# JONATHAN T. FRIED

## Ambassador and Permanent Representative of Canada to the WTO; former Associate Deputy Minister for Foreign Affairs and International Trade ; former Senior Foreign Policy Advisor to the Prime Minister, Canada

**Kemal DERVIS, Vice President and Director of Global Economy and Development, Brookings Institution, former Minister of Economic Affairs of Turkey**

Let me just share with you that I was in Geneva yesterday and everybody I talked to was talking about Ambassador Jonathan T. Fried and his very strong support for good trade policies at the WTO and worldwide. I did hear that from so many people yesterday. It was good because we are good friends. Tell me Jonathan, from your point of view, how do you see the whole trade scene?

However, before that, maybe, say if you agree or not, or if I am exaggerating, that trade is now much more about regulation than it is about tariffs? I think tariffs are still there, they are the topic in many sectors, but a lot of the trade negotiations are about how regulations can be harmonised regionally among countries worldwide and a lot of the debate is about the power of the corporations versus the power of wider society in regulation as well as in arbitration mechanisms, I think. I hope you will say a few words on that. Let me also add one more thing. It is very important for world growth that the trade engine works, and it has slowed down. One can debate of course whether it is a cause or an effect or both, but for the first time in decades we see that world trade growth actually has trouble keeping up even with the low GDP growth that we are having, so there is something special going on which we need to address. Jonathan?

**Jonathan T. FRIED, Ambassador and Permanent Representative of Canada to the WTO; former Associate Deputy Minister for Foreign Affairs and International Trade ; former Senior Foreign Policy Advisor to the Prime Minister, Canada**

Kemal, you have asked many questions in a short introduction. Let me see if I can address as many of them as possible in a short time. You are quite right to note that attention has shifted from the border to beyond the border. The analogy is often used of a sea full of tariffs: for the vast majority of the time since the creation of the post-war trading system under what was then the GATT, we have been lowering and draining that sea of the tariffs as barriers to the free flow of goods. Only when the water has become low enough have we seen just how massive the shoals and rocks of non-tariff barriers are that still impede the free flow of goods. You are quite right to say attention is shifting, because the tariff in most industrial commodities is increasingly irrelevant as a competitive factor. We still have some peaks, agriculture is a glaring exception (because we all have farmers with loud voices as Korea can attest to), but overall you are right, we are looking now increasingly at domestic regulation. The challenge of the trading system is to smooth the way in effect from the producer directly to the consumer and all the barriers along the way, not just at the border but throughout the stream of commerce.

That is one dimension. What has changed more fundamentally, however, and the economists have led us through the analysis, is the advent of supply chains. The latest numbers from UNCTAD tell us that close to 50% of all trade in the world is between affiliated entities. Now that does not mean multi-nationals, it means in effect the constellation of firms working around a large firm. Their suppliers who are reliable, who have the long-term contracts to provide the inputs or the intermediate goods, create a “constellisation” of trade, if I can put it that way, around large enterprises. That does not mean Northern multi-nationals exclusively, because we are also seeing a remarkable growth in the presence and trade share of multi-national enterprises from more advanced emerging economies as well.

Supply chains change the nature of trade, and it points you towards the increasing importance of looking at trade together with investment. Take your typical auto manufacturer that has global capacity. While the United States might prefer if all cars were sold to the world from Detroit, and Japan might prefer if they all come from Tokyo, we know that the manufacturers set up manufacturing in various regions, and when they look at the regions they are going to try to assess, for example, whether their next plant is going to be in Thailand or the Philippines to serve South East Asia, and they are going to look at what are their access to inputs. In addition to labour force, taxation and normal corporate factors, they are going to assess the trade relationships because, as Pascal Lamy once put it, we are in a world of goods "made in the world". You will have seen the Asian development bank study that dissected an iPod when it arrives in North America: it shows up as a $200 Chinese import. You dismantle it and 37% of the value is actually German, another 20% is Japanese, another 20% is Korean, and Chinese value added is 4%. We do not measure the import content of componentry, so our whole negotiating approach is quite distorted and not taking account of supply chains.

The other significant result of that is what the Swedish Board of Trade has coined as the "servicification" of trade. We have not really come to grips with the reality that for every sale of a piece of hard tangible goods there are a number of affiliated services. You need a transporter to get your goods to market. You probably need a lawyer and an accountant to have your sales contract organised well – in other words, a number of intermediaries. Your economy has benefitted much more than just the value of the good when you sell it; your service providers are actually benefitting as well.

Former chief economist of the WTO Patrick Low did a study on the sale of a loaf of bread in Hong Kong. 70% of the final price paid by the consumer for that loaf of bread goes to services. Not to the wheat, not to the packaging, but rather to the transportation and other services. What that suggests is national interests and business interests are asking governments to address more than traditional barriers to trade in goods — could you please get us a set of rules that better facilitates our ability to invest, attract and use local suppliers and connect our sale of goods with the obtaining of services? The WTO framework for negotiations that we have had in the Doha Development Round since 2002 is in effect a framework that we inherited from the Uruguay Round that was first developed in the mid-1980s and is a left-over agenda. We have not had fresh thinking in Geneva as to how to approach the realities of how business is done today pretty well for 30 years. That is an underlying motivation for a TPP-type negotiation that says among like-minded who sort of get it on supply chains, who are competing for that next automobile plant on either side of the Pacific, can we modernise the rules in a manner that facilitates trade among us? In some ways the TPP is to the WTO Doha Round today what NAFTA was to the Uruguay Round, a catalyst demonstrating to the rest of the world that there is a path forward, that it can be done largely building on existing rules, so there is no incompatibility. I would discourage people from framing it as regionalism versus multilateralism. Regional and multilaterual rules leapfrog each other, they reinforce each other and these new regional agreements can and should show the way.

I will finish up on this just by suggesting that in some ways TPP, if you go through the text, may be one of the last of the familiar type of trade agreements. The kinds of rules and the table of contents would look very familiar to a trade expert. There is some incremental improvement on some of the rules on non-tariff barriers and standards. There is obviously a significant step forward on investment but it is largely anchored in familiar existing disciplines. TTIP, the Trans-Atlantic Trade and Investment Partnership, if successful, may be the first significant agreement of a new generation, because by both sides' commitment they do want to deal with regulatory convergence and standards so that you can have goods move and people move and services move under the principle of tested once and accepted everywhere. Will they succeed? It is a different kind of negotiation that does not belong to the trade experts anymore. It belongs to all those domestic ministries and agencies and laboratories whose mandate has nothing to do with trade. They are told their job is to make sure people are safe, or that products are safe. Bringing them to a trade table is a new and difficult experiment. It is aggravated further by the advent of what people in shorthand are calling private standards.

We have, for example, thanks to growing public awareness and unfortunate tragedies such as the Rana Plaza textile factory assembly building in Bangladesh, consumers demanding a certification of fair labour conditions in the manufacture of this or that good. Well, is there any agreed international standard at the international labour organisation? No. Is there any trade-related government certified standard? No. Are there a dozen different NGO and industry-driven standards? Yes. Does having that multiplicity of private standards actually facilitate trade? No. We are going to have to come to grips with that even as between the United States and Europe.

One final point if I may, just to springboard into a more provocative area having listened to this morning's panel that started with John Lipsky's observations. I am often fond of saying we as bureaucrats, even if ambassadors, are actually inert objects if you know the laws of physics, because we do not move unless there is an external force applied to us. Who are the external forces? The people doing business. What is it that business wants? They want to make the pie bigger, both for themselves, and as those that are carrying corporate responsibility realise, by doing so they are creating jobs, they are contributing to the growth of a middle-class in emerging markets and so on. Trade alone does not do that. All of the free trade in the world is not going to give you sustainable economic growth, particularly in emerging markets, unless it is accompanied by an investment in the kind of enabling environment one needs to do business. That starts with good, solid monetary policy and a financial sector that works, but it also means regulatory transparency and predictability that is responsive to how people do business.

The real challenge if we get beyond some of these arcane issues is to connect what we are trying to do in a trade agenda with what the Bretton Woods institutions and the UN family and bilateral donors are trying to do to create and build domestic capacity and structural reform to make trade the enhancer and the magnifier of growth that it can be. Full circle back to your initial observation: there is a big debate as you noted between economists who would say the slowdown in trade is actually cyclical, who cite the fact that Europe is sluggish in its recovery, China is deliberately trying to shift to domestic demand, and those who say actually it is structural because of what I described earlier, if you are investing and you are actually better off using local suppliers than bringing in your foreign components then you are not doing as much trade, but you are doing just as much business. You are creating just as many jobs and maybe it is actually better that we are seeing a growth in investment even if at the expense of the growth of exports as a contribution to GDP.

**Kemal DERVIS, Vice President and Director of Global Economy and Development, Brookings Institution, former Minister of Economic Affairs of Turkey**

Thank you very much, Jonathan, I think you have managed to cover a lot of critical ground in 10 minutes. Now I am going to try to be extra provocative and ask a few questions that will hopefully fire everybody up on the controversial nature of some of these issues. I am not on one side or the other; I am just trying to get the discussion going.