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Venue: Japan Institute of International Affairs

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Theme: “The Changing Landscape of the WTO”

Two major changes can be seen regarding international trade in recent years. One is the rise of emerging countries, and the other an increase in interdependence between states due to expanded trade. The development of industrializing nations has expanded the scale of the global economy, and emerging economies have now acquired tremendous influence in terms of GDP, trade and investment. Trade has also been expanded by the development of increasingly global supply chains in line with a growing division of labor in production processes.

The extension of global supply chains has added to the complexity of trade structures, necessitating a detailed analysis of its impact on employment. The mainstream pattern for many products now is for manufacture to take place in China, after which the goods are imported by developed countries for domestic sale. It might seem at first glance that such a pattern of trade would only increase employment in China and would adversely affect US employment, but this interpretation is erroneous. For instance, the US gains about four times as much added value for computer equipment manufactured in China for a US manufacturer and then exported to and sold in the US than does China.

It is not necessarily a good idea to assess current-account surpluses and deficits from trade statistics that show only simple export and import amounts and then seek on that basis to harmonize interests between countries. There are incidental services involved in the process of manufacturing goods and, bearing in mind that there is considerable service input before and after the manufacturing stage – design, layout, marketing, sales, warranty, etc. – policy examinations from the perspective of which portions are gaining how much added value have taken on greater importance.

While considerable progress can be seen in lowering tariffs as the numbers of bilateral and multilateral preferential trade agreements rise, future attention will likely focus on the reduction of non-tariff barriers. The benefits of facilitating trade in these preferential trade agreements have extended even to third countries, and have contributed substantially to

furthering trade. On the other hand, it is also true that the actual amount of trade utilizing preferential trade agreements has not grown in proportion to the number of these agreements, due in part to the increasing complexity of rules of origin. The special regulations and rules set forth on the basis of preferential trade agreements could even become major barriers in the course of moving toward future multilateralization.

The trade environment is changing moment to moment as a consequence of technological innovation, changes in business practices, and transformations in production processes. Approaches to WTO negotiations need to be updated in line with these changes. For instance, should closely-related goods and services be addressed separately in negotiations? Are there more innovative methods available for managing rules of origin? How should non-tariff barriers be converged? Should discussions on trade and investment continue to be decoupled? Is it necessary to distinguish between commercial policy and competition policy when examining trade? Should the whole concept and effectiveness of trade remedy measures be reconsidered? Questions such as these should perhaps be given some thought.

The changes in trade structure in recent years appear to be closely connected with the influence wielded by Japan, which boasts strong technological and logistical capabilities. Asia, where intra-regional trade is booming, has become a key battleground in the extension of supply chains. In this sense, too, I would like to see Japan, with its considerable knowledge and leading-edge status, give in-depth consideration to these issues and generate answers. I look forward to Japan's cooperation in studying the best direction for the future in continued recognition of the importance of developing a stable and functional multilateral trade system.