

Session 2: Defining and Managing Global Public Goods

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I'd like now to pass the floor to Doctor Ricardo Melendèz Ortiz who is the executive director of a centre in Geneva called the International Centre for Trade and Sustainable Development and who's been dealing with trade and sustainable development for the past years and especially with its contradictions. Ricardo?

DR. MELENDEZ-ORTIZ

Thank you very much. It's getting late so I'll try to not only be brief but also to be practical in the comments that I make. I'll take my cue from the discussion we've just had and the comments made by Professors Palmer and Maier on governance and governments. As you said, I am in the practice of governance having been first a trade negotiator, fortunate to participate on behalf of a small trading state in the small bargaining table dealing with the design and formation of the World Trade Organization (WTO). I was part of a national government in a major attempt to construct Kantian government, and I became both enthusiastic and disappointed with the prospects of the system that was emerging; turned off by the lack of political will to address the distortions brought about by the prevalence of perverse political economy dynamics, and enthused by the potential of a rules-based governance scheme to tackle the vicissitudes and challenges of a rapidly globalized world. So I decided to shift roles within this quest for governance.

Allow me, if I may, to explain this governance in the provision of global public goods and specifically in the trade area, and then explore very briefly whether the international trade regime that we now have, made up as it is by the multilateral trade system plus the ever-growing web of bi-lateral and regional trade arrangements, is a global public good; whether it is an intermediate public good; whether it is a component of the system of delivery of global public goods or not, and whether it does its trick. In 1995, when the WTO came into being, amid anxieties and the need that many felt to make more out of it, particularly from the perspective of public goods, I was entrusted by a group of people and donors to promote that predominant trade liberalization policy and rules deliver or, at least, unequivocally support what we call sustainable development outcomes. Outcomes that could be measured in terms of equity among and within nations and the sustainable use of limited natural resources. Consequently, with the help of many around the World over, we have set up what in this dialogue we've called - as I learned from the discussion this morning - a *governance-building device*. Basically this creature looks like an aggregation of open-ended interacting webs of state and non-state actors committed to public policy issues. From our device, we work on the concept of creating *policy knowledge communities* - a different concept from epistemic communities in the sense that the knowledge they generate or process is applicable to the crafting and the implementation of international trade policy and rules. This *governance-building device* enables, facilitates and supports interaction between these actors and the decision-makers in international trade and we do so at the national and sub-national, as well as the international levels, including the multi-lateral level. We also work through the brokerage of capacities,

capabilities, resources, and knowledge among influencers and opinion and decision-makers and all other actors involved. I'd say in any given week we communicate with somewhere between 60,000 and 100,000 people around the world on these issues. An illustration of the kind of device we've discussed today.

Why is such a device needed and where are we with respect to the multilateral trade system (MTS) and its delivery of public goods? I believe that two main features, as the fundamental premises and promises of the MTS, particularly attract developing countries and the less advantaged countries that system. One is the promise to insulate countries from power politics in the conduct of their international economic and trade relations, and the second is the promise to lift all boats together, accommodating the different levels of development, the different levels of capability inherent to each of the members of the system. The MTS is based on principles that we have inherited from the post-war period when it was set up to deal - in actual fact - with trans-Atlantic trade and later on with trans-Pacific trade. It's only during the Uruguay Round of negotiations and the formation of the WTO in the 90s that the system truly becomes the basis for and race towards a universal system. We moved from a membership of about 70 countries to a membership of about 150 countries today. The system is based on the principle of non-discrimination which some see as a global public good in itself. However it's main instrument of non-discrimination looks today much like a Gruyère cheese: there are plenty of holes in the application of the most favoured nation, and indeed in the application of the principles and the norms that were originally set for as the foundations for the system; there are failures that make it imperfect, I'd say promising but imperfect, in the delivery of public goods. Let me illustrate what I have just said by focusing on developing countries and why I believe this is promising but imperfect. First of all, we have to think about the context in which we currently operate. It was mentioned this morning that we are in a globalizing world that is characterized by inequity: we are talking of countries in the WTO that have average per capita incomes about 60 times higher than many other countries in the same system; we have countries where the chance of a new-born to reach the age of 65 is less than 30% if he's born in southern Africa but about 95% if he's born in Europe; or in terms of knowledge, systems of research and development and innovation, such that while in the US 300 or more patents are filed every year per 100,000 inhabitants, in Brazil the number is lower than 0.5. So there are in reality enormous differences among nation-states participating in a system based on compromises that result from negotiations among un-equals. These negotiations take place between actors that mostly behave in a mercantilist manner or that advance mercantilist interests and within *reciprocal bargain* dynamics. Representatives of executive branches negotiate on *quid pro quos* not only on market access and concessions of goods but also to define disciplines and rules. The outcomes so far reflect the imbalances and the differences in economic performance of the various countries but also mercantilist interests behind governments' positions. As an illustration, I note a case that I bring from a conference just a few days back in Dacca, in Bangladesh,. Today Bangladesh pays 330 million dollars for about 2.1 billion dollars of exports to the US, while France pays about the same amount, 330 million dollars, for 20 billion dollars of export to the same market. That gives you an idea of how the system fails in the delivery of the most basic promises on its core function of liberalization in what should be equitable terms.

I'll now run through a few notes that I made, trying to respond to the argument you just expressed in opening the session. Allow me to focus on the politics of all this now. On the one hand we have a situation of international bargaining where as a matter of fact, the internal politics of some matter while the internal politics of others don't. In such scenario, if the US or the EU face internal political complications in reforming their agricultural policies or bringing about structural reform in their textile sectors, then the smaller, the medium-income countries and obviously the low-income countries, have to accommodate to those internal politics; but if something similar happens, as it indeed does, in the domestic functioning of small- or medium-income countries,

they are compelled to behave as *takers* in the international bargaining system with very little or null chance that their political worries be actually taken into account. Hence, notwithstanding the multilateral nature or pretension of the system, with its contractual personality and rules-based designed, a governance architecture prevails characterized in power terms, with *takers* and *makers* of norms and terms, and a negotiating platform incapable of correcting in-built imbalances. At the national level, as in the multi-lateral level, we also maintain trade policy-making that, as said before, allows for the persistence and pre-eminence of mercantilist interests over broader public objectives underestimating the effects of import trade and privileging the export interest of countries. This can be offset - can be said that it's being done particularly in the European space- through the establishment of participatory systems of trade policy formulation design to openly seek to privilege public goods and policy interests. This is the most critical change necessary from a public goods perspective, and so far seems to be moving in at a slow pace, as it requires enabling actors to participate in complex negotiations. With respect to the coverage of disciplines, multilateral rules have extended from border rules to beyond-the-border regulations. In this context, there is a very fuzzy notion of what distinguishes the space governments have to regulate domestically from what is market-access. Reviewing the main agreements makes it obvious that they don't reflect a common project or a shared vision, it is mostly about equal rules among unequals, notwithstanding some very soft laws to deal with different levels of development. So in that sense I wondered if negotiations shouldn't be limited to market access in the form of tariff concessions and the making of rules shouldn't be dealt with in a different manner. Also, rules that because they are the result of negotiations and compromises are perceived as being written in stone. There are very few instances within the rules with built-in review mechanisms, but in general it's very hard to take what should be a systems approach to the rules, what economist Gerry Helleiner calls *rolling rules*. Rules should be apt to be tested against the actual delivery of the policy objectives they were designed to advance. That again is almost impossible to do in the system because you would be offsetting this balance of concessions and rights and obligations that result from the reciprocal bargaining of trade negotiations. Then there is the question of differentiation between countries. Effective differentiation between countries is also a failure in the system. In the current round of negotiations there's an attempt to address this, a proposal has been discussed for the implementation of rules in a modulated manner among unequal partners, as opposed to differentiated rules on the basis of gross domestic product, which is what has been done in the past.

Two more issues to conclude that would require more thinking from the perspective of global public goods and their delivery: there are issues that have no home in the system, we have discussed some of them like domestic competition policy and investment at a global level. In a globalized world there is no doubt that lack of competition policy at a global level is almost non-sensical. There is no indication of where to place those kinds of topics and issues, and the emerging systemic component of preferential trade and integration arrangements might not be the place to do so. And finally the non-trade responses to the effects of the trade regime and the adjustment of countries to the rules of the trade regime is also something that requires better thinking in terms again of the delivery of the public goods. It's something that is being discussed within the current negotiations: again whether it is through the international financial institutions - there are big doubts about that - or whether a new mechanism can and should be created, to deal with that kind of adjustment needs. I'll close here; I had some more comments on knowledge as a public good and the international system but I'll maybe come back to that tomorrow.

