ARVIND SUBRAMANIAN,
SENIOR FELLOW,
PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

**TUESDAY, SEPTEMBER 15, 2009
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

*Transcript by
Federal News Service
Washington, D.C.*

Transcript Not Checked Against Delivery

PAUL BLUSTEIN: Good afternoon. My name is Paul Blustein. I'm a journalist in residence at the Brookings Institution. Welcome. And I just want to start off by congratulating the Carnegie Endowment for their timing.

I obviously had to – perspicacity; is that how you pronounce the word? – you know what I mean – to choose September 15th, right in the middle of what could be an incipient trade war between the U.S. and China, to present this very interesting policy paper on the WTO right at a time when the importance of that institution is certainly becoming rather salient.

And so we're going to, just as panelists are arriving – welcome, Arvind – we're going to start with a presentation by Uri Dadush. I think most of you have the copy of the policy brief that he's written. Having read it myself I highly commend it to you. I think it makes great sense. He's going to speak for about 15 minutes on it.

You all have, I believe, copies of his biography in the packets of materials on your chairs, but if not, just let me give just a brief summary of who Uri is.

He's senior associate and director in Carnegie's International Economics program. I got to know him when he was in his previous incarnation when he served as World Bank's director of International Trade, where he was – a job he held for six years. And before that he was director of economic policy at the Bank for three years.

And prior to joining the Bank he was president and CEO of the Economist Intelligence Unit and Business International, which is part of the Economist Magazine Group, and also at Data Resources, which is now Global Insight.

He will be followed by three panelists who will perhaps throw a couple of dead cats in his direction, but I'm sure otherwise just add brilliant insights to what he has said. And I know it's customary at these occasions to talk about how fortunate we are to have these panelists, but I've got to say, these three guys – we're really got the all-star team here.

The first panelists will be Steve Charnovitz, who is associate professor of law at George Washington University Law School and a real expert in trade policy, particularly – I've read many of his articles and books on the intersection between trade law and the environment.

He'll be followed by Gary Hufbauer, who is the Reginald Jones Senior Fellow at Peterson Institute for International Economics. He was formerly the Maurice Greenberg Chair and Director of Studies at the Council on Foreign Relations, and well familiar to those of us who have been writing about trade in recent years.

And, finally, Arvind Subramanian, who is also a senior fellow at the Peterson Institute for International Economics, a joint fellow at the Peterson Institute and also at the Center for Global Development. And he was previously assistant director in the research department at the International Monetary Fund, where he worked on trade development – Africa, India and the Middle East.

So, without further ado, I'd like to ask Uri to make a presentation of about 15 minutes and then the panelists will speak for about 10.

Transcript Not Checked Against Delivery

URI DADUSH: Thank you very much, Paul, and welcome, everybody. And thank you, on Carnegie's behalf, to this distinguished panel, including Arvind, who just stepped out, for joining us today.

Before I give you my presentation, I just wanted to flag to you Paul Blustein's very interesting book on the WTO, which I got a little bit of an advance look at over the weekend, and it's going to be published in four or five days from now. I strongly recommend, for those of you who clearly are interested in trade –

MR. BLUSTEIN: Speaking of – Columbus Day is just around the corner. Also Yom Kippur. (Laughter.)

MR. DADUSH: Yes, right. And I didn't – he didn't ask me to do this, by the way. (Laughter.)

But, okay, so this presentation is based on the policy brief that you have, and I'm going to make four main points. The central point is that the WTO needs reform and this is a good time to start.

And the four points I'm making is that the WTO is an essential plank of globalization, but it has become sidelined in the vital aspect of its mission, which is liberalization; that we need a more flexible approach to multilateral trade negotiations, and that the reform process should start with the coming ministerial in Geneva.

These are the four points. Let me go into each of them briefly.

The institution, since its inception in 1995, has established itself as an essential plank of globalization. It is the guardian of the trade regime, and 370 disputes have been filed with the WTO. Only about 80 of them – most of them were settled out of court, so to speak.

Only 80 of them have reached the appellate body, and by and large the level of compliance with the appellate body's decisions were far from perfect and taking too long is good, even in cases where the appeal is against some of the larger countries by the smaller countries, and indeed in 80 percent of cases, the developing countries are on one side or the other of the dispute.

The second big success of the WTO since its inception is the accession of 25 countries and the landmark accession of China, which is now, or about to become, the world's largest trading nation.

And China's landmark – China's accession is a landmark, in part because that process of accession was used to anchor a very far-reaching program of domestic reforms. And I often like to say that if the WTO had done nothing else than the accession of China, it would have been worthwhile.

The third success is the agreements on telecommunications and financial services, significant agreements among a large plurality of members.

Transcript Not Checked Against Delivery

And the fourth area of success, in my view, one in which I was directly involved when I worked at the World Bank, is the establishment of the aid for trade agenda in a large number of development institutions as a significant area of activity. And this owes a lot to Pascal Lamy's incessant prodding.

So these are – this is kind of on the asset side of the balance sheet. However, the WTO has clearly been sidelined on liberalization. This actually hasn't meant that World Trade didn't do well since 1995. On the contrary, world trade has grown at a rate two to three times GDP. And this year is the first year, the year of crisis, since World War II that world trade is actually declining, and declining big time.

The surge in trade that we have seen didn't result just from trade policy. It comes from technology, falling costs of communication, transportation. It comes from an increased taste for diversity. But it is also the result of large-scale opening up.

And when I was at the World Bank, I was involved in a study – a short study but I think an important one – that tried to analyze where this opening up occurred in the course of the last 15 years.

And the answer is that two-thirds of the opening up is autonomous in countries. It was prompted by the collapse of the Berlin Wall. It was prompted in part by some bank programs and IMF programs. But probably the largest part of it is countries deciding that this was in their best interest to open up trade.

Another 10 percent of the liberalization that has occurred – very large liberalization that has occurred – is attributable to regional agreements. Now, this study was done some years ago and it's probably that if it was done now, that share would be larger because of the enormous proliferation of these agreements that has occurred since.

And a quarter of the liberalization results from the application of the Uruguay round provisions. And note that in this analysis, no new trade liberalization in goods has resulted from multilateral negotiations since the WTO was created.

And this of course is not for want of trying. The Doha negotiations have been going on for eight years. They probably now will not conclude – if they will conclude – before 2011.

And the question is, of course, why are these multilateral trade negotiations so difficult, and I would point to three sets of factors that, acting in combination – this is my view – explain the difficulty. Ironically, each of these factors is actually a good thing, but when you put them together you get a bad thing. You get a very difficult negotiation.

The three factors are that the issues are getting tougher – agriculture, services – more complex.

The second factor is that we have a much larger and more diverse group of participants, some large players like India and Brazil with strong views, and the increased influence of particular groups, the LDCs, for example.

Transcript Not Checked Against Delivery

And the third element is the way that the negotiations – the mechanism of the negotiations, which is the single undertaking and the consensus rules, which in short means that everybody has to agree on everything before anything is agreed.

Each of these three elements is good in itself, but the combination has made the negotiations unwieldy.

It has greatly increased the cost-to-benefit ratio, something to which the private sector will be especially sensitive to; helps explain the reduced interest of the private sector in the negotiations; and has also led to a convergence towards a very low common denominator in the outcome of the negotiations, which is why the Doha draft currently on the table is an enormously diluted version of what was originally envisaged.

And this in turn also makes it difficult to take the painful political steps for large countries, such as the United States or India, to go forward with the agreement when they see that the balance sheet is barely favorable as they perceive it.

So that's the problem. What are the reform possibilities? And here I put them forward with considerable modesty, let me say. I don't have a solution, but I do have some areas where I think the reflection on reform needs to occur, and some suggestions, as well as many questions.

The first idea is not a new idea. It has appeared in a number of reviews. Nevertheless I think it is a very important approach. And it basically says proceed on individual issues across a critical mass of like-minded members.

The big – this is called plurilaterals, like the Government Procurement Agreement is a plurilateral, et cetera. The big objection to this approach is of course by countries that feel they would be excluded from examining – from negotiations on specific issues, either because they're not interested or because people are not interested in them.

And often these are small and poor countries. So moving forward on plurilaterals means addressing some of those concerns. And those concerns can be addressed in various ways, for example by dealing not just with one issue but maybe a small number of connected issues that may be of interest to the particular players in question.

There could be criteria developed to minimize the adverse effects on non-members. Indeed, non-members could be simply granted the same privileges without being asked the same obligations, which is the way that the GATT worked for a large period of time vis-à-vis the developing countries.

There could be preferential treatment for the poorest countries. There could be favorable criteria for accessions to nonmembers of the plurilaterals, and these agreements could also be made subject to dispute settlement to protect the weakest members.

This recommendation I would say is fairly mainstream. Off the mainstream, the other two areas that I am proposing for close examination – the first area is how do you harness the energy behind regional trading arrangements? How do you go with the flow?

Transcript Not Checked Against Delivery

These arrangements are there. You don't like them. You don't relate to them. The WTO essentially – it's like – I liken it to two churches worshipping the same deity, in this case trade, but not talking to each other. Maybe churches is politically incorrect, so synagogues or mosques, if you prefer. (Laughter.) Whatever.

Yet economic research has shown that you can have good regional arrangements. You can design regional arrangements to add very significantly to the welfare of participants, and the empirical evidence is that regional arrangements that are deep, that are broad, that have relatively liberal access rules, whether they are rules of origin or tariffs vis-à-vis the rest of the world, such as the European Union, are actually beneficial to members, and by and large the evidence that they have hurt nonmembers is quite small.

And I could quote several others that, in my view, have had similar sorts of effects, perhaps not as successful – NAFTA, CAFTA – and I realize that this is all an area of some – there is no consensus there, but that is my assessment. And even some agreements among developing countries, such as the Pan-Arab Free Trade Area are shown most recently to have had significant positive effects.

So the question is, how do you harness these agreements? How do you work with them? And how do you promote agreements that are good and go beyond the kind of legalism of Article 24, which, anyway, is of course not being applied. I'll come back to this as I talk about how you multilateralize all this.

The third reform outline is also off the mainstream, which is the WTO should assist members to design their own trade reforms. Now, of course this is exactly against the ethos of mercantilist trade negotiations, yet we know that most trade reform occurs autonomously.

And the World Bank and International Monetary Fund, with which the World Trade Organization is supposed to be fully coherent as part of the multilateral system, are regularly engaged in advising countries on their own trade reforms, and increasingly this is happening without strict conditionality, if that ever existed, or the conditionality that might have existed.

One point that I can make is that you can actually engage in actual trade liberalization without giving up all of your negotiating chips in the WTO, where a lot of the negotiations are now binding – legally binding the liberalization that has already occurred. And the WTO has an instrument, a trade policy review instrument, which could be used in this direction.

So I am asking, you can do plurilaterals; you can work off regionals; you can work with individual countries, and then the question is, how do you derive the benefits from this patchwork quilt – my English is not always perfect – patchwork quilt for the community of nations? How do you multilateralize the benefits coming from these individual interventions?

Well, what I say in the brief is first of all you have to recognize that multilateralization is, in any way, an ideal, that the Doha draft that we have in front of us is anyway full of exceptions and discrimination, et cetera, et cetera.

Transcript Not Checked Against Delivery

And, indeed, even when you don't have discrimination within a particular area, there is the fact of discrimination because of the differential progress in agriculture services and manufacturers, and the fact that countries export different products.

So there is no perfect solution here, and so I argue for opportunistic multilateralization, not one that is embodied in a huge round that everybody has agreed with, but looks for specific opportunities. This means extending, identifying the flexible geometries, including both plurilaterals and, in my view, regionals, and try to extend them.

For example, China and the United States have just agreed that China will attempt to enter the Government Procurement Agreement. That's an example of extending of flexible geometry. Flexible geometry can be extended regionally where poor and small countries can be encouraged or facilitated in their access of larger regional groups.

You can also multilateralize opportunistically by taking modest steps to bind preexisting liberalization. For example, you could agree to eliminate all tariffs below 3 percent, or you could agree to remove all export subsidies in agriculture. These are relatively small steps that can be taken one at a time.

And, finally, you can achieve bindings in specific sectors. You could imagine that the six largest economies in the world agree – China, India, et cetera, U.S. – agree to bind – these represent 80 percent of world trade – agree to bind tariffs and environmental goods or in clean technology products, and then encourage others to do the same. Okay, so what I'm arguing for is a much more flexible approach to move forward.

That's it, so, again, my main point is we need WTO reform. We cannot wait until the Doha agenda is concluded. We can do two things at the same time. As President Obama said, we can chew gum and walk. We can talk about what the new WTO is like, even while we try to achieve conclusion to the Doha negotiations because this organization is too important, it is failing in its central mission. It needs greater flexibilities, and we need to start in Geneva in November.

Thank you. (Applause.)

MR. BLUSTEIN: We'll begin with the panelist presentations now. And I should emphasize that although I said each of them is allowed 10 minutes, that doesn't mean that they're required to go the full 10. In fact, you'll get extra credit, panelists, if you stay under that. So we'll start with Steve Charnovitz.

STEVE CHARNOVITZ: Thank you. And thanks, Paul, for that introduction.

And Uri reminded us that President Obama had said he could do two things at the same time, and I do remember him on the campaign talking about how he could multitask, and so it will be interesting to see whether we can pursue trade liberalization at the same time that we engage in protectionism. (Laughter.) That would be the ultimate test here.

Okay, so I wanted to offer some brief comments on Uri's excellent paper. You know, a perfectly functioning WTO, what would it look like as an international organization?

Transcript Not Checked Against Delivery

In any governance institution, one thinks about three branches – legislative, judicial and executive – and in a perfectly functioning WTO they would be writing new rules for the world economy, for globalization as we need them. They would liberalize trade through frequent negotiations. The WTO would work cooperatively with other international organizations.

The judicial branch of the WTO would adjudicate disputes and would get compliance, and the executive part of the WTO, insofar as there is one, the director general – well, you'd expect some enlightened leadership pushing the envelope. The institution itself, the staff would carry out programs effectively like capacity building. That would be the ideal.

Well, the reality is a little different. It's not a perfectly functioning WTO, but it's not terrible either. The judicial branch of the WTO, I would argue, works pretty well, as Uri mentioned. Cases are adjudicated in a good way. The decisions are often typically very well done by the panel and the appellate body.

We have an appellate-level review in the WTO, something that doesn't typically exist in the international system. The bigger problems have been compliance, and here, sadly, is the United States that's the biggest culprit for lack of compliance at the WTO.

The executive part of the WTO, I think pretty good. We have had some excellent deputy – excellent directors general. Pascal Lamy, the current one, I think is doing a great job. One could spend, profitably, an afternoon looking at speeches that Pascal Lamy has given about globalization and trade and the way in which the WTO relates to other international organizations – very thoughtful speeches that he has given on that.

The problem, again, has been in the legislative part of the WTO, the negotiations. The Doha round is, unfortunately, stalled. And while it's true, as Uri said, that, you know, the accessions part of the negotiations have done pretty well – I mean, that part of the WTO has worked well, the 24 countries that he mentioned, and I think that is an achievement, and the entry of China in the WTO was a great achievement.

It has come at a cost, and the cost I think is the asymmetry of law, where the countries that come into the WTO have different rules that apply to them than apply to the existing incumbent WTO members. And I think that's problematic, for a lot of reasons.

Okay, the Doha round, you know, what went wrong? And Uri talked about that a bit, and most people in this room have had some experience in that, but I would say this was a difficult round from the start to get done. But, given the huge amount of law that was negotiated in the Uruguay round, a lot of which we're just beginning to understand, you know, 15 years later, the close observers of the WTO understood that the next round was going to be very hard.

And I think that's the path of trade negotiations, that you do the easier issues first, the low-hanging fruit, so to speak, and then the harder issues are saved. And now we've got to the point where we've got politically hard issues to deal with.

Looking back – and maybe it wasn't evident at the time, but it seems to me the Doha really was the outlier. That was the meeting that – one might not have expected the world to come together as an international community to agree to a round. And the ministerials before Doha, like

Transcript Not Checked Against Delivery

Seattle and afterwards, were more of what one might have expected from the intractable trade politics that now exist around the world.

And I think Doha happened, to some extent, because it was immediately after September 11th, 2001, and the world community came together in almost unprecedented way at that time. And for that reason it's sad, I think, that this administration chose September 11th to impose tariffs on China.

Okay, so why can't we agree on a Doha round? Well, here are a couple of points. We are – as a result of the crisis that's part of the title of this program today, the crisis of a year ago, we're in an era of new government regulation of markets, and yet the WTO sets limits on regulations, particularly in the services agreement but also in the Technical Barriers to Trade Agreement and the SPS Agreement.

I would not say the WTO is anti-regulatory in any means, but it does – it does set limits at a time when the WTO is – when the world is moving toward more government regulation, and I think that presents some tension in negotiations in areas like services or mode for negotiations on movement of national persons.

We're also in an era of huge government subsidies, unprecedented government subsidies, yet WTO law, as Gary Hufbauer has noted recently, sets limits on subsidies, and I think a lot of the U.S. subsidies that have been going on in recent months probably would violate WTO if cases were brought, and that's true of European subsidies and other countries. So there is some obvious tension there.

And there's a resurgence of economic nationalism around the world. It's not huge, but certainly it exists, and I think that makes it harder for the world to come together on a new trade round.

I would also say there has been an absence of U.S. leadership. Multilateral progress on trade has always required – has always been accompanied by U.S. leadership, certainly, and yet we haven't had any since, say, 2004 in the middle of the Bush administration. There's none under this administration. The embrace of protectionism by this administration I think is very troubling, and despite maybe some rhetoric saying that trade is a good thing.

And I think the fact that the world looks not at our words, not at what President Obama says on Wall Street, but at the actions. There is not really a trust of the United States as a leader of the trading system, and I think that's part of the problem.

I'd also mentioned, you know, a U.S. political legal point. We don't have Fast Track anymore for the Doha round negotiation, and I think that really presents a barrier in Geneva as well as in Washington.

So Uri's paper, which he's gone over – he offered a number of interesting ideas, which I want to comment on briefly. I think the idea of the plurilateral agreements is a good one. There is the legal barrier that they still have to be, under the rules, consensus based even though not all countries need to join them.

Transcript Not Checked Against Delivery

But I would add to what he said, that if it proves impossible to do a plurilateral agreement inside the WTO, one could just perhaps do it outside the WTO. Gary Hufbauer and I and Jisun Kim, in our recent book on trade and climate, point out the possibility of a trade and climate agreement that could be outside the WTO, and I think that's something that I would add to Uri's analysis.

Regional trade agreements, I agree; I really reject the notion that regional agreements are a stumbling block to multilateral agreements, but they haven't been a building block yet either, although there is a possibility of that.

And the model that I would use to look at the regional and the multilateral negotiations is one of competition. If the WTO isn't succeeding in liberalizing, then there ought to be competition from other venues, other fora, such as regional trade agreements, to get the liberalization that the countries might want.

In the United States, the free trade agreements were popular under the Bush administration because of the asymmetries of power. The United States could do an agreement with Peru and demand what we wanted. We could do one with Central America.

And so these one-to-one negotiations gave the United States a political opportunity to demand concessions by countries that are WTO-plus – you know, by far particularly in areas like intellectual property.

I would suggest that one reform possibility in getting the WTO to work on promoting regional agreements more, that the WTO Committee, under Article 24, should hold a public hearing for each new preferential trade agreement that is negotiated and have some discussion of its pluses and minuses.

Ministerial conferences – the WTO agreement calls for conferences at least once every two years, and that's the law. But, unfortunately, the governments haven't followed that law. The Hong Kong ministerial was three months late. No one seemed to really care about that.

The meeting in Geneva at the end of this year comes two years later than the rules provided for. And I think that's a mistake. Even if the ministers cannot do a deal at a meeting, I still think it would be useful to have those discursive functions of the ministers getting together for meetings.

Uri's paper talked about that the WTO should become more idea-driven, and I agree. But to do that, you know, requires ideas. (Laughter.) And I think that on the international plane, often the ideas don't come from the governments, don't come from the bureaucrats, but they come from the private economic and social actors. And they're largely absent from the WTO, and I think that's one reason why the WTO is not a dynamic learning organization.

A couple of other things and then I'll conclude.

One technique from the International Labor Organization that's been used from the beginning in 1919 is the notion that the director general gives an annual report to the conference that is then discussed by the delegates at the ILO annual meeting. We don't have anything like that

Transcript Not Checked Against Delivery

in the WTO, but the director general in the WTO doesn't have the capacity to present a report and have the members react to it.

I think it would be a good technique to import from the ILO into the WTO. I've written extensively on the need for NGO and business participation in the WTO. I'll note that here. And there are a couple of ways of achieving that, given that the members currently of the WTO don't seem to want to have NGOs there.

This could be done by inviting the IUCN and the ILO to participate. The ILO is one of the few international organizations that the WTO specifically has not invited to attend its meetings. It's quite really embarrassing. At one point they invited the director general of the ILO and then they cancelled the invitation because that was – I think that that was the Singapore meeting – his attendance was seen to be too controversial.

But if the ILO were part of the ministerial conferences, just like many other international organizations are – the World Bank, IMF, many others – the ILO would bring a tripartite delegation of government, employer and worker, and I think that would be a good thing.

And then the IUCN, which is near Geneva – it's an international institution on the environment, International Union for the Conservation of Nature – it has 90 state members. So I think the state aspect of it would make it appropriate to invite to have observer status in the WTO. But the IUCN is a hybrid organization, and in addition to having states also has NGOs and some local governments. So I think that mix would be a useful thing for the WTO.

So, thank you, and I hope I did not go over my time. (Applause.)

MR. BLUSTEIN: (Off mike.)

GARY CLYDE HUFBAUER: Thanks very much. As I came in I ran into Chris Parlan (sp) and he said, you know, it's all the fault of you old guys. And I say, what's this "you"? (Laughter.)

And I see a lot of old guys in the room, not just looking in the mirror, but I also see Bob Herzstein and Peter Eranap (sp), Steve Landy and many others. (Chuckles.) But I also see some young people like Sally James and Sarter Alte (ph) and many others. So there's hope, I guess, for the future that we can remedy the errors of the past.

Now, we've had a near-death experience with international organizations, and my colleague here, Arvind, was – you know, he left the boat, the sinking boat of the IMF, just as it was going down, and he's come over to the Peterson Institute. But we know that the IMF is now thriving again, so what is the remedy for getting the WTO back?

Well, it's a big round of protection. Thank you, Mr. Obama; you're right on the way. (Laughter.) We can get a big round of protection, then people will value the WTO again.

No, now coming more – a little more seriously, what – but not a lot more seriously – what Uri had to say about plurilaterals and so forth I agree with. I remember being hammered by Isaiah Frank for having championed the Tokyo round codes, but this latest prescription which Uri has given is really a revival and an improvement, I would say, of the idea of the codes.

Transcript Not Checked Against Delivery

And so it's kind of back to the future, not trying to rely on the consensus notion, the single understanding and all that. And I agree with what Uri has said and I think it's quite appropriate to come back to that.

Now, what I want to say beyond that is it seems to me there are two very different paths for this revival of the WTO. There are more than two but I'm going to emphasize two. One is to build on the judicial function, which has been clearly the most successful.

And what that would say, I suppose, is that we ought to let the appellate body sort out the clash between climate change legislation, which is going forward, and what the rules are now in the WTO, and it ought to sort out possibly other issues.

Arvind has elsewhere argued that it ought to get into the exchange rate business and whether exchange rates are a violation; that is, excessively competitive exchange rates are a violation of Article 15.

So one could have a rules-driven approach, and I would put in hearings on regional trade agreements, both old ones – and to add to what Steve has just said, you could – I mean new ones, and you could add some old ones and have hearings. And in the same spirit, you could add all these NGOs to the meetings and IUNC and the ILO and so forth. So that's kind of the rules – more of a discussion.

I think that that's possible, and that may even be probable. I think that misses the boat of the WTO future, which is not, with all due respect, people in this room. It is the business community – and there is some business community in this room.

But if it were just policy thinkers and so forth, government officials, probably emphasizing improvement of rules and building on the judicial system would, you know, be just enough to keep the organization going, I think that loses the business community. I think that's exactly what's happened in the Doha round. There is nothing much for them and they don't comment, they don't put their weight behind it.

And so, to me, the future of the WTO is to grab hold of at least some of the big issues going forward. And certainly trade policy liberalization, in which a lot remains to be done, is one of those, and climate change is clearly another.

Steve mentioned the explosion of subsidies. I mean, the rules that were written back in the Tokyo round and improved upon in Uruguay round are now – have had quite a body blow with what has happened in the last two years, and all of this explosion of regulation and so forth.

The rules need to be updated to cope with the new world that we now have, and probably to readjust the limits from where they are. And that would be of great interest to business. And so that's what I see as the more promising future. You can certainly do both at the same time but I would not, I think, devalue the policy liberalization side of things.

Transcript Not Checked Against Delivery

And now to add a small footnote to what Uri said, we wrote a paper, which is posted on the Peterson Institute website, and we looked at what has contributed to U.S. trade growth, both imports and exports over the last 25 years or so?

And after you take out just GDP growth here and abroad, so all boats rise by GDP growth, nearly all of the remainder is accounted for by policy liberalization per our arithmetic. It's not some magic technology factor out there. The policy liberalization, much of which is unilateral by foreign countries, much of which is plurilateral, some of which is multilateral, but policy liberalization really counts to increase trade flows.

Let me stop there. Thank you.

(Applause.)

MR. BLUSTEIN: (Off mike) – a few extra points – (off mike). Arvind?

ARVIND SUBRAMANIAN: Gary is being a nice colleague and giving me the extra time, I think.

First of all, thank you very much for having me, Uri, Paul, and it's really difficult to follow such an excellent brief, which I would recommend to everyone, by Uri, and such an excellent set of comments by Steve and Gary.

But, you know, I have to say something and, you know, I like to be provocative, so I'm going to make two sets of remarks about, you know – you know, there are two beasts in this room. There's Doha and there is the WTO. And there is a lot of conflation of the two going on, and I want to separate out the two and make some points about each of them.

First some historical background. We had – leading up to the crisis we had a broadly stable trading equilibrium. We had low growth – high growth, low inflation. We had countries broadly liberalizing either on their own or through regional agreements. True there were pockets of protection, but by and large trade barriers were coming down tremendously, consistently, leading up to the crisis in the '80s and '90s and leading up to the crisis.

But so my first slight disagreement with Uri is that, you know, when you say that the WTO was sidelined in this process, I mean, you have to take a view on, you know, what is important. It kind of reminds me, like – you know, I come from India.

It's like, you know, a young boy and girl, you know, they get married, they're happy, and they go to their parents and say, parents, you know, we're really happy. We're married. We're in love. Everything is going well. But the parents say, hey, but that's not right. We didn't arrange the marriage for you.

So to say that the WTO was not part of this is kind of, you know, mixing means and ends, you know. The ends are, you know, are we getting liberalization? And it's because we had this broadly stable equilibrium is what explains both the modesty of Doha, which Steve correctly said was an exception and came about through this brief bout of post-9/11 solidarity.

Transcript Not Checked Against Delivery

So it spins both the modesty of Doha and the difficulty in concluding it, as Gary said, because there isn't much at stake for the private sector in this process, and traditionally it's business interests around the world that have driven multilateral trade liberalization, either when they're threatened, as happened when the EU started its internal market, or when, you know, developing countries grew and more markets were opened up.

So that's point number one. We had a broadly stable equilibrium, and that's why Doha is what it was conceived as it is. But we had a big shock, which is the crisis. And Gary and Steve have mentioned that.

The interesting thing about this shock, of course, is that we got protection in the aftermath and, you know, there have been – there has been pockets of seeds of protectionism, especially in the auto and the financial sector, but if you abstract from that and look more broadly, what you find is that, you know, by and large we've only seen low-grade protectionism in the aftermath, especially in the developing world.

You know, it's true that 17 out of 20 countries, according to the Bank, introduced new forms of protectionism, but they have been modest in size. And, interestingly, many of them have been actually WTO-consistent.

So in some sense it's a tribute to the WTO because countries are – even if they impose new protectionism, they try and do it consistent. So it's like, you know, in this case it's circumvention is the homage that vice pays to virtue, you know. You have this rule-based institution and people respect it.

But then we also have seen new forms of protectionism. We've got old forms of protectionism but we've also seen new forms. And, you know, in my paper in Foreign Affairs with my colleague Aaditya Matoo we spell out some of these new forms we have; you know, very importantly, exchange-rate-based mercantilist protectionism.

We also have what I would call – you know, and many have noticed this – is resource nationalism. You know, Indian rice for India, Chinese rare metals for China. Again we have the whole natural gas – Russian natural gas for Russia, not to be exported. So we see export protectionism, or we have seen that, and that is potentially an important problem going forward.

That's point number two. So we had this shock. But the third point, the interesting thing is that through all this turmoil and up and down we've had this fixed point of Doha, you know. It doesn't change at all. You know, before the crisis it's the same beast; after the crisis it's the same beast.

And, you know, there is virtue in constancy, but I would argue that of course Doha is in a bit of a "Twilight Zone" because neither is it addressing the traditional forms of protectionism, neither is it generated by one sector interest, but nor is it gearing up to addressing all these new forms of protectionism that we see – you know, exchange rate, government procurement, and of course what's coming up, the class between – portentous clash between the trading system and the environmental system. So that's a big one.

Transcript Not Checked Against Delivery

So I would conclude by saying that there is a problem here because the debate we need to have now is, you know, do we need to invest more and more and more effort in concluding Doha? And Gary has made some heroic attempts to say, you know, actually there aren't maybe gains to it.

But the fact is that, you know, it's not obvious that there are big gains. I mean, Doha has value, but the point is that, given this "Twilight Zone" that I spoke about, or all these new forms of protectionism, the point is that do we need to conclude Doha to get past it and to get to the new issues, or do we need to just, you know, somehow declare victory for Doha into some new agenda and start working on some of the new issues that my colleagues have?

And my frustration is that we're not having that debate because – you know, it's become like the Mallory justification for Doha. You know, when Mallory, the great mountaineer, was asked, you know, why do you climb Everest, he said, "Because it's there."

And we got into a sort of similar bind with Doha. We need to complete it just because it's there and not because, you know, we need to address the problems – the current problems or the future problems.

That's on Doha. Now, on all of the WTO, you know, I actually happen to believe – I would really endorse what Uri said, that it's an enormously important, valuable, absolutely indispensable part of the international economic architecture.

Many years ago Andy Rose wrote a paper saying the WTO had no value, and Shang-Jin Wei and I wrote a response in the *Journal of International Economics* where we actually quantified the benefits and we said, you know, actually the GATT and the WTO have contributed to \$6 trillion more of trade than it would otherwise have had.

And there are other non-quantifiable benefits that my colleagues have said – you know, the rule-based governance system, functioning dispute settlement – but I would emphasize one really, really interesting aspect about the WTO which others have not mentioned.

You know, I come from the IMF, I've dealt with the World Bank, I've worked with the WTO, and amongst these international institutions the WTO stands out in one very interesting respect, which is that it's the only international institution that has a governance structure that evolves endogenously.

You know, in the Security Council, in the World Bank, in the IMF, we're stuck in 1945 power politics. In the WTO actually it's evolved because initially developing countries weren't very important as traders and so the rules, basically they were sidelined, but as they became important they became part of the rule-setting process and the negotiating process.

And now, if anything, the problem in the WTO is too much democracy rather than with the IMF and the World Bank, where the problem is, you know, lack of effective representatives and participation.

So it's really important to preserve the WTO, and the fact that it has this governance structure should be a political attraction, in fact, to address the problem that Steve said, that, you know, there's a breakdown in the legislative process. But then, this is a legislative process that

Transcript Not Checked Against Delivery

achieves greater – you know, better governance, more credibility to do some of the things that Uri and others have outlined.

So I see kind of – two kind of ways forward for the WTO. Either you believe that things go forward because of reciprocity – you know, yes, this is a mercantilist world, but mercantilism has its uses in addressing the basic domestic political economy problem with trade liberalization. You play off your export sector against your import competing sector. That helps solve the domestic political economy problem, and in turn you get reciprocal liberalization.

But to do that, if that is to work, you have to – you can't have a small agenda, as Doha does. You have to have a much larger agenda where the problems that the private sector and the world and other actors are facing are on the agenda and therefore you can see possibility of gains to a wider set of countries. But to do that I agree with Uri; we need much more flexible negotiating mechanism, plurilateralism and so on.

Now, this is easier said than done. In this climate it's not obvious to me that, you know, it's easy to do that; you know, to get a whole bunch of countries on the table, enlarge the agenda and say, look, there is something in it for all of us.

So the alternative is, in fact, to just be much more realistic, take advantage of the fact, as Steve and Gary have mentioned, that it has a working dispute settlement system, and then just focus on the WTO as something that, you know – so countries do their liberalization on their own unilaterally.

Because it's not possible to invoke the reciprocity mechanism and have these cross-country deals, except that that's going to happen outside, and unilaterally and recently, but then try and somehow, you know, bind these unilateral, plurilateral liberalization that happens in the WTO, so that then whatever countries do unilaterally becomes part of multilateral rules, and then it becomes like an anchor to ensure that protection, liberalization is secure and stable and we don't get major policy reversals.

So am I hopeful that, you know, things are going to radically change? I mean, I do think there is some merit in what Gary said, that, you know, perhaps things really have to get bad or much worse before you can rouse the energy amongst countries, you know, to make the WTO much more current with the changing realities after the economic crisis. (Applause.)

MR. BLUSTEIN: Thank you very much for these remarks. I'm going to exercise the prerogative of the chair and just mention one other point that occurred to me as I was listening to the others.

There was, I think appropriately, a lot of focus on the legislative function of the WTO as the big problem where the – you know, that the judicial system, you know, functions reasonably well and it's the crown jewel, as it's been called, and all that.

One thing that's occurred to me in this most recent crisis between the U.S. and China, with the tire tariffs and so forth, is one big problem with the judicial – with the dispute settlement system.

Transcript Not Checked Against Delivery

And I'd like to throw that out as another possible area for reform of the WTO, if, as Uri says – and I think he's absolutely right – that the most important function of the WTO is that it's a plank of stability in the global economy. It keeps countries from basically, you know, having trade wars with each other because they have a forum they can go to when they're having disputes.

And the problem I see with the dispute settlement system is the lack of retroactivity. I mean, the Chinese are quite properly saying, wait a minute; if we take you to the WTO and sort of – if we're good citizens and we react to these tire tariffs by filing a complaint at the WTO, by the time we've gotten all the way through the process, the tariffs will practically have expired anyway and we won't have – and really we won't have gotten any satisfaction out of the system.

So why shouldn't we go ahead and slap our own tariffs on chicken and car parts and all these other things and basically behave like bad citizens and satisfy our angry domestic constituents who are filling the Internet chat boards with all this nationalistic commentary?

So it strikes me that retroactivity is an extremely important problem in the dispute settlement system. I know that there is a lot of – people have raised a lot of concerns about doing that, but I throw that out as something that would make an important difference in shoring up the WTO as a force for stability in the economy, and I would be interested in the panelists' comments on that or members of the audience.

But we are now in the audience Q&A part of the program. I don't know if Uri wants to – you're going to pass on your prerogative to throw dead cats back at your tormentors? Okay.

Then, in that case, there are people with microphones who are ready to hear what you all would like to ask the panel. And if you would just please state your names and identify yourselves when you speak.

Sir.

Q: Hi. David Orden with the International Food Policy Research Institute – (off mike). I'd like to ask the panel – because I don't hear much optimism about Doha, in a certain sense, and maybe that wasn't the purpose of this session.

So let me pose the question this way: How long can the judicial system stay robust and functional with no new legislative agreement? In other words, 20 years out from the Uruguay round are we still okay? Forty years out from the Uruguay round are we still okay? Do we keep saying we're trying to negotiate the Doha round and not negotiate for 50 years?

That's the question I would like to pose to the panel.

MR. HUFBAUER: (Off mike) – your question and also answer a little bit what Paul asked in his question.

I think the judicial system, like many systems, has some smoke and mirrors about it, and the smoke and mirrors I would emphasize is this: Most of the discipline, 95 percent of it, is people in countries kind of reading the WTO, reading the decisions of the staff vehicle and so forth, and self-depriving them, not doing the things which are arguable proscribed.

Transcript Not Checked Against Delivery

It's not the hammer of the appellate body decision which is the main restraint. And this is what China is saying. And you look at these big cases, you know, there are three, four years, and you get a countermeasures panel in another year or two.

And there is so much that countries can do by way of gray area protection – SPS, government procurement, TBT, accelerate your anti-dumping cases, et cetera, et cetera – that if governments themselves do not respect the system, I mean, despite the 10,000 pages of rules or whatever, it will collapse.

And so to your question, David, I think the longer it goes, the faster the collapse of the effectiveness of the judicial system.

MR. CHARNOVITZ: (Off mike) – but because of WTO rules, the Cash for Clunker program was made non-discriminatory, and it turned out that Toyota was one of the cars that people chose the most.

So I think that's an example of how WTO rules disputes don't occur because governments follow WTO rules once they realize that there is going to be a potential problem. So there were bills in the House. In fact, the leading sponsor of the program in the House had a bill that was discriminatory, but it didn't survive the legislative process.

With respect to how long can the system go, that's a good question. I think so long as there is overall good rate of compliance, I think it can go a long way. The system continues to get more judicialized, the opinions get longer, the system looks more and more like a court, so it seems internally robust.

It's true that there are a number of so-called dispute settlement understanding reforms being negotiated in the Doha round, and how knows what will happen to those reforms, but there is nothing really that's critical that has to be done.

Often when we've found a gap in WTO dispute settlement law and the DSU, practices have evolved by the governments to fix the problem. And for people that know the system, the best example for that is the so-called sequencing problem in DSU Article 21 and 22. And the governments have worked out a solution through mutual agreement that papers over this clear mistake in the DSU.

And I think we see a lot of examples of the way the system evolves procedurally. And so you don't really need to change the rules, although it would be good if we could fix some of those things in the DSU.

MR. BLUSTEIN: That's a good question. All four panelists would like to address it, so, Uri, you can be next.

MR. DADUSH: Yes, I would like to – it's a legal question but I'm going to address it as an economist because I'm an economist.

Transcript Not Checked Against Delivery

And my answer is I don't have a precise date, but it's clear that it's limited. And as an economist I observe where are the big gaps right now in WTO coverage and legislation? And I would point, number one, to the enormous water in the tariffs, or actual tariffs being much lower than bound tariffs in developing countries. But where is the growth in the world?

Compared to 1995, developing countries are a much more important market than they were 15 years ago. So, argument: This water in the tariff has become much more important, has made the system less relevant to today's reality.

Another big area is services. A lot of services provision comes from foreign direct investment. Foreign direct investment and services of course are now growing – have been growing as share of world GDP for many years. Foreign direct investment has grown much faster than world trade.

Where are the WTO disciplines on a lot of the services activity that is fueled by foreign direct investment? Answer: Well, a lot of this stuff is being legislated in other contexts or covered in other ways. Again, the WTO reduces – is less government.

Agriculture is another area where there are huge, huge gaps. There I can't say that agriculture is growing faster than world GDP, but I can say that some very important agricultural exporters such as Brazil have become much more important in the system, and they must be very frustrated by the non-coverage of agriculture or the porousness of the coverage that exists on agriculture.

MR. BLUSTEIN: Arvid?

MR. SUBRAMANIAN: Yeah, I have a slightly different response to the question, but before I get to that, just to, you know, go one step further to what Gary and Steve said, it's absolutely true that, you know, most of the compliance comes from self-denial, right, as Gary rightly said.

But you have to ask also why is it that countries exercise self-denial in some cases but not in others? And it seems to me that when countries are broadly satisfied, that the rules that come are the result of a political negotiation that was reasonable and just and fair, then the subsequent incentive to comply is greater.

But where there is the feeling that the inherent rule itself was kind of iffy or, you know, not properly negotiated, was in some way unfair, then the incentives to self-denial get attenuated to some extent. So I think that's – so that emphasizes the political side of it.

But the question – interesting question, how long can a judicial system stay fine without the political, and you know, think about it; had you not had the crisis, just leading up to the crisis, 15 years, very little activity, and the system survived.

So partly it's a function of, you know, ideology and the Zeitgeist and all that. You know, if countries are liberalizing, believe in that, then, I mean, there's going to be less protectionism and the system is going to be tested less regardless of whether, you know, there is a political negotiation ongoing or not.

Transcript Not Checked Against Delivery

But the second thing, which to me is really interesting, is that look back on this crisis. We've had a horrendous drop in trade – a horrendous drop in trade, far exceeding, according to some people – Barry Eichengreen – what happened in the Great Depression, and yet the trade policy response was relatively muted.

So I would hypothesize that there is something happening about globalization and the manner in which it's happening that it makes – especially all this, you know, slicing up the value added chain. Everyone is part of this, located all over the world. So the incentives for protection perhaps are getting diluted as a result of globalization and the kind of intermeshing that we're seeing.

And so, those economic trends, technological trends and ideological trends in terms of belief in free trade, also color a kind of – your question, you know, it depends. So if it's going to go – if globalization is going to go the way it is and, you know, everyone is getting – you know, Salman Rushdie's term, you know, everyone is leaking into each other. So if that's the kind of globalization that we get, perhaps the incentives for protectionism will get attenuated over time.

Q: (Off mike) – if I can just follow up with a question. I wonder about – and we're, what, 14 years out from Doha and the Doha included a commitment that six years after the Doha agreement there would be a new round of negotiations. So that got started and it's going slowly.

So we're still, in a certain sense, in a viable process that you could say goes back to the Uruguay Agreement, but what about 25 years out from Uruguay? I sort of wonder at that point whether the rules become so arcane and so out of date that it's essentially irrelevant and even the judicial system is there but sort of meaningless.

So I guess – (inaudible) – that something has to give somewhere in that 25-year timeframe to put out about on it.

Q: (Off mike.)

MR. BLUSTEIN: You're going to have to speak up because we can't – that microphone –

Q: Am I all right?

MR. BLUSTEIN: There we go.

Q: No problem. I'm one of those guys who run my own company and pay taxes, and I don't mind that. I do believe, however, that the think tanks don't pay taxes but are not living up to their responsibility.

Right here between 18th and 19th Street on Massachusetts Avenue we have three of the top think tanks, as far as I'm concerned, in trade around. If you go to 17th Street you can pick up the German Marshall Fund, you can pick up a few others, and really have smart guys and ladies.

I don't understand why, with this apparent delay in moving ahead in trade, is going to continue at least until the end of the year – we're talking about finishing around 2011 – why you

Transcript Not Checked Against Delivery

guys and ladies can't get together and put what you've said at this meeting writing, because what you laid out is exactly the issues that we need for a new agenda.

The worst thing that can happen, in my mind, is if somebody decides to let's start up Doha, we're not that far away from it, we just need Obama to finish the medical care and the he can say this is the least controversial. And we'll finish it and everybody will say – I believe like Arvind said – ah, so we've finished; we've addressed issues that no longer really exist or anything, and so on.

And so that's a very bad result. So my hope, number one, would be, get together, do one of those studies, maybe use the Williams Commission model for us really old guys who know that set the basis of trade policy from the 1970s on.

Let me make one short point on a different issue, but very quickly.

One area where the WTO is actually wreaking havoc – and very hard to get anyone other than Mr. Hufbauer to pay attention to it – is in its treatment of Africa. We have this crazy rule called least-developed countries, which has been defined academically, doing it with the U.N., but these are creating divisions within Africa that are making impossible the formation of regional economic communities, which is their growth way to go.

By taking 13 really competitive African countries like Congo, Brazzaville, Cameroon and saying they're not least-developed, you've enabled the European Union to push economic partnership agreements; you've enabled India and China to eliminate half of Africa from their preference schemes.

So let me just say that as one issue I just want to bring to somebody's attention, that when you're making your list of rules, please stop talking about poorer countries as being a good part of WTO unless you find some way to include Africa as a grouping within your list of poorer countries. Thank you.

Q: Peter Whitney, Duke University. In the long list of suggestions for reform, would it be possible, do you think, and effective and still have the judicial goal to shorten the cases – maybe not get back to the 12-page or 10-page GATT cases, but the cases now are over 1,000 pages.

There's 600 typical – people can read them and come out with whatever they want in them, I think, and force some discipline. I think sometimes the bureaucracy is its own enemy.

And in the same vein, the bureaucracy, in my limited experience, to put a nice word on it, is hermetic. And I wonder if they couldn't be a little more open to questions from private sector groups or public sector governments without changing their role, which is a support role. Thank you.

MR. BLUSTEIN: I'll take one or two more and then maybe you all can pick ones that you want to respond to. This gentleman here.

Q: My name is Nomey Gohir (ph). I'm from Stewart & Stewart. I mostly just wanted to ask that – I know predominantly part of the discussion has been about the Doha round and problems with that, but then also the institutional reforms coming from the WTO.

Transcript Not Checked Against Delivery

And I feel like almost the drop in global trade, that people are maybe making a relationship between the problems with the WTO, and it's becoming more pronounced because of the drop in global trade.

But I was thinking also, what about the problems with just the financial markets in general? The credit markets have dried up and maybe that's more responsible for the drop in global trade, that maybe the institutional problems aren't quite as pronounced, but it's just as result of the recession and things are going to pick back up as soon as the credit markets are, I guess, revived.

Q: Thanks. I'm Clive Crook from the Financial Times.

I'd be grateful to hear any member of the panel directly address the China tariffs case. Many of you mentioned it briefly in passing and I guess signaled what you think of it, but I would be curious to know, in just a little more detail, what you think of the administration's rationale for this policy, such as it is, and what you think the implications might be, not just for the WTO but for, you know, the climate on trade liberalization, the protectionism in general. Thanks.

MR. BLUSTEIN: Uri was quoted in the front page of my former newspaper this morning on that subject, so, I don't know, do you all feel sufficiently provoked to start answering these things, and then maybe we'll take some more?

Uri, you want to go first?

MR. DADUSH: On all of them or just –

MR. BLUSTEIN: Well, you can pick ones that –

MR. DADUSH: (Off mike.)

MR. BLUSTEIN: Yeah.

MR. DADUSH: (Off mike.) Can you hear me? Yes. The most damaging implication is the obvious one, which is the United States about to host the G-20 summit, where the crisis will be very prominent, and which, in previous incarnations, has vouched not to increase protectionism or not to undertake protectionist measures.

So I think to me that is the single-most damaging effect because it will just escalate the level of cynicism and eliminate any pretensions of leadership. I mean, in real terms that to me is the most important.

A chance of a trade war? Basically, despite the billing, the United States-China relationship is heavily weighed in terms of relative power in favor of the United States in mercantilist terms because the United States exports much more to China – imports much more than exports.

And the idea that they're going to stop buying Treasury bills hasn't made any sense anyway. There are not that many alternatives and it probably wouldn't have that much of an effect anyway.

Transcript Not Checked Against Delivery

So I think the Chinese are sort of painted a little bit in a corner here. I think it's unfortunate because actually my reading is that China has been very instrumental in stimulating the Asian economy and helping us out of this terrible recession that we're in.

So, you know, that's my sense. Legally – I'm sure my colleagues here are better placed – but legally they signed, during the accession agreement, an exception to a tighter safeguard clause. So it's fully legal; it's just wrong – economically wrong and politically wrong.

Only one point where I'm remotely qualified on Africa. I never really could muster the distinction between the LDCs in Africa and the non-LDCs. It's a United Nations classification whose rationale is sort of fairly obscure, let me say.

And I agree that the distinction between what is a LDC, there's about 30 countries that are LDCs within the African – 30 or 35 out of 49 and, you know, the distinctions are very, very – very, very doubtful.

And so the differential treatment or discriminatory treatment in favor of LDCs does create inequities and also creates complications for – I agree; regional groupings, the incentives are different. It has made it much more difficult for the European Union – not easier but more difficult for the European Union to negotiate the economic partnership agreements.

And I always objected from the very start – and I remember some years ago when Lamy was still EU commissioner, and he decided to support the idea that the LDCs should not have to undertake any commitments.

I always thought that was a huge mistake. And it's an example to me of the inconsistency or incoherence between the reform policies and development policies practiced by one part of the – of the original Bretton Woods system that is the system here in Washington, and Geneva, that on one side we are trying to promote these reforms, et cetera, in these countries, and then on the other, in the WTO, it is viewed as a great concession and favor that you are doing to the least-developed countries by not asking them to undertake any commitments.

MR. BLUSTEIN: Arvind?

MR. SUBRAMANIAN: I had a blog post yesterday on the takeaways from the tire tariffs. I think apart from the obvious one that Uri quite rightly said, that, you know, is just horrible symbolism and horrible atmospherics in advance of the G-20; you know, the Chinese arriving as guests. And, you know, here is a – you know, so he's host and perpetrator, Obama. So that's a problem.

But I think there are three bigger takeaways from this. One, I think – you know, the big elephant in the room is the China exchange rate issue. I mean, I think these are all these – you know, I said tires, and steel pipes are sores that are going to fester, will continue festering until the underlying infection is somehow resolved, and that infection partly is the exchange rate and the whole Chinese growth strategy, one.

Transcript Not Checked Against Delivery

Two, the really interesting thing about this case was that – Gary, correct me if I’m wrong – for the first time a safeguard case was brought just by workers. So the tire firms were not part of this petition for protectionism.

So this underlines the broader point that globalization is now driving a wedge between immobile factors of production and mobile factors of production. Companies can relocate to protect profits. Blue collar workers can’t, so, you know, they will be more badly hit by globalization.

And therefore, you know – I mean, so you can spin it many ways. Therefore the need to look after the safety nets and so on to have trade liberalization continuing becomes that much more important. So I think that’s one.

And I think the last thing is that – to me, again, what was very interesting was the Chinese reaction to this. And about a month ago there was a WTO dispute against China, which lost, the U.S. against China, and the Chinese reaction was far more muted.

So I think there is a sense in which sure it’s a rising and prickly power, and to me the comforting thing is that it still remains the case that dealing with China multilaterally still is going to be much more productive and fruitful than taking these unilateral actions, which is going to raise nationalist sentiment.

MR. CHARNOVITZ: You know, on the question about transparency and information, I agree; the WTO needs to be much more transparent. If you attempt to ask a question of the bureaucracy of the WTO you have to fill out a lengthy form identifying yourself and your interests and all these things, and I think that’s inappropriate.

I would call your attention – last week the WTO had an open house in Geneva. It was at the WTO building. It was the first time they had done that. They had games for children. I think it was something called – (laughter) – Draw Me WTO, and they had films about globalization and –

MR. BLUSTEIN: Tickle me Pascal or something.

(Cross talk.)

MR. CHARNOVITZ: – the translators, but I think it was sort of a good thing to open up the building to the public. So I commend that to you.

All right, on the question of the China auto tariffs, the rationale, okay, so President Obama says yesterday, we’re doing this because enforcing trade agreements is part and parcel of maintaining and open and free trading system.

Now, the administration has had, throughout their term in office, a mantra about enforcement. You know, we’ve got to enforce the trade agreements, which, you know, means, I think, anti-dumping and countervailing duties, which they want to impose, and also bringing cases of the WTO, which they’ve done.

There is no way, though, one can justify or explain a safeguard against China as enforcement, I don’t think. It’s a utilization of a right that we negotiated specifically with China as

Transcript Not Checked Against Delivery

their price for getting into the WTO. It's that. It's not enforcement. And if the president wants to enforce trade agreements, he should comply with the NAFTA decision on Mexico trucks. That would be a good way to start. (Laughter.)

Ambassador Ron Kirk yesterday, I think, says – or maybe the day it was announced, with respect to the tire safeguard, “Today’s steps are designed to level the playing field for American workers in the tire market.”

Now, this level the playing field mantra is, again, part of the trade remedies with respect to anti-dumping or countervailing duty. In no way can you characterize a safeguard as leveling the playing field. It's an attempt to unlevel the playing field.

And you can, you know, say maybe we ought to do it or not. We have a right to do it. Safeguards are part of the WTO. But it's not a level the playing field remedy. So I think in the way the administration has characterized it, it has shown that, one, they don't understand what they're doing. And, two, they're misrepresenting it to the public.

MR. BLUSTEIN: Other excellent questions that were asked.

MR. HUFBAUER: It's hard to add very much, but I'll focus on – (Off mike). I would urge you to contrast President Reagan and President Obama – (off mike). I would urge Clive Cook, who is a very able journalist, to contrast President Reagan and President Obama. They are both protectionists.

We lived through the Reagan administration – you too – and they did a lot of protection in that period, far more than Obama has done, at least so far. The difference between them is that Reagan never rhetorically subscribed to any of this stuff.

Now, it's true that you can say of Obama, he signed on to the April G-20 declaration, which is a very good declaration, and his minister signed on to the July declaration over in Italy, which is also very good. But the Obama rhetoric is quite different, both in the campaign – and you contrast the Regan and Obama campaigns; they're very different in flavor.

And so the message going out is – one of my colleagues said on the leadership – is quite negative, and it's as much for the way the president is phrasing it and allowing his spokesmen to phrase it as what he is doing. That would be point one.

And the other point I would make, which might be just a little different than what Arvind day – may be a little different – but I took the timing of this as a reflection of an understanding between China and the United States that China was going to retaliate. And that's why they did it early.

Now, it's unfortunate it's September 11th; I agree on that point, but they did it early to try to put some time distance up to the September 24th G-20 summit in hopes that things will calm down and something else will take the news media and so forth. We shall see. But I think it was a negotiated timing and the Chinese knew what was coming and the administration knew what was coming.

Transcript Not Checked Against Delivery

And I think what the Chinese have done is not to do anything about tires – that's water under the bridge, or whatever – but it's about the next case. And what this case says, as Steve has just indicated – it's 421 case – is that the White House door is open to protection, just like he said in the campaign.

And 421 is a very open door, at least through 2013, for anybody to bring in a case against China. It's really aimed against China and couple of other small countries. And the Chinese are saying by their actions, you know, you do it again, we'll hit you again. So that might actually be a healthy outcome of this if the next case, textiles deal, whatever, gets a lot more consideration by the White House.

Finally – and Steve Landy left, but I really think he deserves a lot of credit in this town for pointing out – he came back – the single Africa issue. This is really important, and he's been the one who's raised it, and it would be an easy declaration. And I know that if you say Africa is one continent, you know, we're not going to discriminate against them, that then includes rich countries like the one I've been working with, Morocco, or relatively rich, and others that are doing okay, as well as some very poor ones.

But it's very important to encourage trade integration in these countries, between these countries, which is so fragile. And this DFQF (ph), as presently phrased, and all of this other, is just continuing the unfortunate separation. So good for you, Steve.

Q: Hello. John Magnus with TRADEWINS. You seem to all agree that there should be more business done plurilaterally, but at least a couple of you seem to think that it's going to be hard to do that, that there's something about the architecture right now that's not welcoming to that.

And maybe you're even going to have to get consensus across the whole membership in order to do something on a plurilateral basis. I wonder if you could double back on that. I was under the impression that this is one of the things that "Brother" Parlin and company had done right at the end of the Uruguay Round. They created a very nice nest in Annex 4 for plurilateral agreements to be placed in and taken forward.

And so I'm curious why. Was there something done in the Doha round that made that no longer a very nice nest?

MR. HUFBAUER: Again, all we need to do is get Chris Parlin away from his lucrative law practice and back to Geneva to do this, because it is exactly as you say; it's to be used. And it's really just a matter of a handful of countries on some issues taking advantage and going forward. And I think it's a natural thing after the Doha round.

I think doing it right now, Pascal Lamy would say, well, you've just blown up the Doha round. So there's a timing issue.

MR. BLUSTEIN: I'm going to throw something out here. I mean, I fully understand the argument about making the WTO legislative process more flexible, but I have to – I mean, all of you have proposed, I mean, a different sort of menu but really rather ambitious ideas concerning issues that the WTO ought to be addressing. And – I mean Arvind in particular, of course, but the rest of you as well. Gary, you focused on liberalization.

Transcript Not Checked Against Delivery

And, you know, I keep coming back to the question of how do you – how exactly do you set all these plurilaterals up? I mean, each plurilateral is going to have some winners and losers, so it's hard to get – if you're going to do a plurilateral about some individual issue, it's very hard to get agreement without watering it down to the least common denominator.

Yet if you combine them all in one big round – I mean, I know that everyone thinks, you know, gosh, didn't Doha teach us that rounds are stupid and this ought to be the last one, and what did we ever think we were doing in the first place when we started this one?

And yet, if you assume that, yes, it will be a big round where everyone gives and other people take and then there's exchanges and the losers become winners in other areas. If you take that approach and include the types of flexibility that we have in Doha where some countries are, you know, just simply excluded – you know, you can opt out from participating in some portion of the agreement just because, you know, you say you just won't participate.

I mean, there's all these loopholes in the Doha agreement now. Is that – why are plurilaterals, you know, so fundamentally a preferential way to deal with all these problems that you've all put on the table as things that WTO must do in the next – you know, well, what – I think David Orden said we have up until – what is it, 2020, I guess?

So why are plurilaterals so much more preferable – so much preferable to another big round in which you don't have a single undertaking and you give countries a lot of chances to opt out?

MR. CHARNOVITZ: I'll just comment. I agreed with the emphasis in Uri's paper on use of the plurilateral mechanism and I think we ought to – we haven't used it at all under the WTO, and I would favor trying to use it.

It's certainly not a panacea. And I wouldn't argue it's preferable to big rounds. I mean, there are provisions in the WTO that take on issues one at a time for all members. There are provisions in there for voting. They just haven't been used.

Instead we've continued this single undertaking idea that animated the – or characterized the WTO but didn't characterize the trading system pre-WTO. There it was a la carte in the Tokyo round that Gary worked on.

So I think, in my mind, it's an open question whether one should proceed with single undertakings and large rounds versus not having rounds but rather taking on issues one at a time, but in practice that's not been possible to take on issues one at a time because of the tradeoffs between them.

MR. BLUSTEIN: But, I mean, there's three levels, right, of types of agreements. I mean, there's the single-undertaking, you know, Uruguay round type. I mean, that was the purest canonical case of a real single-undertaking, very big round.

And then you have plurilaterals. But then in the middle you have the Tokyo round model. So, I mean, there's three different ones, right?

Transcript Not Checked Against Delivery

MR. CHARNOVITZ: Well, the plurilateral is, in effect, the Tokyo round model, except that – I mean, certainly in the WTO the plurilateral agreements have to be agreed by consensus. So that's a potential barrier to it.

But there is also a possibility of simply legislating issue by issue, doing the DSU reform on its own or doing an agreement on its own or a trade and climate agreement on its own.

We have had one amendment of the WTO in the TRIPS agreement with respect to pharmaceuticals and compulsory licenses. So that is an example of where the WTO has been amended with respect to a single issue. One could imagine more of that; it's just hard to do it because any legislation in the WTO, according to practice, requires consensus.

MR. BLUSTEIN: Questions or – Ms. Mathews?

Q: Jessica Mathews, Carnegie. Lurking here is the question of whether Doha is going to succeed or fail. And unlike Edmund Hillary, where you can go climb another mountain – I mean, I guess what's being argued here is go climb another mountain and let the people who want to stay on Everest stay on it.

So I just wonder whether there is a sense among the panel – is there something that – is there some sort of sense of consensus among you about whether or not Doha is achievable – the Doha agreement is achievable still, and how does that affect a decision to move ahead now with an alternative reform agenda?

Is it inherent, Uri, to your proposal but unstated, a sense that a Doha agreement is perhaps no longer achievable?

MR. DADUSH: (Off mike) – Doha agreement is achievable and is likely to be achieved at some point, although, again, as part of my best guess, I would not be surprised if it's an even more diluted agreement than we currently have because that is the nature of the negotiations process that I have observed ever since the beginning of Doha back eight years ago.

I mean, you move forward but the cost of moving forward is every time you dilute. And even though the objectives of some negotiators, including the United States technically, are to make it more ambitious, I think in practice that's what's going to happen. It will be further diluted.

And so that's my expectation. And my recommendation, because we will end up with a diluted agreement, and because also my expectation may take even longer than 2011, that we need to move forward on the other agenda.

Now, I agree – I think I agree that it's very difficult to have parallel negotiations on those two issues, but I do believe that it is possible to have something short of negotiations, which nevertheless is a genuine process of reflection, thinking, consultation, et cetera, et cetera, about WTO reform, which can begin before the conclusion of the Doha round, and that's what I'm trying to argue for.

MR. HUFBAUER: To create a little dramatic tension, I guess I disagree with Uri on both points.

Transcript Not Checked Against Delivery

One, I think that the Doha round can only be completed if it's augmented, not because what's on the table is too small – it's 100 billion (dollars), 150 billion (dollars) worth, so that's not too small, but it's very unbalanced in that the U.S., in mercantilistic terms, which is what counts in the Congress, gives far more than it gets.

And so I don't think it will pass the Congress as currently structured and therefore it needs some of these sector agreements and it needs something on services which is pretty substantial from the key emerging countries – India, China, Indonesia, so forth. And then I think it can be concluded. So I don't think it can be watered down and passed in the Congress. I don't think the administration will have much appetite for that.

Secondly, on the new agenda, I actually think discussing the new agenda – and maybe I'm not disagreeing with Uri here – I think that can be a plus for concluding the Doha round because the new agenda would include some of these issues which he's listed, which are just over the horizon.

And there would be commitments, hopefully a little bit stronger than at the end of the Uruguay round, where we had commitments on financial services, telecom, maritime, which went no place, and maybe one or two other issues.

And we got a little bit, but if the commitments on the new agenda are coupled with a robust recourse to Parlin's Annex 4 by some countries, that they're going to discuss them and go forward and, as Steve said, negotiate outside the WTO, that would give a real boost to the notion that we're going to move forward on these issues which we did not completely conclude in the round.

So then I think with that add-on, it might be just enough to get over the finish line. All this really depends, of course, on a pretty dramatic rhetorical change in the Obama administration, but I think that's possible next year.

MR. DADUSH: (Off mike) – for whom I have the greatest respect. Where have we seen new things added to the Doha round? I'm asking you this because I was at Doha back in 2001, and since then it's been like a salami. Every few months something gets lopped off.

I could go through the list – okay, the Singapore issues, the standards, the – you know, the LDCs not having to undertake commitments, the greater room and leniency, various types of safeguard agreements, the special safeguard agreements. I mean, it's just one after another. So please give me an example where we actually went in the other direction and increased the level of our –

(Cross talk.)

MR. SUBRAMANIAN: I think that – you know, the cynical side in me says, you know, actually Uri is right, you know; let's just defang the whole beast, declare victory and get onto the new agenda.

I think – because it seems to me that – and this is the question for Gary – Gary, you know, you say that unbalanced for the U.S. and then the U.S. says, well, okay, we add this. But then, you

Transcript Not Checked Against Delivery

know, do you think that's going to stop, then, India from saying, well, if you want this, we want this, and then China saying, well, our accession was very onerous, therefore we want to dilute this?

I mean, that is going to just lead to, I think, a spiral of – yeah, exactly. So that's why I – I mean, that's a question for you.

MR. BLUSTEIN: Steve is also – yeah, he's piling on with a –

MR. HUFBAUER: Maybe I have Steve on my side on this. (Laughter.) But Steve made a very good point, which is a big one, and that is the creation of the WTO itself was not conceived at Punta del Este in Uruguay. I mean, that was a last-minute deal. Several people in this room had a big part to do about that – Steve Lamy back there perhaps. But, in any event, it was late in the round.

So I guess, yeah, following the trajectory, if the stock markets wouldn't have turned around in March 2009, we'd be in the Great Depression now, but things do turn around and I'm just saying that in this case, no, there is no history – I agree with you – in this round so far. There is history in the WTO in the system's existence of a turnaround, which Steve kindly brought to my notice, and I think that it's – you know, it's go for broke or it will be broke.

MR. BLUSTEIN: Okay, well, on that happy note – (laughter) – we've come to the end of the session, and I just invite you to thank Uri and the panel for excellent presentations.

(Applause.)

(END)