

# The Multilateral System: 50 years of Achievement

## - Introduction

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Fifty years ago, the world emerged from the ravages of the Second World War. The challenge at that time - an historically unprecedented challenge in dimension and complexity - was to rebuild economic stability in a world of pervasive disorder and massive dislocation, to restore a sense of world community and to establish the basis for future growth and prosperity. The architects of the new system had to build from the ground up, on multiple fronts simultaneously, and they showed vision and far-sightedness. After five decades of progress built upon the foundations laid at that time, it is easy to take for granted today what then was novel and imaginative. The latter half of the 1940s was not just about the end of the most destructive war ever waged; it was also about the curbing of destructive economic nationalism and the search for a new global order.

Today, we face once again a new kind of world and a new set of challenges. The end of the Cold War and the collapse of command and control economies, the dramatic rise of many developing countries, and the massive increase in trade and investment flows around the globe have greatly expanded the frontiers of the multilateral trading system, and tested its ability to manage an economy of global dimensions. Trade, investment, technology and communications increasingly link a world of very different systems at very different levels of development into a single market economy. The creation of the WTO in January 1995 was a symbol of the emergence of a more global economic system. If the challenge of the last fifty years was to manage a world divided, the challenge of the next fifty will be to manage a world of deepening integration.

The fiftieth anniversary of the multilateral trading system is a time for celebration. It is also a time for reflection and renewed commitment. Two basic ideas, as vital today as they were in the late 1940s, have underpinned the system's success over the second half of this century. One is the belief that an open international trading system, and its role in promoting economic prosperity, is an essential element in international peace and stability - that economic order must be at the foundation of a new political and security framework. Policy-makers in 1948 had lived through the economic destruction of the Great Depression, when turning inwards created a descending spiral of declining output and trade. The architects of the postwar system agreed the only route to economic

reconstruction and recovery lay in progress towards open markets and liberalized trade, and the experience of fifty years has proved them right.

The second idea is that stability and predictability in international trade relations can only be secured through a mutually agreed system of rules, binding on all member governments and enforceable through dispute settlement. The defence of a rules-based system on a day-to-day basis has been greatly facilitated by the fact that this system gave primacy to markets and not governments in determining economic outcomes. This did not mean that governments abrogated responsibility. On the contrary, they focused on creating the underlying conditions for economic prosperity and on promoting liberalization, contemplating direct intervention only in specific circumstances where markets were found wanting. The rules were not expected to determine outcomes, but rather to establish the conditions for undistorted competition.

The centre-piece and guiding idea of the rules-based system is non-discrimination, which arose out of the conviction that exclusionary deals and preferential blocs helped fuel the interwar rivalries, insecurities, and conflicts that drove the international community into another world war. The non-discrimination principle was key to the system's stability in subsequent years. The patchwork quilt of arrangements that had so undermined coherence and continuity in interwar economic relations was replaced by a unified set of rules. These rules provided the essential political underpinning for the broad consensus, demonstrated through eight negotiating Rounds, to move the system forward into new sectors and wider areas of responsibility. More fundamentally, the principle of non-discrimination enshrined universality as a central objective of the trading system - ensuring that the GATT system emerged, especially after the Cold War, as a major force for integrating the world economy.

The non-discrimination principle plays an important economic role as well. Non-discrimination is an efficiency principle, both in the sense of ensuring access to low-cost supplies, and of allowing producers to sell in foreign markets without a policy-imposed disadvantage relative to other suppliers. Similarly, in a non-discriminatory policy environment, consumers can choose freely from among alternative foreign sources of supply. In a world of differentiated, discriminatory trade regimes, doing business across frontiers becomes more complex and time-consuming, implying additional costs for enterprises and impaired competitiveness. For both political and economic reasons, then, the non-discrimination principle has served countries well over the last fifty years, be they large or small, developed or developing.

Solutions to the challenges facing governments today and in future will, as always, call for concerted action on a variety of fronts. In considering how the trading system can

contribute to meeting these challenges, it is useful to remind ourselves of what the system has achieved so far. Four achievements stand out, and provide the foundation upon which to build for the future.

First, the GATT/WTO trading system has contributed to an extraordinary period of economic growth and increased prosperity. Trade has expanded faster than output by a significant margin over the last five decades. On an annual average basis, merchandise exports have grown by 6 per cent in real terms from 1948 to 1997 (Table 1). Total output, by comparison, expanded at an annual average rate of 3.8 per cent, or 1.9 per cent in per capita terms. A similar picture of intensified international economic engagement is readily discernible from figures on foreign direct investment (FDI). Unfortunately, data are not available for the whole period from 1948, but annual FDI flows expanded sixteen-fold between 1973 and 1996, from US\$ 21.5 billion to US\$ 350 billion, an annual average growth rate of 12.7 per cent. Accumulated FDI stocks jumped from US\$ 165 billion at the end of 1973 to US\$ 3,205 billion in 1996, nearly a twenty-fold increase.

The significant gains in income growth, job creation and prosperity that underlie the statistics mentioned above are in part attributable to the success of the multilateral trading system in lowering trade barriers. Since negotiations began in 1947, average tariffs among industrialized countries have fallen from high double-digit levels to less than 4 per cent. Most non-tariff border restrictions have also been abandoned. And the system protects these market access gains through rules encompassing such matters as technical standards, regulations, and subsidy practices. Since the creation of the WTO, trade liberalization efforts have been extended to trade in services, covering both cross-border transactions and the rights of enterprises and to establish a commercial presence through direct investment in foreign markets and the right of natural persons to supply services abroad.

Second, the system has widened the circle of participation in the global marketplace. While the early rounds of multilateral trade negotiations, up to the Dillon Round in 1961, typically involved some 20 to 30 countries, the Kennedy Round (1964-67) involved over 60 countries, the Tokyo Round (1973-79) more than 100 countries, and the Uruguay Round (1986-94) had 125 participants. The WTO's membership stands at 132 countries today, and this could potentially grow to over 160 early in the next century. One-third of the largest trading countries today are developing countries. The end of the Cold War reflected and reinforced this geographical extension in participation. The walls between East and West collapsed, in part, because centrally-planned systems could not meet the challenges posed by free markets and technological change. Divisions between North and South have blurred, as developing countries have increasingly abandoned inward-looking import substitution in

favour of more open trade and freer markets. The fact that the two largest countries outside the system, China and Russia, have made WTO membership one of their key policy objectives is a striking testament to the system's new gravitational pull.

Third, the dispute settlement system has demonstrated the willingness of governments to respect the rules. The record in this respect has been impressive. Over the past fifty years, the vast majority of cases brought have been settled, either on a bilateral basis before final multilateral determination, or through acceptance of a panel ruling. Dispute settlement arrangements were significantly strengthened in the Uruguay Round, introducing greater automaticity and clearer time frames into the procedures, eliminating the scope for interested parties to block the adoption of panel findings, and establishing an appeals body. These new arrangements have further strengthened the confidence of Members in the system. As of mid-March 1998, 119 cases have been presented to the WTO, compared to just over 300 cases throughout the life of the GATT, from 1948 to 1994. Moreover, increasing numbers of developing countries are making use of dispute settlement procedures.

Fourth, the multilateral trading system has broadened and deepened its agenda to take account of new realities in international economic relations. From its early focus on tariff reduction, the removal of quantitative import restrictions, and the development of rules on such matters as import licensing, customs valuation, and standards, the rules of the system have increasingly extended to the treatment of foreign persons and companies as well as foreign goods and services. As already noted, the incorporation of trade in services brought an investment dimension into the system, and rules have been developed for the protection of trade-related intellectual property rights. New initiatives have been launched to examine the relationship between trade and investment, trade and competition policy and procurement. These developments are explored further below.

This readiness to enable the system to accommodate changing realities will be continually tested in the years ahead. The processes that combine to produce the phenomenon of globalization - intensified trade and investment flows, supported by the communications revolution, the rise of the information economy and technological advances in transportation - are changing the world in ways that place a premium upon adaptation and flexibility. The constraints of time and space are diminishing, and new technologies are breaking down old barriers. Unprecedented opportunities are being created, but with these new opportunities go the challenges of ensuring that the benefits from these new developments are widely spread.