Report on
5th CUTS 30th Anniversary Thought Leadership Lecture by Mr. Martin Wolf

***Date**: July 15, 2013*
***Place**: Commonwealth Secretariat, London*

Background

The 5thCUTS 30thAnniversayThought Leadership Lecture to mark the 30th anniversary of CUTS International (CUTS) was delivered by Mr. Martin Wolf, Chief Economic Commentator, theFinancial Times who spoke on the topic "The Future of Global Trade Policy". Special comments were given by Rt Hon Justine Greening, MP, Secretary of States for International Development, UK.

The well attended lecture was hosted by the Commonwealth Secretariat (ComSec) and chaired by MrKamalesh Sharma, Secretary General, ComSecwhile Dr Alan Winters, Professor of Economics, University of Sussex and Dr Jim Rollo, Emeritus Professor (Law), University of Sussex commented on the lecture. The Financial Times was the media partner for the event.

Welcome Speeches by Mr. Kamalesh Sharma and Mr. Pradeep S. Mehta

The lecture started with welcome remarks by Mr. Kamalesh Sharma, Secretary General Commonwealth Secretariat who appreciated CUTS journey through the past 30 years, starting from its nascent stage with work on consumer issues 30 years back to becoming a global organisation by working on many sets of issues including consumer protection, trade and development, regulatory reform including competition and investment, and governance. Mr. Sharma mentioned that ComSec has worked with CUTS on a number of issues and plan to do that in future also.

He acknowledged that there is a need for helping developing countries on international trade issue by working towards the completion of the WTO Doha round and increasing global trade. ComSec's small states office supports this and helps small states to make their presence felt in the multilateral trading system.

Mr. Pradeep S. Mehta, Secretary General, CUTS introduced a short documentary on CUTS' journey of 30 Years for Social Change. He also thanked DFID and ComSec for supporting CUTS in many of its endeavours.

Lecture by Martin Wolf on "The Future of Global Trade Policy"

Martin Wolf started by his appreciation for the work of CUTS and the endless energy and enthusiasm of Pradeep Mehta. Acknowledging the onward march of globalisation he stated that most important economic and political consequence of contemporary globalisation has been the "great convergence" of average incomes between the high-income countries of today and the emerging countries. The deliberate opening of economies to trade within a rules-based global trading system has been the bedrock upon which the globalised economy has been built.

Speaking a recent work done by Arvind Subramaniam and Martin Kessler of the Peterson Institute for International Economics, in Washington DC, he elucidated seven important features of contemporary trends in the world economy:

1. *Hyperglobalisation*: greatest openness to trade and investment in world economic history.
2. *Dematerialisation of trade*: rising importance of services.
3. *Goods versus services*: decline of barriers to trade in goods, but continued high barriers to trade in services.
4. *Universalisation*: widespread embrace of globalisation.
5. *Two-way flows*: similarity of North-to-South trade and investment flows to South-North flows.
6. *Mega-traders*: rise of China.It seems quite likely that China will be the biggest trader by the 2030s
7. *Discrimination*: proliferation of regional and preferential trade agreements and the current discussion of mega-regional ones.

Speaking about how liberal trade policies have proved so robust, despite high unemployment and rising inequality in crisis-afflicted high-income countries, Wolf stated that it is remarkable that the open trading system has survived not only the biggest recession since the 1930s, but a far longer period of rising inequality and worsening labour market prospects for a large proportion of the citizens of the high-income countries. Indeed, trade made a remarkable recovery after its collapse in 2009.

Trying to find the answer to the question as to why the open trading system has proved so much more robust than in the 1930s and what that tells us about its likely future, Wolf identified five mutually supportive explanations:

1. *Institutions*: role of the WTO. He mentioned that the commitment to liberal trade is now entrenched in global institutions whose commitments have become a component of domestic law. This is not only true of the WTO. It is also true of regional agreements. No such institutionalised system existed in the 1930s. Trade policy was, instead, a creature of domestic politics.
2. *Interests*: role of multinational companies.Global capitalism has largely replaced national capitalism. This is particularly true in manufacturing. Thus, instead of shared interests between companies and their employees, those interests are now split.
3. *Ideas*: triumph of the ideology of market openness.
4. *Welfare*: role of social safety nets.Albeit battered, state-funded social safety nets exist in all the high-income countries and provide a degree of support unthinkable in the 1930s.
5. *Divergence*: success of emerging countries. The high-income countries have not wished to abandon a system of open markets that they themselves created. Meanwhile, emerging countries have prospered since 2009 and, for this reason, see no reason to abandon the openness that has brought remarkable rewards for so many of them.

Wolf presented a very positive and optimistic picture of global trade and acknowledged that the story is one of astonishing success. It has proved possible to achieve and then sustain an unprecedented degree of openness to trade (and, more recently, direct investment), across the globe, despite the recent challenges of a huge financial crisis and subsequent global recession.

However, he highlighted the following challenges faced by global trade from outside the trading system:

1. *Imbalances*: imbalance between trade and exchange rates.
2. *Climate change*: trade and the global environment.
3. *Inequality*: trade and wages.

He stated that these challenges may either not be resolved, making the outcome of liberal trade far less beneficial than it could be, or they will be resolved in a malign way, *via* rising disintegration of the liberal global economy, as is already happening, to some degree, in finance.

In addition to the challenges from outside the trading system, there are also three challenges from within it. These are:

1. *Doha Round*: Failure to complete and consequent loss of legitimacy.
2. *Mega-regional negotiations*: the negotiations for the Trans-Pacific and the Trans-Atlantic Partnerships, with the US as the hub.
3. *China*: the need to bring a new hegemonic trade power fully into the system.

The three challenges are self-evidently connected. He very aptly mentioned that one of the reasons for pursuing the mega-regionals is that the Doha Round is seen to have failed, largely because the most recalcitrant members of the WTO hold it hostage. Again, a reason for launching the mega-regional negotiations is that it allows like-minded countries to pursue discriminatory liberalisation at the expense of China. Yet it is also quite clear that these strategies are dangerous. There is a risk that the result will be to split the trading system, as competition emerges between a rising China and a declining west, both trying to impose their own views of how the system should work on their trading partners.

Wolf mentioned that to mitigate the above challenge, it would be desirable to negotiate a single advanced preferential trading arrangement, to embrace both the TPP and the TAP, with the simple proviso that any country, not least China, would be able to join, provided it accepted the disciplines embodied in this agreement, though under-developed countries should be accorded the benefits unilaterally and freely. This will encourage further liberalisation among a widening coalition of the willing. At the limit, the new arrangement could become an agreement within the WTO.

Wolf concluded by acknowledging that the challenge that now lies in front of us is that of making global governance work in an era of “hyperglobalisation”, the “great convergence”, global environmental challenges, financial crises and rising inequality in high-income countries. The trading system will also need to respond to that challenge.However, he accepted that that it cannot deal with it successfully on its own and a hyperglobalised world will need a greater degree of global governance. The challenge is huge. But it is also inescapable.

Comments by Rt Hon Justine Greening, Secretary of State for International Development, UK

Justine Greening started by congratulating CUTS for an impressive 30 years' journey as one of the few voices to make the case for free trade and for citizens to be empowered by openness, transparency and accountability. She acknowledged that CUTS has argued that a trading system combined with consumer rights is essential for growth alongside poverty reduction.

She stated that the top most desire of people in developing countries is that of a job.Sustainable, secure jobs give people in the world's poorest countries the chance to work their way out of poverty; the chance to provide for their families and to end a dependency on aid. It gives everybody the chance to be part of the global economy. She mentioned that UK government has always focused on economic development thereby helping boost investment and improve the business climate and improving basic services like health, education, water and sanitationas these are the building blocks of a successful economy.

Giving example of China and its recent record on poverty reduction along with a huge increase in trade and economic growth, she highlighted that "trade" is the most important driver of growth. Trade between nations creates jobs and prosperity, drives down prices and increases choice. She mentioned that free and fair trade will reap benefits for all from the fisherman in Kenya to the financier in Kent. She also highlighted Department for International Development's (DFID's) work in many of these emerging countries, which are seeing very high growth rates, such as in sub-Saharan Africa. According to her building economic growth and creating jobs is not only good for developing countries, it benefits Britain too, by creating new markets for British businesses to invest in.It is about opening markets to them, building on the obvious desire of developing countries to be part of and to benefit from the global economy.

Agreeing with Martin Wolf she recognised the importance of the WTO in maintaining global commitment to an open trading system and mentioned that the Prime Minister of Great Britain is committed to work to help deliver an agreement on trade facilitation at the WTO Ministerial meeting in December 2013. This will make it easier to move goods across borders and could add $70 billion annually to global income and provide a much-needed boost to the global economy.

She believes that bilateral deals can be key building blocks for a stronger multilateral system in time because they accelerate the pace of trade liberalisation and tackle the barriers that exist beyond tariffs.

Acknowledging the inability of poor countries to generate the growth through trading that they need to deliver the jobs and incomes that will reduce poverty, she listed three reasons for the same:

1. *Barriers from the rest of the world that often do not let them trade freely*. The UK will continue to lead the charge in ensuring that EU markets remain open to developing country exports by pushing for the poorest countries to be allowed to trade freely. This could be at the EU, at the WTO, or in the G20. However, the same should be accompanied with simultaneous opening by emerging economies of their own markets to developing countries.

2. *Lack of enabling environment for trade and investment*. All the market access in the world is not good if there is not an enabling environment for trade and investment. This is particularly true if you cannot physically move what you are selling to where it is needed.Poor infrastructure increases the cost of trading and hits competitiveness hard. This is where donors like the UK can play an important role.

   She announced a funding of £27.8 million for a TradeMark East Africa programme in Kenya that will drastically cut the time taken to move goods between the port of Mombasa in Kenya and the Ugandan capital of Kampala. British support will go towards modernising the port, which is the entry point for millions of tonnes of cargo bound for Kenya's landlocked neighbours. She also announced that in Uganda, UK has agreed for a funding of nearly £30 million for TradeMark East Africa to upgrade a key road linking Uganda and Rwanda. This will also improve the customs facilities at an increasingly busy border crossing with South Sudan. This investment will reduce delays and help to increase Uganda's exports by more than £300 million by 2017.

   Additionally there is a need for a regulatory structure that can help investment. Last week a DFID-funded study highlighted red tape up along with infrastructure as one of the biggest barriers to investment in Africa. Shoprite, the biggest retailer in Southern Africa, spends $20,000 a week [around £13,000] just on import permits to ship goods from South Africa to Zambia, its next door neighbour.

   She announced that UK will provide £7 million to support the work of the International Trade Centre. This will be used to collect and share data on the impact of permits, regulations and bureaucracy in developing countries. The ITC will then bring businesses and governments together to unpick and, over time, dismantle these unnecessary barriers. She stated that the private sector must be free to create the jobs and incomes that the world's poor desperately need.

3. *Some countries not being part of the Global Value Chains*. Some of the developing countries may not be in the value chains that form such an important part of the modern global economy. One of the most striking features of trade in the twenty-first century is how integrated it is, with global value chains stretching across the world.Some 60% of trade takes place within supply chains, driven by multinational companies. Around half of that is within these same firms.Agreeing with Wolf she acknowledged the central role played by multinational enterprises in the current global trading system. Of course, the link that many developing countries have right now to global value chains is through the supply of foodstuffs or other commodities.

   She stated that developing country firms in global value chains employ more workers, pay higher wages, and hire a larger share of female workers than those operating outside of those chains. Producing for multinational firms boosts standards and encourages developing countries to invest in skills and working conditions.Not only does it create more jobs, it creates better jobs.

She concluded by saying that making sure we are advocates for freer trade, ensuring we are improving the enabling environment for business to invest and trade, and helping developing countries to plug into global value chains will be good for the world's poor. She acknowledged that the role of CUTS over the next 30 years will be invaluable in achieving all this.

Comments by Alan Winters and Jim Rollo

Alan Winters in his comments reinforced and expanded on several points made by Wolf. He also sounded a discordant note on some of the points.

Alan believed that the 2008 economic crisis did not lead to high levels of protectionism as the world had a lot more macro-economic flexibility unlike in the 1930s. Winters also added that it was too early to declare victory as we have not seen the end of the crisis and governments may yet succumb to pressures for protectionist measures.

He too considered "mega-regionals" to be a grave challenge but did not agree with Martin that open regionalism would be the solution.

He considered smooth integration of China as the biggest internal challenge facing the multilateral trading system. This integration should not be based on the terms set by the West. Rather the trading system has to change to accommodate the interests of emerging economies including China and India that are different from those of the West. This will ensure the success of the multilateral trading system in the next 50 years.

Alan considered issues of climate change, foreign exchange misalignments, and wage equalities to be important but outside the competence of the WTO. Pusghingthese issues on the WTO agenda is like asking the organization to do three impossible things before dying.

Jim Rollo recalling the enthusiasm and application of Pradeep Mehta, founder and Secretary General of CUTS, said that it never wanes and the result in terms of the expansion and success of CUTS is in front of us.

While commenting on Wolf's lecture, Rollo stated that the WTO is in more trouble than we were willing to admit. He was also worried that the state capitalism was back in business witnessed by bail outs to auto companies and the fact that most of China's big exporters are stated owned.

He also lamented the fact that the private sector has exhibited a lack of interest in the WTO and Doha Round. He wondered whether this was due to the proliferation of bilateral agreements and the spead of global value chains.According to him, finding ways to deal with trade in services and bilateral agreements were among the main challenges.

He concluded by congratulating Pradeep Mehta and CUTS for bringing the voice of the poor to the international negotiations.

Question and Answer Session

An animated and interesting Q&A session followed the lecture and panel discussion. Questions were raised relating tothe success of WTO in many of its functions including the dispute settlement, role and responsibilities and performance of China in the WTO, and issues of interests to developing countries other than China and other emerging economies, i.e. sub-Saharan Africa, LDCs and small states.

An interesting debate was around the importance of trade finance for the trade performance of small developing countries, relationship of the financial sector with the real sector and the role of trade in the use and exploitation of natural resources. One participant raised the issue of consumers being ignored in the debate, while panelists did respond that higher trade-led growth does lead to higher consumer welfare.

During the discussion, Pradeep Mehta stated that consumers are the raison de'etre of all economic activity and spoke about a recent CUTS study which estimates the cost of economic non-cooperation in South Asia to consumers to be about US$3bn. Since the study was published, governments have woken up which is evident in rising intra-regional trade.

Mehta admitted that most of the discourse in the past had assumed that consumer interest would be advanced when trade volumes rise, but were not explicit in approaching trade liberalisation through the lens of consumer welfare, which in the developing country context includes job creation, and thus positioning the debate domestically for consumers to support.

He also stressed the need for strong flanking policies, such as health, education, skills, regulatory regimes etc., to ensure that the benefits of trade openness reach all segments of the society. According to him, coherence in policies at the domestic level and among institutions at the international level etc. were needed to face the challenges. This was also a main conclusion of the DG WTO's High Level Panel on the Future of Trade of which he was a member.

Vote of Thanks

In his vote of thanks, Cyrus Rustomjee, Director, Economic Affairs Division of the Commonwealth Secretariat remarked that the event was very successful as well as useful for their own work on trade policy. He spoke about a recent ComSec paper: "Right to Trade" by Joseph Stiglitz which has laid out how small and vulnerable economies can benefit from the multilateral trading system.

Rustomjee stated that they will continue to devote their assistance to help their member developing countries, particularly small states, for their participation in the trading system through high-quality research and capacity building workshops. He stated that ComSec will continue to collaborate with CUTS in this endeavor.