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THE ROLE OF MULTILATERALISM IN TIMES OF RISING PROTECTIONISM

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The election of protectionist leaders, Brexit and the rise of populism have led to a proliferation of analyses on the crisis of multilateralism and of the liberal order.

Simplistic messages, or even old-fashioned theories of mercantilism describing trade in black-and-white terms of winners and losers based on balance sheets, have come to dominate the debate, far from the more complex reality of Global Value Chains and despite all the benefits that the multilateral system has brought.

Multilateralism has been at the core of global trade governance since the end of World War II. The multilateral trading system, first under the General Agreement on Tariffs and Trade (GATT) and later in the World Trade Organization (WTO), has managed to increasingly integrate countries' economies over time and tempered unilateral approaches to international trade.

Under the GATT, the number of participating countries increased from 23 in the first round in 1947 to 123 in the Uruguay Round. This number has today increased to **164 in the WTO, including the majority of the world's emerging markets, which corresponds to 98 % of global trade.**

Overall, **the WTO makes global trade governance predictable, transparent, enforceable and uniform.** It is also a fair system, in that all member states' voices, including small developing countries, carry the same weight, as WTO decisions are taken by consensus.

But in spite of the numerous achievements of international institutions, we do see a backlash against trade. Populist movements have risen on the back of ideas of reclaiming national powers, and are based on the dislike of limits on sovereignty and of powerful institutions, such as the EU, the WTO, NATO and others. Meanwhile, certain member states explicitly expressed preference for bilateralism over multilateralism in trade, while questioning several existing multilateral arrangements in climate, development, humanitarian, trade and security policy and proposing to reduce funding for several international institutions.

1. The crisis of multilateralism

Yet, debates on the 'crisis of multilateralism' are not new. Criticisms regarding the functioning of multilateral institutions have abounded, particularly since the beginning of the 21st century and the rapid changes it has brought – including in the global balance of economic power, in geopolitics and in technology. Already towards the end of the 1990s, attitudes towards multilateralism became more sceptical, largely as a consequence of a crisis in the collective security system, a central cause of which was the failure of the United Nations, the 'intended centrepiece of multilateralism' to guarantee a global system of collective security and to deal with a number of conflicts and threats that emerged with.

At the same time, multilateral institutions have become 'disconnected from publics in the very countries that created them'. This phenomenon is aggravated among groups that are perceived to have been negatively affected by globalisation, such as workers in the traditional manufacturing sectors in developed countries. Populist parties advocating nationalist and xenophobic views often draw their political support from such disaffected groups.

2. Do we see protectionism on the rise?

Protectionist policies are not limited to specific countries. In fact, while the WTO was an important actor in preventing that Members resorted to protectionist measures during the financial crisis of 2008, we have since then experienced an increasing number of restrictive measures. Because G20 put a special monitoring mechanism in place, we do have a precise picture for those countries. We know for example that the share of G20 imports affected by trade-restrictive measures put in place since the global financial crisis continues to rise gradually, reaching 6.5 percent as of November 2016.

In the 2016 WTO monitoring Report on G20 trade measures, the WTO noted that between mid-October 2015 and May 2016, G20 economies had introduced new protectionist measures at the fastest pace seen since the 2008 financial crisis.

The situation has only slightly improved since then. During the following review period from 16 October 2016 to 15 May 2017, a total of 42 new trade-restrictive measures, including new or increased tariffs, customs regulations and rules of origin restrictions, were recorded for G20 economies, amounting to a monthly average of six measures.

All this matters.

The role of trade in the global economy is at a critical juncture. Increased trade integration helped to drive economic growth in advanced and developing economies in the latter part of the 20th century. Since the early 2000's, however, a slowdown in the pace of trade reform, a post-crisis uptick in protectionism, and risk of further reversals have been a drag on trade, productivity, and income growth. It need not be that way. With the right policies, countries can benefit from the great opportunities that trade brings *and* lift up those who have been left behind. Those polices ease adjustment to trade, as well as strengthen overall economic flexibility and performance.

The sharp slowdown in global trade in recent years is both a symptom of and a contributor to low growth. From 1960 to the eve of the global financial crisis in 2007, global trade in goods and services grew at an average real rate of about 6 percent a year, which was about twice that of real GDP growth during the same period. This has dramatically changed. While rates of investment and of economic growth have weighed on trade, recent trade growth has been some 1 to 2 percentage points a year less than would have been expected based on the historical relationship between trade and these macroeconomic factors, according to IMF.

3. WTO and multilateralism deliver

Still, we need the WTO more than ever and protectionism is not the answer to current concerns. The WTO provides a unique system of governance found in no other international arrangement. No regional or bilateral agreement can replace it. It is the foundation upon which all regional and bilateral trade agreements build. Without the WTO, the world economy would be fragmented, as it was before the Second World War and which in the view of some historians was a factor that made that war more likely. In today's world, trading relationships could degenerate into an unhealthy regionalism. In addition, without the WTO, there would be no adequate counter to domestic demands for protection, particularly in agriculture, where food security as well as interest politics plays a role.

We have also recently seen that the WTO delivers, for example through the **Trade Facilitation Agreement** agreed in Bali or the expansion of the **Information Technology Agreement**, concluded in Nairobi. These were far from minor achievements. The Trade Facilitation Agreement alone is considered to be the equivalent of elimination of over a 14% average tariff on world trade. That is nearly double the current average actual tariffs in place. And the Information Technology Agreement provides for a tariff-free environment for over \$1.3 trillion per year of global trade. However, we should not rest on our laurels. We need to deliver concrete outcomes including on domestic regulation in services, e-commerce, investment facilitation, horizontal subsidies and improving transparency, as well as good regulatory practices for the benefits of SMEs.

In a longer perspective, we know that trade openness, underpinned by the expansion of the multilateral trading system, has brought about higher productivity, greater competition, lower prices, and improved living standards. Trade-related shifts in the allocation of resources across sectors and firms and adoption of new technologies have generated productivity gains. On the consumption side - this is too often forgotten - open trade has led to wider choices and lower prices of many goods and services, benefitting especially lower-income households who consume a disproportionately higher share of tradeable goods and services. Trade is estimated to have reduced by two-thirds the price of the household consumption basket of a typical advanced economy low-income household.

These are some of the reasons why we need to defend the rules-based trading system!

4. We cannot continue with “business as usual”.

Even if protectionism or criticism of multilateralism are not new and certainly not limited to a few Member States alone, we do have a fundamentally new situation with one of the greatest promoters of the WTO, with a leading role, having completely changed rhetoric and approach. President Trump has outright said that if WTO decisions go against the US, he will consider not to abide by the rulings. We also see that the dispute settlement system and the Appellate Body is currently being taken as a hostage and there is little appetite for having any major advancements.

I think there has not yet been the necessary adjustment to the new reality. We all have to step up our efforts to make the WTO work, whether we live in advanced, emerging or less developed countries.

WTO has played a pivotal role in promoting an inclusive world economic order and fostering an open, rule-based and non-discriminatory multilateral trading system. It plays a crucial role in promoting global economic growth and sustainable development, in creating jobs and wellbeing, and is a key element to achieving the United Nations Sustainable Development Goals (SDGs).

All this is well worth fighting for, so let's step up our efforts and do our best to contribute to making both the Parliamentary and the Ministerial Conference a success. This is what our citizens need.