

# JEAN-MARIE PAUGAM

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How do we create the conditions so that the solutions actually become real? One issue that has been raised on this is that we are moving from globalization to de globalization or some form to re globalization. Jean Marie Paugam, you are with the WTO. You have been looking at these issues. You are right in the center of it. Can you give us a little bit of your sense of what actually has been happening in this phase? What are the facts telling us and how do you see the process moving forward?

**Jean-Marie Paugam**

Thank you, Masood, and good morning everyone. On your first question, regarding what we see, we do not really see de globalization in the figures, at least in the trade figures. I am leaving aside investment or finance. Trends have been observed, such as an apparent slowdown of the rate of openness, that is global trade on GDP, but they can be explained by many statistical phenomena, such as variations in commodity prices and the composition of GDP, which is led more by services, while trade is led more by goods. There is, therefore, not really the feeling that there is a structural ebbing of globalization as far as trade is concerned. There is also a slowing down of trade in the second half of the decade, which probably has to do with some maturity of the development of the value chains. A sort of plateau has been reached. However, here again, we do not see that as moving back towards a reduction of the contribution of world trade to GDP.

What is happening is that there are new forces which are going to shape this globalization and probably make it more complex, generating more transaction costs for businesses and for governments. Three of these forces are really clear. The first one is of course the return of what we may call generically strategic trade policies, which has to do with industrial policy. This is now very well documented. We see a lot of increases in intervention of states to create comparative advantages. For example, there are the CHIPS and Science Act and the Inflation Reduction Act in the US and the Projects of Common Interest in Europe. There is also China 2025 and Japan has some similar things. It quite well documented at the OECD that at least, for instance, the level of government subsidies is increasing.

The second one is what I may call, quite neutrally, decoupling policies, which involve a vast array of policies, from the worst possible situation, which is the war and sanctions, to the trade war unleashed by President Trump against China, down to the softer concept of open strategic autonomy used within the EU. You do not know exactly what is lying there, but there

is this idea that you will have a world market shaped by a lot of politics. If you take, for instance, the sanctions, it was not really a systemic issue when it was dealing with small economies, if I may call them that relatively to their global weight, but when you are dealing with the 11th biggest economy in the world, namely Russia, then you see that there is the beginning of a global impact. Also, recently in Brussels there was a forum on export controls and the figures were astonishing because, for instance, for the UK it is minus 97% of exports towards Russia, with very close figures for the EU. This decoupling, therefore, is quite a new trend. We have been modelling that in the WTO, imagining a world, just like in the old days, separated into two blocks. It would mean, according to our economists, a reduction of overall GDP in the long term of 5%.

The third trend is of course decarbonization. We know that when it comes to net zero strategies different countries and players are adopting different strategies. For instance, the EU has chosen a market, an exchange of emission permits, to put a price on carbon. Others are choosing taxes. Others are moving towards regulations, like the US. You do not, therefore, have an equivalence or a form of mutual recognition between these systems, and it is even worse when you try to start measuring carbon. Just take the steel sector, which represents more or less 8% of global emissions, where you already have more than 20 standard measurements in the world.

These are, therefore, trends which are going to make it more complex. Are our institutions for international cooperation capable of dealing with that? We have quite a mixed situation. The first aspect is that there is quite a reasonably strong capital about the core principles which articulate the world trading system. These are transparency, good faith and non discrimination, and there is no substantial rejection of those principles. Even in the worst situation, like the one with the Trump Administration, nobody has walked out of the WTO. You do not really see, therefore, disagreement on the fact that we can cooperate on this basis, and in fact we even had some successes this year, such as our 12th Ministerial conference, which I might come back to.

What we face and what we are confronted with are several trends which all the institutions are dealing with. The first one is obviously the divergences in values and the government systems, which translate into difficulties in negotiations. The second one has to do with how we manage commons and the legacy for commons. This is the very big debate over climate change. However, in the WTO we also faced it in the negotiations on fisheries aimed at prohibiting subsidies which were contributing to over fishing. Then you have developing countries saying, 'Guys, why should I restrain the development of my fisheries while you have been taking all the fish historically?' These legacy issues are complicating the negotiations and they are very hard to cope with. Of course, there is also a difference in capacities to tackle the new trends of decarbonization and digitalization.

So I think we will have stop and go. We will reach some selected agreements and have some successes in emergency circumstances. For instance, in coping with the food crisis today, I think, if I look at the half full glass, the response of global institutions is quite reasonable and, to a certain extent, effective. I am not saying we are off the hook, it is a difficult situation, but there is an answer. In many cases we will face stalemates on core issues, so we will have to deal with that, but let's not throw the baby out with the bathwater.

**Masood Ahmed**

Thank you very much. Thank you for talking about the trends and also for raising this question, which I think we will come back to, maybe even in the next panel, which is are the institutions that were created, many of them going back 75, 80 years now, up to the job of dealing with the trends and issues that they are now being forced to deal with? Also, do the main shareholders, members of these institutions, have confidence in them? Because what I find quite interesting to look at is that all the heads of institutions are busy defending themselves more and more against their own shareholders who are busy criticizing what they are doing, and that is a difficult situation in which to find yourself.