

7<sup>th</sup> Belt and Road Summit

## **New challenges of International Trade and the Role of the WTO**

Speech by Mr. Xiangchen Zhang, WTO Deputy Director-General

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Dear friends, ladies and gentlemen,

It is my great pleasure to speak at the Belt and Road Summit. I thank the Government of the Hong Kong Special Administrative Region and Hong Kong Trade Development Council for your kind invitation.

Hong Kong is one of the most open and dynamic economies in the world. It is also a strong supporter of the multilateral trading system and the World Trade Organization. We thank Hong Kong for its active participation in the WTO activities and its remarkable contribution to the multilateral trading system. As the world's 6<sup>th</sup> largest exporter of goods and 3<sup>rd</sup> largest destination for foreign direct investments in 2021, Hong Kong's success showcases the role of trade in promoting economic development. The Belt and Road Summit brings together government officials and business leaders from different parts of the world to exchange insights on trade and economy. Organizing this Summit fits in perfectly Hong Kong's long strategy of promoting free trade. I would like to take this opportunity to share my observations on international trade from the policy perspective and the role of WTO in addressing relevant challenges.

Let me start by referring to the **WTO's recent report on the world trade performance**. Last week, WTO published its latest version of the Goods Trade Barometer. The report shows that the global goods trade continued to grow in the second quarter of 2022, but the growth pace was slower than in the first quarter and is likely to remain weak in the second half of the year. According to the WTO's statistics, the year-on-year trade growth already slowed down to 3.2% in the first quarter of 2022 from 5.7% in the fourth quarter of 2021. The report gave a couple of reasons for the slow down and the gloomy outlook, including the impact of the conflict in Ukraine and lockdowns in China.

The report reflects the challenging trade environment faced by both the business community and governments in our time. Having been working in the trade policy area for more than 30 years, I have a strong feeling that the international trade policy landscape is undergoing reshaping which will have far-reaching effects on business. Let me elaborate on a few factors that are of significant weights in this process.

First, the ongoing **pandemic** has been producing a significant effect both on business decisions of the private sector and trade policies made by governments.

The COVID-19 pandemic has been there much longer than we had expected. In many countries, the COVID is gradually withdrawing from the public eye and life and business are returning to the normal track. But the pandemic has not gone. In some parts of the world, the health situation is still a big concern. In addition, its impacts on our life and business are profound and far-reaching. The immediate impact is the pandemic's unprecedented disruptions to supply chains on a global scale during certain periods, such as severe shortage of labour and containers, the steep surge of freight rates, massive port congestions.

In a long term, the pandemic has changed enterprises' and governments' perception of supply chain security. Investors have to reassess public health-related risks when locating their production lines and establishing their supply chains. Resilience against pandemics is one of the factors to be taken into consideration. On governments' side, the accessibility to essential medicines and health products becomes a policy priority. Export restrictions introduced by some governments on certain such products and chaotic procurement practices and competition between different importing countries reinforced the belief upheld by some governments that the production of such goods should be relocated home or nearshore. With this perception, new administrative measures for the purpose of deconcentration or relocalization of production have been introduced in some countries.

Second, **geopolitical tensions** have been another factor that changes governments' perception on national security. In the past few decades, the national security perception was based on the principle of free trade. The basic logic is that when goods flow freely across borders and with the blessing of international free trade rules, governments are able to obtain relevant products even though they are not produced domestically. To achieve this goal, the WTO rules generally prohibit restrictive measures on imports and exports. Meanwhile, governments are allowed to take necessary actions for national security purposes.

However, in recent years due to rising geopolitical tensions, some governments are reviewing their perception on national security. For example, the conflicts in Ukraine have raised worldwide concerns about food security in net food-importing and less well-off countries due to disruptions to transport and logistics and the surge of food price. The supply of fossil fuels is another area where disruptions have been made by the conflicts. We don't know how long the conflicts in Ukraine will continue and we do hope that they can be settled as soon as possible. Whatever it will

be, the impact of these geopolitical tensions on trade will remain long. Similar to the response to risks caused by the pandemic, many measures have been introduced to relocalize production of essential goods to cope with such tensions.

Actually, the change of national security perception started well before the conflicts in Ukraine. There were already measures introduced in some countries on high-tech products, such as 5-G telecommunication technologies and products, basic pharmaceuticals, semi-conductors, etc. While it is the legitimate right of every government to take necessary actions to protect their national security, the compatibility of relevant measures with the spirit of free trade upheld by the WTO is a challenge faced by the multilateral trading system. More dialogues and cooperation are needed for WTO members to downplay their negative impact on global supply chains.

The third factor I would like to highlight is **climate change**. Climate change is not a new concern. The discussions centred on this topic has been going on for years. It has now become a widely recognized goal that the world economy should turn low-carbon, green and more sustainable and collective actions by all countries are needed to address this global environmental challenge. The recent record-breaking temperatures and historical dry in many parts of the world reinforces both governments' and the civil society's determination to take actions. Trade and trade policy will be a part of the toolbox. WTO rules gave less weight to environmental considerations in the past. It is now working on new rules in this regard. However, it takes a long time before any pro-active rules can be adopted.

Many countries are already introducing trade measures that take carbon dioxide emission into consideration. More are expected to follow up. How to ensure these measures compatible with the WTO rules and principles will be an issue to be reviewed by trade people. For private sectors, conformity with these new regulations will be another challenge in their business practices. Carbon emission is just one of the most urgent environmental issues to be tackled. Trade measures in response to other environmental concerns would arise in the future.

The last factor I would like to touch upon is the **anti-globalization sentiments**. Globalization has been the feature of the modern society since the 19<sup>th</sup> century following industrial revolutions. It has significantly changed the modality of production and trade by featuring global markets and global supply chains. Globalization helps achieve the optimal allocation of resources worldwide, increased efficiency of production, lowered costs, and improved welfare of the whole human society.

However, globalization has not always been on the upward trend. There were ups and downs. The current wave of globalization started in 1990s and had its golden time in its first decade. The creation of WTO in 1995 was a historical milestone in globalization. When I started my career 30 years ago, the WTO was a shining star in global governance. Major trading countries set the tone and led the way of the WTO's work to significantly remove trade barriers through negotiations. People showed their support for WTO and free trade and set out a high ambition for the Organization to produce new trade rules to further liberalize trade. However, in the past two decades, WTO failed to deliver major outcomes to address issues set out in its agenda until its recent ministerial conference.

Every time when WTO held its ministerial level negotiations, anti-globalization groups protested outside the negotiation rooms. It also became more and more difficult for WTO members to reach consensus on trade issues, even on setting out the negotiation topics. This reflects the growing doubt about globalization. Anti-globalization even became a sentiment in many countries.

There is something going wrong in globalization. But it is not the globalization itself. Rather, it is the way that globalization is carried out. As I mentioned earlier, globalization is about the relocation of production to achieve the optimal use of resources worldwide. This means that some groups will directly benefit from globalization and some others will lose. But overall, the whole human society will benefit as a result of increased efficiency and lowered costs.

The concerns of the losing groups are legitimate and should be addressed sufficiently. Governments should take proactive actions to help those groups to adapt to the changes. When governments fail to do so, anti-globalization becomes a sentiment. Having said that, it is my strong belief that anti-globalization sentiments will not block the whole course of globalization. There will be setbacks. But the overall trend of globalization will continue whether you like it or not.

These are the four major factors I believe that would affect the reshaping of future landscape of global trade policies. It is very challenging but can still be managed well if the whole world works together. To address these challenges, I strongly encourage enhanced dialogues and cooperation between all governments to find collective solutions because none of these challenges can be addressed by one government alone. Global challenges require global solutions.

WTO has been working hard to respond to those challenges. The recent success of the 12<sup>th</sup> Ministerial Conference of the WTO is a good example. I would like to share with you the **outcomes of this conference**.

First, let me highlight the overall background of this conference. Ministerial Conference is the WTO's topmost decision-making body. It usually meets every two years. Negotiation of new trade rules is always the most important item on the agenda of a ministerial conference. This year's conference was originally scheduled to take place in June 2020, but was postponed due to the COVID-19 pandemic. The ministerial conferences usually discuss a wide range of trade topics, for example, tariff reduction for both agricultural products and manufactured goods, non-tariff barriers in trade in goods, rules on subsidies to different industries, liberalization of sectors of trade in services, domestic regulation issues, etc., depending on the maturity of discussion of each topic in the lead up to the ministerial conference. This year's ministerial conference chose to focus on new rules on fisheries subsidies and trade policy responses to COVID-19 and other emergencies of our time. Following several days' and nights' consultations, WTO Members adopted a package of 10 decisions or declarations covering different topics.

In response to the COVID-19 pandemic, members agree to make access to medical supplies and components more predictable in the current and future pandemics. They adopted a decision to waive developing countries' obligation to protect patents in relation to the production of COVID-19 vaccines. This decision will contribute to ongoing efforts to improve developing countries' vaccine manufacturing capacity.

In response to the current food security crisis, members agree to take steps to make trade in food and agricultural inputs more predictable, and hence prices less volatile. They also agree not to impose export restrictions to the purchase of food under the World Food Programme to help the most vulnerable people have access to food.

On fisheries subsidies, members reached an agreement to prohibit support for Illegal, Unreported and Unregulated (IUU) fishing. It also bans support for fishing in overfished stocks. This is the first time that the WTO concluded an agreement with environmental sustainability at its heart.

The conference also agrees to extend the moratorium of customs duties on cross-border digital transmission which will preserve the enabling environment for millions of businesses and jobs that depend on e-commerce.

More importantly, the outcomes of the MC12 demonstrate that the WTO is, in fact, capable of responding to the emergencies of our time. They show the world that WTO members can come together, across geopolitical fault lines, to address problems of the global commons, and to reinforce the institution.

Actually, in addition to the outcomes of the MC12, WTO has also been working intensively to discuss other trade issues, including not only the conventional ones such as tariffs and agricultural subsidies, but also broader and new issues such as expanding opportunities for Micro-, Small- and Medium-sized enterprises to participate in international trade, digital transformation, trade measures to tackle plastic pollution, trade measures in support of women empowerment, and trade and sustainable development. We hope that with the joint efforts of all its membership, the WTO will maintain its role as the major rule-setting body for global trade and will make its contribution to addressing the common challenges in our time.

Ladies and gentlemen, we are in a time of challenges and changes. Each of these challenges and changes require collective wisdom and joint efforts for appropriate solutions. The Belt and Road Summit serves as a great platform for us to reflect on these issues. I hope all participants can share ideas and find opportunities for cooperation in this two-day event. I wish the Summit a great success! Thank you.