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# The New World of Trade Is All About Values and Consumer Risk

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*This article is adapted from the Jan Tumlir lecture recently delivered at the European Centre for International Political Economy in Brussels.*

BRUSSELS -- We are transitioning from an old world of trade to a new world, where trade opening has become a very different game of great consequence for the future.

The old world of trade was a world where production systems were national and where obstacles to trade were about protecting domestic producers from foreign competition. By contrast, the new world is a world where production is transnational along global supply chains of goods and services and where obstacles to trade are about protecting the consumer from risks.

We are not yet totally out of the old world, we are not totally yet in the new world; we are somewhere in between. We are moving from the administration of protection -- quotas, tariffs, and subsidies -- to the administration of precaution -- security, safety, health and environmental sustainability. This is a new version of the old divide between tariffs and non-tariff measures.

In this new world, certain features of the old world will not change.

**First, opening trade by reducing obstacles to trade or restrictions to trade promotes growth and welfare.** But this only works under some conditions. Creating economic gains is one thing, but creating social gains is another.

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Opening trade creates efficiencies. It works because it is painful. It is painful because it works. But the pain is more poignant for the weak. Appropriate policies are thus needed for social justice.

**Second, opening trade by reducing obstacles is about leveling the playing field and doing this in a predictable way that creates stable expectations.** The system is straightforward: you get rid of protective measures, you reduce them, you kill them.

In today's world of precaution, it is a totally different game. If a European trade commissioner goes to the European Parliament and says, "Ladies and Gentlemen, I am in favor of opening trade in flowers -- a great thing for exploiting comparative advantages, notably for our African friends -- so I have decided to submit to you that we have different maximum pesticide residues for flowers from Rwanda because it is a poor country, for Costa Rica because it is a middle income country and for Israel as it is a high income country" -- that will not work.

What we used to do with tariffs cannot be done with standards, certification and conformity assessment processes. You cannot handle non-tariff measures in the same way as tariff measures. Most (not all) non-tariff measures are precautionary measures, not substitutes for former protectionist measures. And what matters in precaution is not to get rid of the measure, not to "kill" the measure, not to reduce it, but to reduce the differences between the measures, and between various systems of precaution.

## **From the Common to the Internal Market in Europe**

In Europe, getting rid of those regulatory discrepancies was what defined the transition between the "common" market and the "internal" market. The common market was a free trade zone without tariffs and with serious control of subsidies that aimed at protecting domestic producers from foreign competition. But a process of [regulatory harmonization was initiated in 1985](#) so that what limited the common market in terms of economies of scale would disappear with the single market -- hence this whole enterprise of regulatory convergence, harmonization and mutual recognition.

## **The New Politics of Trade Deals**

Opening trade in the new world of precaution has a different purpose. It also has a different political economy. In the old world, when I was a tariff negotiator I knew my

political equation: I had consumers with me who remained silent and I had producers against me who were vocal against increased competition in my domestic market.

In the new world of trade, the political economy is upside down. If I am in the business of regulatory convergence, I have producers with me because they are attracted by the prospect of a single standard which will enable them to realize economies of scale. If you remove the differences between two standards, you level the playing field and enhance efficiencies. But the price for that is that I have consumers against me. Or, more precisely, I have organizations that speak on behalf of the consumers (there is nothing like a referendum for consumers) -- the consumer organizations -- against me. Why? Simply because the business of the consumer organizations is to convince their members and followers on social networks that if they were not doing their job then the people would be at risk. They are protecting the consumer, which is about promoting precaution.

## **'Hey, Danger! They Are Going to Lower Standards'**

"Hey, danger! They are going to lower standards!" they will shout. "It is my level of safety, the one I care about, which is at stake." And because precaution is about risk management, the reaction will be "Stop! I don't want anything that might diminish my level of risk comfort," which is another way of talking about precaution.

This is a totally different political game than in the previous world where consumers were mainly silent. In the new world of trade they become understandably very vocal. And that inevitably generates political tensions.

In the past, tariffs were more or less ideologically neutral. If I exchange my tariff on bicycles against your tariffs on scrap metal, we all know what we are talking about as scrap metals and bicycles are the same all over the world.

But when you enter the world of precaution, the ground is no longer flat. Precaution is ideologically different depending on cultures, history or religion. Think about animal welfare, GMOs or data privacy. The sensitivity here is extremely different and the challenge of leveling the playing field within any range of risks is connected to values. At the end of the day, this has to do with what is good and what is bad. And "good" and "bad" have to do with values. They are areas where the spectrum of preferences among different groups of people is extremely wide.

## **More Barriers, Not Less**

Previously, the point of trade negotiations was to reduce protectionist barriers. "Less" was the name of the game. In the future, regulators will have to harmonize precaution upwards. "More" will be the name of the game.

*"In the future, regulators will have to harmonize precaution upwards."*

Why? Simply because "more" is the only available political avenue as opening trade by reducing precaution is a no-go for public opinion. "More" probably also makes economic sense as the costs of upgrading precaution are usually more than offset by the gains in economics of scale for the producers who benefit from regulatory harmonization.

This means that the leaders of regulatory harmonization will be the ones where the level of precaution is the highest -- in the most developed countries. This is precisely why the Transatlantic Trade and Investment Partnership makes a lot of sense, not only for the EU and U.S., but also for the rest of the world.

If the TTIP was to come to a conclusion (and my view is that this will not happen any time soon because of its complexity), it would most probably set the world standards of precaution in many areas for goods and services.

## **Trans-Pacific Partnership Is Last Show of Old World of Trade**

While the TTIP is the first show of the new world trade because it seeks to upgrade standards based on the principle of precaution, the Trans-Pacific Partnership between the U.S., Japan and other Asian countries (excluding China) is the last show of the old world of trade.

TPP is mostly, though not only, about classical protection related market access issues, which is why it will be concluded soon, likely with modest results. TTIP is mostly, though not only, about precaution relating to regulatory convergence. The poor progress of the TTIP so far stems from the mistake made by its initiators -- both the EU and U.S. -- when they decided to use a "protection minus" instead of a "precaution plus" narrative in pursuit of a deal.

## **Trade Now Is All About Values**

Trade opening in the new world is as necessary as in the old world, but is also much more challenging. At the end of the day, the principle of precaution in trade is risk-related and thus value-related. It is much more politically sensitive because it makes legitimacy harder to build. Precaution in trade, in effect, re-embeds values grounded in given societies and cultures in what had become a disembedded process of globalization, and thus makes trade negotiations fraught with tension.

The tensions over trade we are witnessing today are therefore a race between globalization -- the increasing connectedness and interdependence of our economic

systems -- and the capacity of our political and legal systems to level the playing field in terms of "collective preferences." A discrepancy exists between the benefits of globalization on the one side and the legitimate values shared by diverse communities on the other.

*"In the world of protection, global market capitalism could live without addressing the 'values' issue. In the world of precaution this issue is becoming central."*

The benefits of globalization go with magnitude, with size. The larger, the better because of the economies of scale. Big is beautiful. Identity, legitimacy and politics go with proximity, the small and diseconomies of scale. Small is beautiful.

In the old world, different values systems could coexist in silos side by side. In the new world, the necessity of harmonizing precaution moves production systems from coexistence under different roofs to cohabitation under the same roof.

This raises the difficult question of how collective should collective preferences be, as demonstrated by the growing complexity of the EU system for GMOs authorization. The famous EU/Canada/Norway dispute about EU measures prohibiting the importation and marketing of seal products is another example. It is a trade measure based on welfare standards for an animal the Inuit hunt as part of their livelihood and cultural tradition, but which clashed with the "collective preferences" of most Europeans.

In the world of protection, global market capitalism could live without addressing the "values" issue. In the world of precaution, this issue is becoming central.