International Monetary and Financial Committee

Thirty-Fourth Meeting
October 8, 2016

IMFC Statement by Roberto Azevêdo
Director-General
World Trade Organization

IMF COMMITTEE OF GOVERNORS, 8 October 2016

Mr Roberto Azevêdo, Director-General of the WTO

This year will mark the fifth consecutive year of trade growth below 3%. The WTO's forecast for trade expansion was revised downward last week (from 2.8% to 1.7%). This would be the weakest growth since the financial crisis, and 2017 does not look much more promising. Trade growth will continue to hover around GDP growth and there remain many downside risks. Such a long and uninterrupted spell of sluggish trade growth has not been seen since the early 1980s.

While the steady and growing application of trade restrictive measures has played a role in suppressing trade growth, the biggest factor has been the shift in the composition of aggregate demand in emerging market countries, from most trade-intensive (investment and exports) to less trade-intensive (consumption and government expenditure),. This is illustrated, for example, by the higher contribution to growth of domestic consumption and government expenditure in China. The sustained slow-down of fixed investment in developed countries also plays an important role.

Some have taken the slowdown in trade to mean that globalization is unwinding. But our data indicates that global value chains continue to be a major force in world trade as illustrated by the fact that trade in intermediates, such as parts and components, remains steady as a share of global trade.

Still, we must be attentive to the declining public sentiment regarding trade liberalization, and trade agreements in general, as this can lead to increased protectionism, notably in the sectors facing over-supply. The sentiment that gains from trade are distributed unfairly across the population, and that the negative adjustment from trade liberalization falls primarily on the middle-class, can be strong. This is why the global trading system must be inclusive, notably with a system of negotiations and enforcement of rules that combats unfair trade and reflects the interests of all categories of countries and populations.

At the WTO, we are mindful of this. Reducing trade costs can play an important role in re-vitalizing global trade. While trade costs may be as high as 170 percent ad valorem in developed countries, they are the equivalent of a 219 per cent import tariff in developing countries. It is estimated that a reduction in trade costs of just 1% can support a 3-4% increase in international trade. Given these magnitudes, cutting trade costs could have a dramatic effect on world trade.

In recent years, the WTO has had a number of notable successes, including securing a landmark accord on trade facilitation, as well as the elimination of tariffs on information technology products. We estimate that full implementation of the WTO Trade Facilitation Agreement could reduce trade costs of WTO members by an average of 14.5%. Progress is being made in the ratification process for the agreement to come into force. In Nairobi last year, trade ministers agreed on a package of important measures to enhance LDC participation in the trading system and reached an historic agreement to abolish agricultural export subsidies. A group of WTO members also agreed to expand the original Information Technology Agreement by eliminating tariffs on 201 new IT products which did not exist when the original Agreement was concluded. Trade in the products covered by the new agreement is valued at approximately 1.3 trillion dollars each year. In addition, there are ongoing negotiations on environmental goods, which aim to remove barriers to trade in goods that are crucial for environmental protection.

I urge ministers to continue to give a high priority to multilateral trade negotiations and to voice their support for WTO agreements and negotiations.