

**UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva**

**MULTILATERALISM AND REGIONALISM:
THE NEW INTERFACE**

**Chapter II: Remarks by Mr. Francisco
Thompson-Flôres**



**UNITED NATIONS
New York and Geneva, 2005**

Chapter II

REMARKS BY MR. FRANCISCO THOMPSON-FLÔRES

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Distinguished guests,

It is my great pleasure to join you today. I bring greetings from the WTO Director-General, Dr. Supachai Panitchpakdi, along with his best wishes for a successful event. I offer warm congratulations also to Mr Ricupero, UNCTAD, partner organizations, panelists and participants for this valuable initiative of Rio Trade Week which has given unique opportunity for discussion and dialogue on some of the most important issues on the international trade agenda.

I am sorry I was unable to join you this morning and that I must return shortly to another meeting — also on trade and also part of Rio Trade Week. But I wanted to come here to lend support to UNCTAD and share with you a few thoughts on the issue of the interface between multilateralism and regionalism. I know you heard interesting and thought-provoking presentations this morning. I am pleased to contribute to the discussion.

Turning directly to the topic, my first comment would be that regional trade agreements (RTAs) are an integral part of international trade, they operate alongside global multilateral agreements under the WTO, and they have increased significantly in number and prominence recently.

As of May 2004, 303 RTAs have been notified to the GATT/WTO, of which 208 are currently in force. In the first four months of 2004 alone, 15 RTAs were notified to the WTO. A further 60 RTAs are estimated to be operational, though not yet notified, and approximately 30 are under negotiation or proposal. Only one of the WTO's 147 Members - Mongolia - does not currently participate in RTAs. Imports on a preferential basis under RTAs are estimated to account for 43 per cent of merchandise imports (using trade data for 1999) and are estimated to reach 51 per cent in 2005.

Thus, while WTO Members are actively re-engaged in the Doha negotiations (as evidenced by a more constructive and positive atmosphere in Geneva and new political impetus given to the Round by Ministers in all parts of the globe — e.g., at the LDC Ministers' Meeting in Senegal, in Paris in the context of the OECD Ministerial Meeting, and in Pucón at the APEC Ministers Meeting), they continue to be drawn by the magnet of regional agreements.

Nor is it difficult to see the magnetism. The spread of regionalism, including among countries that have traditionally avoided this approach, is due to a range of factors, including (to quote OECD and others):

- a concern not to be left out of the growing web of preferential deals;
- a belief that, as product cycles get shorter and multilateral negotiating cycles get longer, quicker results may be obtained regionally;
- a belief that, as multilateral processes become more complex and unwieldy, stronger disciplines over a wider range of goods and services can be attained regionally;
- a desire to use regional liberalisation as a catalyst for domestic reform; and
- (in some instances), a tactic on the part of governments to use bilateral deals to promote political or strategic objectives.

These are just some examples. We should also acknowledge some of the other arguments often advanced in favour of regionalism. RTAs can act as laboratories for testing approaches to new issues; their operating experiences can provide the basis for future multilateral trade negotiations for developing rules applicable at the multilateral level; they can serve as building blocs for a more open and liberal multilateral trading system.

But there are considerable challenges posed by the increasing tendency towards regionalism, as I would now like to refer to. And I would also argue, as others have done, that the economic arguments show that regional deals are (by far) second-best to progress at the multilateral level.

The growing number of overlapping bilateral and plurilateral RTAs embodying diverse treatment of trade policy issues has increased the complexity of the trading environment. Increasing complexity raises the transaction costs of conducting trade, while inconsistent provisions create uncertainty and undermine transparency. The WTO offers the prospect of a transparent, single set of trading rules which apply to all members. RTAs, with their differing treatment of rules of origin, standards, rules on competition, investment, environmental and labour standards do not.

Economists are unanimous in considering that multilateral liberalization is superior to liberalization on a preferential basis. Preferential liberalization results in varying levels of protection against third parties, obscuring rather than clarifying the patterns of specialization among countries, and can engender a significant amount of net trade diversion. Trade liberalization on an MFN basis, on the other hand, allows the underlying pattern of comparative advantage to emerge, leading eventually to patterns of specialization among countries and regions that make the most efficient use of available resources.

Many RTAs provide for only limited coverage of agricultural and other sensitive products. A recent WTO study found that while most RTAs provide for the elimination of most, if not all, duties on industrial goods, the concessions on 'sensitive' sectors like agriculture and textiles are considerably less generous. The failure to tackle sensitive issues within the context of RTAs indicates that if, for example, agricultural trade liberalization is to be addressed more effectively it will need to be treated within a framework where there is a greater chance that appropriate trade-offs can be found.

Negotiating and administering multiple RTAs strains the institutional capacity of even the largest WTO Members, distracting attention and energy away from multilateral resources. Given scarce resources, the potential gains from multilateral liberalization which generate gains for the entire WTO membership (large countries as well as small) greatly exceed those that may result from preferential liberalization.

All this leads me to conclude that while RTAs are likely to remain a popular option no matter how well the multilateral system functions, WTO Members need to seek ways to maximize their compatibility with WTO objectives while minimizing any negative effects. Of course, Members recognized this challenge in Doha by agreeing to clarify and improve the disciplines and procedures of WTO provisions on RTAs, taking into account development aspects of RTAs. These negotiations are ongoing.

The interface between regionalism and multilateralism is complex and evolving. There are no ready-made answers in this area of our work. But the crucial first step is to talk and discuss. That is what is happening in Geneva. And that is what is happening here. I am grateful to UNTAD for taking the initiative of this session and I appreciate the opportunity given to share some thoughts.

Finally I should like to return to the Doha Development Agenda and refer to a comment made recently by our Director-General when he addressed the Third LDC Trade Ministers' Meeting in Dakar, Senegal. Dr. Supachai said:

"If governments and their constituents lose faith in the ability of the DDA to deliver results we shall, no doubt, see a growing imbalance between multilateral and bilateral deal making. This could rock the foundations of non-discrimination and transparency upon which the multilateral system is built. These core principles not only help level the playing field between developed and developing countries, but also make the international trading environment a more predictable and less complex place to do business. I am convinced that the world's poorest and most vulnerable countries would be the biggest losers from a focus on bilateral deals at the expense of multilateralism."

Thank you.