The former director-general raises the alarm: the proliferation of bilateral and regional agreements is changing the dynamics of world trade and is making multilateral negotiation more difficult. The consequences, especially for the world's poor and developing countries, could be disastrous. Industrialized countries would also have a lot to lose. And as for Europe, Renato Ruggiero sees signs of recovery. Angela Merkel, for example …

Ruggiero: what's at stake if WTO breaks down

WORLD ECONOMY

edited by Vittorio Borelli

Twice minister in Italian governments, Renato Ruggiero has also been an efficient and appreciated director of the World Trade Organization, to which 150 countries belong. A career diplomat, Mister Ruggiero has also served as ambassador to the world's major capitals and has directed Italy's Foreign Ministry a number of times. A few months ago, in **east**, he raised the alarm concerning the crisis in the WTO and the proliferation of bilateral agreements.

Ambassador, at the last meeting of the WTO held in December in Hong Kong, things came very close to total breakdown. As often happens in these cases, a compromise was put together at the very last minute. And then at Davos, at the end of January, the ministers taking part in the World Economic Forum managed finally to set out a clear agenda and schedule to tackle the problems on the table. But it was quite a struggle! Just what is going on in the organization of world trade?

As many know, there is a round of multilateral negotiations going on at the moment, involving 149 countries from all over the world. These negotiations began four years ago in the wake of all the high feelings and problems that were triggered by September 11. The main aim was and is to get everyone onboard to improve the living conditions and economies of the world's developing countries, not just using aid but also trade, which would allow less developed countries to export to more developed ones and so accumulate independent resources to invest in development.

You're talking about the Doha Round …

Exactly. At Doha in Qatar we decided to embark on a new round of multilateral negotiations focused on development. The past four years have been very difficult, and a lot of issues have come together. In my opinion, though, two opposing trends stand out from all the confusion. On one hand, the process of globalization, or, if you prefer, of reciprocal interdependence between the different countries and regions of the world, has gone ahead; while on the other we have seen the rise of all manner of clashes, be they religious, cultural, social, political. These clashes, unfortunately, are very broad in scope and particularly complex. It is as though the world were heading at one and the same time towards greater unity and

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increased fragmentation, towards a kind of Balkanization.

Great ambitions and great disappointments.

Well, yes. We started out with grand ideals and finished up bogged down in a quagmire of contradictions, not all of them foreseen, or even predictable. And in the meantime a shift in economic geography and the hierarchy of world financial powers has begun. China has grown enormously, and so have India and other emerging countries. China is now number four in the world, on the heels of the United States, Japan and Germany, but has already overtaken the UK, France and Italy. Many experts are predicting that in the next 15-20 years, China will reach the number one slot, followed by India and Brazil, and that the US, Japan and Germany and the others will fall behind them. A real upheaval in the world's balance. Europe, sad to say, is not taking an active part in this change in world order. It seems to be focused on its own problems of growth and the contradictions inherent in the march towards political union. We have no real ambitions, even though we are a rich continent with a population of 400 million. This could be because we're afraid that to become a global player we may have to lose some of our privileges. That will happen anyway if we reduce the gaps between the world's rich and poor.

What impact does this new map of economic power have on the WTO?

Well, the rise and overlap of all these events in a delicate phase like the one that followed the fall of the Berlin Wall, when

_Negotiations have been given a fresh impetus by the arrival on the scene of lead players in the developing countries. The G90, added to the G20, includes Asian, Pacific and South American countries

people began asking questions about the future of the global balance of power, about the way the world was going as we had known it up until then… All that has had a huge impact on multilateral negotiations. And there is another factor, one I consider to be very positive: the arrival on the scene of the developing countries, but this time as key players. In Cancun, when the Doha Round broke down for the first time, the emerging countries set up a group called G20, which includes, among others, China, India, Brazil, Argentina, Pakistan. This new group gave emerging countries a bigger role in negotiations. At first the industrialized countries reacted badly; they weren't expecting such well-articulated demands, especially regarding agriculture. The G20 was then joined by the G90, made up of countries from Asia, the Pacific and Latin America. This group also includes the G32, whose members are among the poorest countries in the world. By the time we got to Hong Kong the idea was to work out the issues still on the table and present formal proposals by the summer, and close the negotiations by the end of the year.

And instead?

Instead, we arrived in Hong Kong with very different and divergent points of view on many aspects of the negotiations, in particular on agriculture, which is still the most difficult obstacle. One positive thing did come out of Hong Kong: in spite of the mounting problems and the flimsy results obtained at the time, we were all determined not to give up, but to carry out, to formalize the partial results that had received consensus and to push ahead with the round.

Can you give us a concrete example?

The package brokered in favour of the 32 poorest countries in the world. I mean the deal whereby the industrialized nations

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undertook to eliminate all tariffs on imports from the poorest countries as well as to abolish export quotas from those countries.

Protectionist barriers weren't completely abolished, though.

97% were abolished, but Europe was not responsible for the other 3% as Europe has already eliminated all trade barriers. The US did not feel inclined to lift the barriers totally. The remaining 3% is a considerable factor for poor countries, but, as you pointed out, at Davos these countries declared they were ready and willing to carry on until the end of the round. Another important decision taken at Hong Kong was the elimination of farm subsidies by 2013, as these subsidies push products from poor countries out of the market and expose them, even in their home markets, to unfair competition from rich countries. Now we have to take an equally important step, and totally eliminate barriers to exports from poor countries.

Nevertheless, the decision to postpone a number of measures to 2013 led one African head of State to remark that "Our farmers will have starved to death by then".

This is a very important point. We industrialized countries have gone from an average level of around 40% protection, with very high levels for some products, to around 3%-3.5%, and some sectors are completely open. As markets have opened up and as other countries have become involved in world trade, the problems have grown. And there has been an increase in understandable resistance within the two most developed markets, the US and Europe.

So what's next?

It's not a question of stopping a process that is, after all, useful to everyone. Rather we have to govern it so the industrialized countries don't experience unacceptable levels of financial or social damage. The crux of the matter is balance and timing. Angela Merkel has said some very interesting things on the subject: we need to push ahead with liberalization, but we need to do it within the framework of competition policy, a policy that requires very strict rules. Not to shore up, or regiment, or make world trade more bureaucratic, but to make sure every country gets the necessary guarantees. This is a task that has to fall to the more developed countries, through policies that reduce the costs of social restructuring. In my opinion this is a stance that we are still quite far from in Italy. During the cotton wars it was a question of subsidies to the richest countries which suffocated production from emerging countries. To get back to those people who complain about things going too slowly, I can only say that there are no shortcuts. Things have to be done in the right way and at the right time so we can reach our goal without going off the rails or hitting a crisis point.

Not so easy when you're literally invaded by goods that cost ten times less than ours, as is the case with textiles.

I'd like to make one thing clear about the European, and in particular the Italian, textile sector. Many people today complain about the invasion of low-cost Chinese goods, as if they had just discovered this phenomenon. These same people forget that we've had at least twenty years to prepare for this event. The negotiations to admit China into the WTO lasted ten years. At the end it was decided to have a ten-year transitional period for the textile sector, to allow time for complete liberalization. Today, after some very tough negotiations, we are currently in a second, three-year transitional period. But if we waste this period without doing anything to convert our production, then it's obvious that we alone will be responsible for the social and economic upheavals that will follow.

In Hong Kong, the US negotiator Bob Portman had some very harsh words for his European counterpart, Peter Mandelson. Why?

Europe and the US have always clashed over trade. People shouldn't be shocked if criticism is hurled from one side of the Atlantic to the other; it's just part of the relationship. Portman and Mandelson are heavyweights, of course, but I wouldn't read anything personal into their clash. Simply put, they represent divergent points of view and interests, united by a shared will to reach agreement.

For some time now, you have been saying that the WTO risks being undermined by the proliferation of bilateral and regional agreements. But couldn't bilateral

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agreements complement and complete multilateral negotiations?

The difference between bilateral, or preferential, agreements and multilateral, or non-discriminatory, agreements is extremely important. The difference is political, not technical. At the end of the Second World War the multilateral exchange system was set up, GATT was created, based on the "most-favoured nation" clause which automatically transfers to third-party countries in the agreement the rights negotiated in the agreement itself. This principle is, in political terms, highly significant, because it tends to create the same rules for everyone, and also because it provides for a distribution of benefits that favours everyone and not only the signatories to the agreement. This has been the driving force behind the promotion and expansion of world trade. Preferential agreements take the opposite course: benefits are limited to signatories and this inevitably opens the way to a potential clash with parties excluded from the deal. The reason we now have so many of these agreements is precisely because excluded parties have felt the need to defend and protect themselves from preferential deals signed by others. We now have 190 regional or bilateral preferential areas, 70 preferential negotiation areas, 40 preferential areas in development, including major preferential areas such as USA-Japan, USA-Korea, China-India, China-New Zealand, China-Gulf countries.... A real rising tide! There are certainly interests worth pursuing or safeguarding within these areas, but very often it's just a case of needing to strike a balance against other preferential agreements and areas. So countries discriminate in reaction to discrimination. The exact opposite, we could say, of what the founding fathers of free trade and open markets had hoped for.

And of course, it is the poor countries that pick up the bill.

Exactly. If this way of thinking prevails, then who among the industrialized countries will bother to strike deals with the less developed countries of Africa, Asia, Latin America. That's why I say that if the Doha Round fails, there will be no limit to the expansion of regionalism and bilateralism and we will find ourselves redrawing the map of the global economy, with the risk of a very serious political backlash, and with equally serious fallout in terms of break-up. This is already evident in Asia, where 16 countries came together at the highest level – without the US and Russia, present only as observers – and agreed to set up an Asian community along the lines of the European model, only more pragmatic and less institutional. This is certainly a difficult project to fulfil in today's climate, given persistent nationalist tensions, but it does give an indication of the direction those governments want to move in. And in the wake of this agreement, the US has approached Korea and Japan to promote a preferential area clearly meant as a counterweight in opposition to the other area. And thus it goes on, in a kind of perverse spiral.

Do you see any connection between these difficulties at the economic level and

weak political leadership in Europe and the US?

As Marco Deaglio said a few months ago in an interview in **east**, China, India and the Asian countries contributed 55% to world economic growth in 2004. The US contributed 17% and Europe 7.4%. These figures show clearly what the major economic forces are today. The US is still leader, but their economy is beginning to show cracks, in particular the huge current account deficit, which means they need to attract an influx of two billion dollars from abroad every day. By the same token, China will also have to deal with the consequences of a development model that creates imbalances and inequalities and fails to eliminate huge areas of poverty. As citizens of the world, we are all standing on very shaky ground. Emerging terrorism is also an evident sign of this.

The U.S. remains the strongest, but its wellbeing increasingly depends on third countries such as China. Who will also have to deal with the consequences of a development model that creates imbalances and fails to eliminate areas of poverty

The recent Russian gas affair has pushed Vladimir Putin back into the political and economic limelight. In your opinion was this just a coincidence, or does the energy issue hint at a new political strategy from the Kremlin?

A senior Russian diplomat once said to me that "We Russians have to understand and accept that for the West the whole democracy business is a structural, not an instrumental, issue, that it is not just some ruse designed to get the better of Russia. At the same time you have to understand that with our history we cannot just slip into a democratic system similar to America's or Europe's. We need time. And you need to be patient enough to accompany us in this process without forcing anyone's hand". What I mean is that we shouldn't be surprised by the ups and downs Russia might experience on her journey to democracy. We mustn't hinder this process; indeed we should encourage it. On the energy issue, I believe it is an objective problem that has been badly managed. The Russians had a problem with prices inherited from their recent past. Given that the USSR no longer exists, it is only logical that the new situation should gradually be acknowledged and the preferential agreements that once existed phased out. I think recent events stem from this, and not from some lucid political desire to make improper use of energy as a weapon. Such a shift in thinking would go against the interests of the Russians themselves. The situation was made worse by the bad weather which gave the whole affair wider coverage than probably anyone wanted. I am convinced that Europe needs to see Russia as a country that can make a significant contribution to world peace and development, and these should spur both them and us to try to understand each other better. This was also the wider meaning of this year's G8 meeting in Moscow under Russia's presidency.

As well as developing further understanding, perhaps Europe needs to develop a common policy

I totally agree. In this, as in other areas, Europe is definitely lacking.

Earlier you mentioned Angela Merkel. Do you think Mrs. Merkel can inject new hope into European integration? In her first declarations, it would seem she wanted to underline a number of divergences from France, Germany's long-time partner.

I'm convinced that Chancellor Merkel represents new hope for Europe. And I don't believe that Germany can, or wants to, do without France. Often the relationships between allied countries depend on the degree of familiarity between their leaders, on their leaders' characters and so on. Angela

_Continue with liberalisation, but do so without giving up a policy of competition that, however, should have precise rules to offer guarantees for all: this is German chancellor Angela Merkel's opinion

Merkel has just arrived on the scene, so of course her relationship with Jacques Chirac has to be built from scratch. On the basis of the information in my possession, I believe that Germany wants to maintain strong ties with France. Perhaps in a less conspicuous and irritating way than in the past, but that would be a good thing. In a community as vast and varied as the 25-member European Union, we need to have a clear reference point, solid ground to stand on. Some people have talked of a two-speed Europe, of variable geometry; but whatever we want to call it, the real problem is to not get stuck in the morass of crossed vetoes. We can handle anything, really, except paralysis. And the people who would like to make the process of further European integration more difficult will have to understand that in the long run the responsibility for a multi-speed Europe will be theirs.

An illuminating example of what Europe shouldn't be was seen first in Italy and then in Poland regarding the handling of public offers of acquisition (opa) of banks.

The problem of the relationship between national and EU interests can never really be entirely resolved. And the problem concerns all of Europe's partners, not just the most recent ones. The latter have to acquire EU rules from others, and that will take time and effort. There is nothing very surprising or shocking about this. The Commission merely has to do what people expect it to do, that is, ensure common regulations are complied with, and not back down in the face of individual interests.

After the elections in Germany, how do you see Europe politically?

I can see some very interesting signs of recovery, especially in politics. I've already mentioned Angela Merkel. But there other positive signs, such as the book by the Belgian Prime Minister which re-launched the idea of the European journey along both traditional and innovative lines. Also the Austrian presidency is moving along the same lines.. Institutional debate is growing out of the deafening silence left in the wake of the French and Dutch "No" to the Constitution. We are beginning to glimpse something new and positive.

With elections so near at hand, Italy can hardly act as a driving force in Europe.

On the contrary, the elections should provide an excellent opportunity to put the finishing touches to a strategy to re-launch Europe from within, and in the world, and to re-launch our own role in Europe. But I don't believe these are the major themes dominating electoral debate in a quintessentially Italian dispute, which seems heedless of the fact that we live in an increasingly interdependent world.