

# WORLD TRADE ORGANIZATION

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## ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

### Statement by Mr. Donald J. Johnston Secretary-General

*(Speaking as an Observer)*

There is no doubt that trade is a powerful tool for economic development – probably the most powerful. Trade liberalization is vital to advancing the prosperity of nations and the well-being of citizens. The post-war period is testimony to the benefits that have flowed from a multilateral rules-based system. The prospect of additional advances in prosperity resulting from further trade liberalization is both real and measurable.

All countries, both the developed countries and the newly industrialized and developing nations, stand to benefit. Over the next ten years, according to a recent OECD study, a complete dismantling of existing tariffs on imports worldwide could increase world economic output by approximately 3 per cent.

In monetary terms, that amounts to the equivalent of US\$1.2 trillion boost to the world economy. And developing countries would gain the most.

Let me give what I consider to be a striking concrete example. In sub-Saharan Africa, according to this OECD study, the removal of tariff barriers could lift gross domestic product by nearly 4 per cent over the next decade. That would imply annual gains in welfare that are close in monetary terms to the amount that OECD countries spend on Official Development Assistance to this region.

Overall, the non-OECD countries would get nearly twice as large a boost from trade liberalization, relative to the size of their economies, as OECD countries: 4.9 per cent as compared to 2.5 per cent.

But how do we get from here to there? The stakes are high. But so are the political challenges. Developing and newly industrialized countries worry about the impact of free trade and competition on their fledgling industries and entrepreneurs. But the challenges are just as big for many of the developed countries that the OECD counts among its members.

As a group the OECD countries have demonstrated a constant commitment to maintaining open markets and to avoiding the temptations of protectionism. The OECD has been in the forefront of developing the intellectual tools needed to assist progress towards freer trade.

- In the run-up to the Uruguay Round, the OECD played a key role in forging the concept of trade in services that was the basis for a new step forward in trade liberalization.

- Another important OECD contribution was the methodology for measuring the size and amount of subsidies paid by governments to support their agricultural bases, the well-known PSE and CSE measurement tools.

Without these two elements, the Uruguay Round would never have reached the successful conclusion that we can now look back on.

Going forward, however, it is clear that new approaches are needed in many other areas. Recent OECD studies on the links between trade and development, for example, highlight the need for coherence across the board in economic policies in both the developed and the developing world.

It is counter-productive for developed countries to restrict the sales of developing countries to their markets, when they want to sell to developing countries. It is also counter-productive for developed countries to maintain open trading systems, if domestic policy creates de facto restrictions.

And it is counter-productive for both developed and developing countries to seek benefits from increased trade if these are undermined by shortcomings in other aspects of their economies. The scourge of corruption, for example, undermines economic development by distorting the basis on which economic choices are made. Companies that are run without regard for the best interests of all stakeholders will fail to fulfil their full potential in terms of wealth creation.

That is why I believe that the OECD's work in areas such as the fight against corruption and the drive to promote best practices in the field of corporate governance is of such vital importance. Adequate systems of governance are vital at all levels, both in public administration and in company boardrooms, if countries are to reap the full benefits that trade liberalization can bring.

Trade liberalization will require movement towards best practice in other areas of domestic economic policy. In order to meet the new competition it will stimulate, politicians must come to grips with regulatory reform and structural changes that will improve the functioning of labour, product and service markets.

So I should like to take the opportunity of this forum to send a message to the industrialized countries around the table, including those that are members of the Organization that I have the honour to represent. The prizes that can be won in a more liberal trade environment are great. But know that you will have to make some tough choices and take difficult decisions.

How can the developed countries facilitate the process of a new world trade round? They can set their own economic houses in order with macroeconomic and structural adjustments that will enable them to reap the benefits of open markets and ensure the broad distribution of such benefits.

They can also take a new look at their relations with developing countries. One move that is long overdue is to end the restrictive terms still imposed by a number of countries on their development assistance. Untying aid, by restoring choice to the impoverished recipient countries would, at one swoop, increase the value of aid, remove a distortion to world commerce and enhance the dignity of the aid process that has been sullied by the mercantilist attitudes of some in the developed world.

Finally, as a concerned "outside" observer, I would like to call for a reassessment of something that many rightly regard as one of the chief achievements of the Uruguay Round. I refer to the procedure for dispute settlement that lies at the heart of the WTO rules.

I should say, first, that I share the view that the dispute settlement procedure, as it stands now, has been an essential building block in the creation of the current world trade system. As such, it must be preserved, protected and nurtured.

But that should not prevent us from considering how it might also be improved. In that regard, let me confine myself to three concerns:

- First, albeit only in matters of last resort, we find that through retaliatory measures the system can lead to raising trade barriers, rather than to lowering them.
- Second, the dispute settlement procedure can result in an extension of barriers to the targets of retaliation – frequently products and traders that are far removed from the products and traders at the heart of the original dispute.
- Third, it ultimately relies on the exercise of credible retaliatory pressure – and this may not be within the capacity of all Members.

Now, I acknowledge that there are many who will be able to find sound economic justification for supporting the present system. I by no means discount their reasons. But my concern is of a more political, systemic nature. Are we sure that by continuing within the confines of this set of arrangements we will be doing the best that we can to nurture an effective dispute settlement procedure – the mechanism that is perhaps the most valuable fruit of the Uruguay Round? Are we confident that this is the best way to build the public support that we all need for the multilateral system? Or do we not risk the threat of a possible backlash?

I am not naïve about this. I recognize that many difficulties would have to be overcome to move beyond the present situation. Concepts such as compensation are easier to talk about than to turn into workable reality. But this is a moment when the future of the multilateral trading system is at the centre of our attention. We should not put aside important questions on how to improve it. At the very least, I would suggest, this is an issue that merits careful study among WTO Members. The OECD would be able to contribute to WTO reflection on this topic.

Madam Chairwoman, once again, I should like to express my thanks to you and my best wishes to you and all Members for great success in your deliberations over these few days. You are engaged in an enterprise of the utmost importance. And you and the WTO can certainly count on the OECD for ongoing support in all your work over the coming months and years.

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