Global Challenges and the Future of the WTO

Edited by Ricardo Meléndez-Ortiz

with contributions from Roberto Azevêdo; Taeho Bark; Anabel González; Tim Groser; Alan Kyerematen; and Mari Pangestu
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Brazil, on 28 December 2012, nominated Mr Roberto Carvalho de Azevêdo for the post of WTO Director-General to succeed the current Director-General. To access the full biography, please click here.

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The Republic of Korea, on 28 December 2012, nominated Minister Taeho Bark for the post of WTO Director-General. To access the full biography, please click here.

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New Zealand, on 20 December 2012, nominated Minister Tim Groser for the post of WTO Director-General. To access the full biography, please click here.

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Additional contributions will be added to this collection as they become available.

*The biographies used here are from the World Trade Organization website.
Preface

From a sustainable development stance, ICTSD has for years advocated the critical role of the WTO in the management of the rapidly expanding - and increasingly interdependent - globalised economy. The relevance today of the market access agreements, regulatory frameworks, and the dispute management mechanisms embodied in the World Trade Organization cannot be questioned. On a yearly basis, trillions of dollars of goods, services, and technologies cross borders through transactions enabled by the adherence to and observance of WTO law by most countries in the world.

This critical infrastructure acts as a backdrop and accommodates countries at all levels of development, making these transactions possible. In a world economy made up of countries with heterogeneous endowments and capabilities, the exchange of goods, services, technologies, investment and talent, support our ways and our routines. In the quest for a fairer and more sustainable world, there is little question of the imperative for frameworks and governance that facilitate our integration into a global community, as well as our transition to more environmentally sound practices and to less unequal societies.

For these same reasons, nobody could ignore the stress imposed on the WTO today by swift shifts in the politics and political economy of trade caused by a number of factors, including, not least, dramatic adjustments in public finances and deteriorating economics in most traditional OECD countries; relocation of vital and robust growth, to still roaring emerging economies - even if unequal in many instances, and at the cost of increased price volatility in food, energy, and other commodities, particularly minerals; sharp alterations in weather; climate change impacts on comparative advantages; water distress; and increasing loss of biodiversity. In the past few years the world has been spinning through its seasons, as if confirming the “zero theses” of the age of anxiety: that we have fallen - simultaneously - into a zero-sum world (Gideon Rachman) and unto a G-zero world (Ian Bremmen). A situation in which competition turns predatory and diminishing of each other’s welfare rather than engendering, and persistently spawning mutual opportunities and wealth; and a world that operates in a deficit of global leadership brought about by a shift in power relations and the inability of any country or group of countries to provide leverage and drive to an international cooperative agenda.

Though built on principles and norms that date back to the post-World War II years, the WTO is a relatively recent institution. The biggest difference between then and now can be encapsulated in two obvious facts: firstly, the undeniable deeper interdependence and integration of national economies into global markets - evidence shows a dramatic increase since 1990 in the GDP share of exports and imports for most countries in the world. And, of great consequence for the WTO’s future, the lessons learned since then.

For the multilateral trade system this all means governing not for trans-Atlantic or trans-Pacific interests, but to a globalised economy and global welfare. It also means moving away from dogmatism on free trade, and away from one-size-fits-all approaches to trade and development policy towards more nimble responses to market failures and institutional shortcomings. This 21st Century WTO is expected to deliver predictability and economic stability, along with markets that support broad public policy societal ambitions.

In the years since the WTO was founded, the lessons learned in this regard have been many. The organisation has been tirelessly attempting to forge its place in this new and challenging world, as proven by the years of negotiations on the Doha Round agenda. But while countries have been engaged in this enormous exercise of better understanding the role of trade
policy and of their possibilities for cooperation, they have also been prolific in weaving a complex web of supplementary regional, plurilateral, and bilateral integration initiatives. Indeed, developments suggest that during these years the critical changes that have also taken place in the way in which production is organised and shared across jurisdictions in complex and dynamic value chains, have been a cause and effect of this phenomenon; this is also the case for the consequential deferred progress on the multilateral front.

The ensuing complexity can be overwhelming, particularly for the less capable and the weakest. From both a practical and a governance perspective, the world risks aggravating asymmetries in information and capacities, excluding some countries or regions from value-creation, and causing harm and diminishing welfare opportunities. Hence the urgency to bring the WTO up to date and to better equip it to more effectively govern the new global economic landscape.

As the WTO prepares for its upcoming leadership transition, we are taking this opportunity to move away from the immediate considerations of what to do about the Doha negotiations, and asking Director-General candidates to instead look further ahead at the longer-range role of the organisation in the global quest for sustainability. Contributors were asked to respond to seven questions, on topics such as the articulation between the multilateral order and the uncoordinated proliferation of plurilateral agreements; the possibilities of preferential trade agreements within the multilateral order; the emerging calls, worldwide, for policies that re-energise manufacturing - the so-called new industrial policy; the imperative of ensuring food security in a wealthier, more numerous and more resource-challenged world; the role of the trade system in effective policy responses to climate change as well as trade in the new geography of energy and natural resources; and the role of trade in promoting structural transformation.

To date we have received texts from Ministers Taeho Bark; Anabel González; Tim Groser; Mari Pangestu; and Chief Alan Kyeremeten for our 8 April edition. This new edition includes also texts from Ambassador Roberto Azevêdo. All responses express a range of viewpoints with valuable depth and nuance, not available in other published analyses. Taking advantage of today’s technologies, we intend to maintain this publication as a living document, inviting further contributions and analysis. We aim to offer by year’s end a full-fledged book, as a lasting input into the debate on the future of the multilateral trade system.

Readers are invited to download the contents of this booklet in PDF form in its entirety, or to click through to the ICTSD website (www.ictsd.org), where they can read individual submissions or read responses on a question-by-question basis.

Regardless of who remains in the race for the Director-General position by the end of April - and further down the road when the process ends in May - these responses help to frame the big questions that stakeholders and WTO members themselves will be facing in the coming years. It is intended to provide readers with new insight into the challenges the global trade system faces, and inform them of the different approaches favoured by these highly competent and authoritative individuals.

ICTSD invites reader reactions through our website, as well as through our LinkedIn group (International Centre for Trade and Sustainable Development) and Twitter streams @ICTSD.

We are very grateful to the contributors for responding to our taxing requests in the midst of incredibly hectic travel schedules and packed agendas. Those candidates not able to respond yet, or at all, have all our sympathies and understanding.
I’d like to also acknowledge the role of several colleagues in making this project possible. Including but not limited to Christophe Bellmann who assisted me in the formulation of this project and the questionnaire; Andrew Crosby and the communications and information teams at ICTSD, including Andrew Aziz, Sofía Baliño, Giacomo Pascolini, and Massimiliano Leone who were all skilful and critical in preparing these electronic publications. Caroline Imesch in my office ably and patiently handled communications.

Many thanks. Enjoy the reading,

Ricardo Meléndez-Ortiz
Geneva, 25 April 2013
Questions
Contributors were asked to respond to the following seven questions.

Plurilaterals

After ten years of complex negotiations, with few substantive dividends expressed in new agreements on trade policy, critics have argued that the WTO’s established rules, principles, and practices, carried over from the GATT, are simply insufficient or ill-suited to the fast changing challenges of our times.

In light of the stalemate in the WTO’s Doha Round of negotiations, discussions have more recently focused on approaches to move cooperation forward including the need to rethink the “single undertaking” principle looking at options such as “variable geometry agreements” including the so-called “plurilateral” and “critical mass” agreements.

In the absence of progress, several countries have also envisaged the possibility of negotiating plurilateral agreements outside of the WTO. In the present situation what, in your view, would constitute the best approach to strengthening the functioning of the multilateral trading system while guaranteeing its fairness, predictability, universality, and effectiveness?

 Preferential Trade Agreements

The relationship between the WTO and preferential and regional trade agreements is a complex and rapidly evolving one. While the WTO has traditionally approached eventual evaluation of such deals following the prescriptions of GATT Article XXIV, the Enabling Clause, and more recently, the enhanced transparency mechanism, this approach might not be enough in the current reality.

Both economic analysis and evidence from performance through the years show that many of today’s bilateral and regional pacts create rather than divert trade and are as complex and sophisticated as the WTO itself, offering indeed a body of rules and practices at the regional level that the multilateral trading system could benefit from. Furthermore, the expansion and consolidation of regional trade pacts through “mega-regionals” poses a set of distinct challenges to the WTO. In this context, how should the WTO deal with these new challenges while preserving the integrity and efficiency of the multilateral trading system?

Industrial Policy

Most development economists and analysts have concluded that growth that leads to generative transformation is not really possible in an open economy without a robust manufacturing sector. Hence, new and old conceptions of industrial policy are shaping the trade policy debate today both in OECD and developing economies. A return to strategic mercantilism is both feared and promoted.

During the global financial and fiscal crises, many OECD economies, now followed by other countries, adopted fiscal, monetary, and trade policies and measures, many with a sectoral target, to stimulate growth, pursuing active strategies to either re-industrialise or establish new industries. In turn, some of the leading emerging economies are looking at ways to emulate the success of China’s state-supported industrial development.

Current WTO rules tend to discipline, if not restrict, the use of industrial promotion instruments, at least the traditional ones - and these recent trends might result in increased tensions and eventually trade disputes between major members. How should the WTO
address the concerns associated with the resurgence of industrial policy in a way that guarantees efficiency and predictability in markets, while remaining responsive to growth and development concerns?

**Food Security**

Today’s global food system is vastly different from what it was in 2001 when the Doha Round was launched. Recent food price spikes have brought food security concerns to the forefront of the policy agenda. As population and income growth keep exceeding productivity and area growth, food prices are expected to continue increasing in the coming years. Low stocks, growing demand for biofuels, and rising energy prices also created the conditions for enhanced price volatility, further exacerbated by trade policy responses such as export restrictions.

Most observers tend to concur that these events mark a transition from a supply-driven agricultural system to a demand driven one and expect prices to remain high and volatile in the coming years. However, international policy frameworks, such as the WTO disciplines on agriculture, have traditionally focused on trade distortions associated with low price markets and production surpluses, but largely fail to address problems associated with production shortages and high prices for food and farm products - not to mention market shifts and issues resulting from climate change, land scarcity, and water scarcity increasingly challenging agricultural production.

In your view, is the framework followed at the WTO for agriculture since Punta del Este in 1986 still central to resolving agricultural trade issues in global markets, or would it need to be adjusted? Also, how and when should the multilateral trading system address these emerging concerns?

**Climate Change, Energy Access and Security**

With climate certain to alter the world as we know it, governments continue to be pressed by the imperative to find cooperative responses. Many of these, including any eventual agreement in the context of the United Nations Framework Convention on Climate Change (UNFCCC), would impact economic activity, entice shifts in relative competitive advantages (for instance in agricultural production and trade), and affect the use of required trade-distorting or restrictive policies. Indeed, many of the policy responses adapted by countries, their subnational entities, or regions such as the EU, already make use of measures that have effects on the export or growth opportunities of other countries (e.g.: emission allowances or the 2012 suspended carbon tax on aviation).

As things currently stand, developing countries find themselves in the most vulnerable side of the equation, both economically and in biophysical impacts. Related to this larger challenge is the rapid move of countries to embrace sustainable energy technologies and scale up their share in energy supply, construction, manufacturing, transportation, and agriculture. Already a race to develop new low-carbon industries has resulted in difficult tensions among many WTO members. The trend is likely to continue and WTO agreements on subsidies, government procurement, local content requirements, market access, services, and standards seem all placed under increasing stress to deal with it.

In your view, how and when should the WTO respond to this reality?
Natural Resources

With the world population and demand for food and consumer goods steadily growing, countries increasingly compete for natural resources at unprecedented scales. The trend has already generated anxiety, resulting in an increasing body of analysis on scarcity and planetary boundaries. It has also prompted multiple initiatives seeking collaborative governance schemes, with the participation of major businesses and corporations active at the international level.

Assuming no major, protracted slowdown in growth, the OECD estimates that up to three billion more middle-class consumers will emerge over the next 20 years, fuelling demand for a range of resources, including minerals, timber, fuel, water, food (land), and energy. At the same time, roughly one billion consumers still lack access to enabling goods such as energy, food, and water.

In an open economy world, increasingly interdependent, trade-related policy frameworks play a significant role in shaping resource allocation and use as well as production and consumption patterns. Today, in the absence of effective cooperative arrangements, certain unilateral trade policy measures might exacerbate tensions between resource-endowed countries and those that depend on reliable and predictable markets, in particular where essential commodities such as food and energy are concerned.

In this respect what should be the role of the WTO in addressing issues such as perverse subsidies in fisheries or export restrictions to name just a few?

The role of trade in promoting structural economic transformation

In the last decade, the least developed countries (LDCs) as a group enjoyed a period of sustained economic growth, macroeconomic stability, and increased trade and investment. Yet, the sustainability of export-led growth, backed by surging prices of exported commodities, turned out to be vulnerable in the face of the global economic crisis. Moreover, there are concerns that the pre-crisis period of sustained economic growth did not generate a significant transformation of LDCs’ economies, with the majority of LDCs only achieving modest and fragile steps in diversifying their economies, creating jobs, and tackling massive poverty.

International trade can play a catalyst role in transforming the structure of LDCs’ economies. The sustained demand growth in emerging economies provides new market opportunities, while the emergence of global value chains has the potential to facilitate the integration of LDCs in global production networks. For trade to support structural transformation, however, an appropriate international enabling framework must be in place to provide a levelled-playing field and enable LDCs to overcome their structural handicaps.

In your view how can the multilateral trading system support structural economic transformation in LDCs?
Roberto AZEVÊDO
General Statement

Trade is an integral and indispensable element for growth and development of any economy. The ability to compete in global markets is a reliable indicator of the sustainability of any economic model.

The multilateral trading system is currently undergoing a difficult period. Progress in the system and in the WTO disciplines is currently hindered by serious impasses, which have not yet been overcome by Members. This paralysis is particularly worrisome in light of the uncertainties faced by international trade and the global economy, which is now on a path of recovery from the 2008 financial crisis and its negative effects.

The work of the WTO is most important in uncertain times, like today. The WTO disciplines are the best defence against protectionism and against the actions that aggravate the situation of the poorest and most vulnerable economies. What we do in the WTO has a direct impact on the quality of millions of lives around the globe, and what we don’t do, also affects them.

The three pillars of the organisation are well known: a) monitoring the implementation of existing agreements in the appropriate subsidiary bodies; b) the dispute settlement mechanism; and c) multilateral negotiations. The third pillar is the one that allows for the evolution of the system, developing new rules and agreements, usually by means of multilateral rounds of negotiations. This is the pillar that gives us more cause for concern, for it has been effectively paralysed since the WTO was created in 1995.

We are approaching two full decades of stagnation on the negotiating front. The system must be updated or it will soon become incapable of dealing with the demands of today’s changed world.

I believe that this is the right time to do that. First we must try to achieve a successful negotiated outcome for the 9th Ministerial Conference, in Bali. Besides the very tangible material gains from the “early harvest,” that success would boost our confidence that we at the WTO can still talk to each other and that we can do it in a constructive and productive way.

Second, we all need to believe that any Bali outcomes will not be the end of the road. We must still find a solution to the Doha Development Agenda (DDA) and a number of relevant and pressing non-DDA issues must be examined by WTO members. A post-Bali process must, however, prioritise the issues of interest to the poorest countries. We cannot throw away the development agenda that was strenuously negotiated to ensure delivery to the poorest and most vulnerable members of this organisation. We can’t turn the page and leave them behind.

The multilateral trading system must work for all, and even the smallest must be part of its driving force.

Plurilaterals

When the Marrakesh Agreement Establishing the WTO was adopted, four plurilateral agreements were appended as Annex 4 to the WTO Agreement. Two of them - the agreements on trade in civil aircraft and government procurement - remain in force today. The other two were terminated in 1997. Already in 1996, 29 participants at the Singapore Ministerial
Conference adopted the Information Technology Agreement (ITA - today, the number of participants has increased to 70).

Thus, the plurilateral approach is not new, and should not be ruled out a priori as a legitimate and effective approach to deepening commitments within the framework of the WTO. The increase in participation in the ITA is proof that such agreements can work as true “building blocks” in the effort to increase liberalisation at the multilateral level, and points to what, in my view, is the right direction for such enterprises: plurilateral agreements should not be discriminatory, should be open to participation by the entire membership, and should be sufficiently transparent to enable Members to assess the benefits of joining them.

Now, this does not mean that the WTO should become - as one author has put it - a “house of plurilaterals.” Plurilateral agreements tend to be less reflective of the priorities of smaller economies. Moreover, they are generally not capable of disciplining matters that can only be satisfactorily addressed when most or all players are involved. In short, plurilateral agreements and the multilateral trading system can effectively work in mutually supportive ways, but the first could be inefficient - or even detrimental in some cases - without the latter.

An illustration may be helpful in this regard. Take, for instance, one of the plurilaterals currently in force - the Agreement on Trade in Civil Aircraft (ATCA). While this agreement has been effective in eliminating customs tariffs for civil aircraft and their components, international friction in this sector has long moved to the subsidies area - an area that is much more effectively disciplined under the multilateral Agreement on Subsidies and Countervailing Measures (SCM Agreement).

Thus, in the late 1990’s, Brazil - which is not party to the plurilateral ATCA - and Canada challenged each other’s measures, in the WTO, in the field of export credits for civil aircraft. The disputes were adjudicated in light of the rules of the SCM Agreement. The matter was definitely resolved after Brazil was invited by key OECD members to participate fully in the review of its Aircraft Sector Understanding on export credits, a negotiation which I led on the Brazilian side, and that was successfully concluded in 2007. Although this sectoral arrangement in the OECD - of which Brazil now fully participates - may be regarded as a sort of “plurilateral” agreement, the existence of effective multilateral rules, embodied in the SCM Agreement, was essential for a satisfactory resolution of the matter.

Today, two major disputes are going on over production subsidies granted to the United States’ Boeing and Europe’s Airbus. Although both sides are parties to the plurilateral ATCA, the disputes were brought under the SCM Agreement. It may well be that, in the future, more detailed rules relating to aircraft production subsidies be agreed in a plurilateral framework involving the major aircraft producers, perhaps in the same way as happened with aircraft export credits. In any case, the importance of the multilateral disciplines in the regulation of government intervention in this highly competitive sector is, in my view, of fundamental importance.

I believe that this brief illustration helps to demonstrate the importance of strengthening the multilateral trading system. I think that the number one priority for the WTO should be to deliver results, however modest the first results may be. This would restore a currency of which we have been very much in need - the Members’ ability to trust each other and thereby conclude negotiations.
Preferential Trade Agreements

As regards the relationship between the WTO and regional trade agreements, the usual arguments are known: some regard the regional deals as “stumbling blocks” that, owing to their discriminatory nature, tend to impede rather than facilitate multilateral trade liberalisation; others view regional agreements, more optimistically, as “building blocks” - “islands” of trade liberalisation that might eventually coalesce into a global trade regime.

From a systemic viewpoint, I have no doubt that it is preferable to advance as much as possible on the multilateral front, so that regional or preferential arrangements work as a sort of “residual” category in the process of world trade liberalisation. In terms of market access, for example, a result achieved in the round will be much more significant, for all countries involved, than a result obtained with the conclusion of a regional or plurilateral agreement which benefits only its participants. Moreover, regional arrangements tend to be less efficient economically, not only because of trade discrimination, but also because of the costs incurred by economic operators in face of the need to cope with the multitude of different regulations created under each agreement. These costs may be particularly severe where businesses want to benefit from operating in supply chains connected across the globe, to the point of offsetting the gains originally conceded in terms of market access.

Besides the costs associated with the regulatory complexity and the possible reduction in economic welfare that result when the trade diverting effect of regional agreements exceed their trade creating effect, regional or preferential deals tend to be less balanced as regards the demands of smaller countries. Moreover, such agreements are usually less suitable for the negotiation and adoption of several types of rules and disciplines which are horizontal in nature or which a player will be willing to endorse only if all other relevant players also agree to abide by them.

This does not mean that regional agreements are harmful to the world trading system. These agreements tend to bring material benefits to their participants. Otherwise their number would not have grown so dramatically in the last two decades. Today, I think it is fair to say that practically all WTO Members are somehow involved in the negotiation and implementation of such deals.

However, for the reasons that I mentioned, in comparison with multilateral agreements, preferential and regional arrangements are only a second best option. So how should the WTO deal with this challenge?

As I said in my response to question two regarding plurilateral agreements, I believe the number one priority for the WTO should be to deliver results, however modest the first results may be. This would restore a currency of which we have been very much in need - the Members’ ability to trust each other and thereby conclude multilateral negotiations.

Additionally, Members might also consider reinforcing the roles of the Committee on Regional Trade Agreements and the Committee on Trade and Development, so as to, as a first step, allow for more transparency and information to the WTO membership. On the basis of such information, areas of convergence among the numerous regional agreements might be identified with a view to a possible harmonisation of commitments where commonality is the greatest.

I reiterate what I said to the WTO General Council in my presentation last January: whatever the reasons behind regional trade agreements, I firmly believe that the countries entering
those initiatives would gladly negotiate a much broader and more encompassing multilateral deal. What we must do is ensure that the multilateral trading system remains a viable option for trade liberalisation.

**Industrial Policy**

I do not share the view that WTO disciplines irremediably constrain the ability of governments to implement sectoral or horizontal national economic policies. In this connection, I tend to agree with Dr. Razeen Sally’s statement, to the effect that the GATT/WTO disciplines are not a substitute for national governance in trade policy, but rather a helpful auxiliary to good national governance. This is because WTO rules are generally not of a prescriptive, one-size-fits-all character. Rather, they reflect rules of conduct that aim at protecting the expectation of individuals and businesses that they will be able to engage in international trade, on a level playing field, while at the same time preserving the ability of governments to promote economic growth and development in a diversity of ways, consistently with their national goals and policies.

Thus, governments can act and intervene in the economy - as they actually do - in ways that are fully consistent with the multilaterally agreed rules.

Of course, governments may also act in ways that, in the view of one or more of its trade partners, are not consistent with the multilateral trade disciplines. However, I believe that the WTO is very well equipped to deal with these situations, through a variety of mechanisms, including a highly successful dispute settlement system.

**Food Security**

Any recent shift in the traditional patterns related to trade in agricultural products would be the result of complex structural and circumstantial phenomena. The relative weight of each aspect in this process is difficult to measure, but a definitive conclusion on this topic is not required to define the proper multilateral response. Irrespective of new challenges affecting the supply side in agricultural economics, in many countries restrictions in the supply side for foodstuff remain very relevant, in stark contrast with a generally predictable and open regime for trade in manufactured products. These restrictions do not contribute to solve the supply-side constraints we now face; as a matter of fact, such distortions inhibit bottom-up solutions from appearing in the mid- to long-term for those constraints.

I would not venture into trying to ascertain which, between supply-side and demand-side distortions, would be more burdensome for food production in the next few years. We do know, however, that WTO Members have negotiated for more than ten years new disciplines on market access for agricultural products, export competition and domestic support that, when implemented, will substantially reduce distortions affecting trade in agriculture. Also in the DDA, there are negotiations covering a number of provisions covering food security concerns. From a practical standpoint, therefore, I would - quite literally - go for potentially achievable results: focus on the conclusion of the Doha Round with an ambitious and balanced outcome in agriculture, addressing both the issues of market distortions and food security, which are, by the way, often mutually supportive.

**Climate Change, Energy access and security**

There are several new - and not-so-new - issues clearly intersecting with trade policy and trade rules that the WTO will have to deal with one way or the other. If Members choose not
to discuss and negotiate disciplines about them - and this is an entirely legitimate choice - these issues will be inevitably brought to the dispute settlement system. Some already have.

We very frequently hear that new rules are the solution to new challenges. It may be so in some cases, but in several others the disciplines already in place regulate a new technical, ethical, or social reality aptly. Think of the decision by the Appellate Body in the US *Shrimp-Turtle* dispute to consider the expression “exhaustible natural resources” in paragraph (g) of Article XX of the GATT 1994 as encompassing sea turtles. It is hard to argue that negotiators of the conservational exception text had turtles in mind, or other environmental considerations present in today’s world back in 1947. The legal text proved to be flexible enough in this and in many other situations.

I am not arguing for passivity with regard to negotiating new rules, but rather pointing out that Members will not always decide to opt for new rules as opposed to innovative approaches to old ones. In any event, it is up for Members to decide what topics they want to talk about. The Director-General does not set the agenda, but rather has the important function of facilitating the discussions among the Members.

That said, one cannot ignore that some new subjects are not going away anytime soon and it will be only natural if Members decide to negotiate rules about their relationship with trade. These subjects are hard-wired in deep-rooted trends, such as consumption patterns, demography, technological limitations, and opportunities. Climate change is one such issue. Finance and energy are other obvious examples.

**Natural Resources**

The question essentially describes one situation where trade and cooperation is particularly beneficial and profitable. Higher prices for minerals and agricultural products are conducive to greater rewards for exporting countries, which will have incentives to increase production and supply. This is how trade is supposed to work and has actually worked in the vast majority of situations where a new balance between demand and supply emerges, irrespective of the type of goods or services involved. There are few natural resources that are so scarce and critical that strategic hoarding may become a generalised, market disruptive practice, thus disturbing the spontaneous adjustment in production, consumption, and prices.

In addition, policies related to the conservation of such resources will not always fall within the range of those governed by the WTO Covered Agreements. While a measure that bans the exportation of a certain mineral may be analysed as a *prima facie* violation of Article XI:1 of the GATT 1994, a prohibition on the production of the same mineral is, in principle, outside the scope of all WTO disciplines.

The issue for the Membership is therefore to ascertain: *first*, if widespread market-distorting measures are to be expected in a scenario where consumption of certain natural resources could outstrip supply; and, *second*, if the nature of these measures would be such that regulation by the WTO is possible - and desirable.

In the event that both questions are answered in the affirmative, and that the measures expected to be employed are not already covered by the rules currently in force (e.g., export duties, quantitative restrictions, exhaustible natural resources, etc.), then the Membership may decide to further discuss the issue and eventually negotiate more detailed disciplines on the subject. It is far from clear, however, that currently permissible trade measures could be applied in such a manner that threatens the effectiveness of the multilateral trading system.
The role of trade in promoting structural economic transformation

The preamble to the Marrakesh Agreement states that Members’ relations “in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services.” The preamble also recognises a need “for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.” These statements reflect the collective vision of the founding Members of the WTO, and I personally believe in the wisdom of these words.

One of the key messages contained in the preamble is that trade should be conducted with a view to raising standards of living, and the WTO agreements are conceived as a means to achieve that purpose, rather than hamper it. The preamble also reflects the view that participation in the growth of international trade is essential for the economic development of least-developed countries (LDCs).

In my view, the multilateral trading system can help in the economic development of LDCs in at least two ways: first, by providing them with trade opportunities in the form of access to foreign markets and of a regulatory framework that is responsive to their particular needs; second, by coordinating efforts of many partners directed at the provision of technical assistance and capacity building that enables LDCs to benefit more fully from world trade.

As regards trade opportunities, we have to commend the initiative of a number of WTO Members who have been acting unilaterally to provide LDCs with duty-free/quota-free access to their markets.

At the multilateral level proper, however, there is still much to be done, starting with negotiated results that bring us closer to a more open and development friendly multilateral trading system.

With respect to technical assistance and capacity building, for example, there are several initiatives in place. The Integrated Framework for trade-related assistance to LDCs was endorsed by Ministers at the Doha Ministerial Conference in 2001, and the so-called Enhanced Integrated Framework became operational in 2009. The Aid for Trade initiative was launched at the Hong Kong Ministerial Conference in 2005, with the objective of helping LDCs to better integrate themselves into the world economy. In connection with technical assistance, we also have to recognise the exceptional role of the WTO Secretariat in helping LDCs benefit more from other Members’ commitments.

In addition to these efforts in the area of technical assistance, I think that the periodic Trade Policy Reviews could be used by LDCs, on a voluntary basis, so that aid for trade, for example, could be channelled more effectively to priority areas identified by the beneficiaries themselves. This is an initiative that has great potential in the identification of actions that could help in the process of structural economic transformation in LDCs.

These are just a few examples of what I believe the multilateral trading system is doing and can do to support economic development in LDCs. I firmly believe that the next DG should engage in a deep and thorough dialogue with the LDCs, in order to evaluate how the WTO can be more responsive.
Taeho BARK
Global Challenges and the Future of the WTO

General Statement

Since the start of the 21st century, the WTO has achieved little success in the negotiations to open global markets. Meanwhile, the world economy continues to change rapidly and this presents both direct and indirect challenges to trade. Indeed, suggestions have been put forward that the WTO should accept the reality of certain circumstances and move on to deal with the more relevant global economic issues. Other views have centered on the belief that the WTO cannot go further without accomplishing its core tasks of addressing tariff and non-tariff barriers.

In many ways this is a false dichotomy as the two tracks can move forward together with holistic, grounded approaches. While the WTO continues to work diligently on the Doha Development Agenda (DDA) and presses on with its regular work, it can start considering emerging issues that have strong connections with trade. It is clear that the WTO, as it is not a discussion forum, must meet with a rule-making mindset, but admittedly, it is too early to embark on negotiations of new issues. However, there is potential for current committees to take up new and emerging issues within the scope of their existing mandates, and examine how these issues are related to trade and the WTO agreements. In doing this, they may start working on soft guidelines, or simply find that the current agreement is not capable of dealing with the issues. That finding also would be useful in terms of the process for the restructuring of the WTO agenda.

In general, efforts to address new and emerging issues are viewed as being favoured by advanced countries. Along similar lines and to a certain extent, the Singapore Issues agreed in 1996 (including investment, competition policy, transparency in government procurement, and trade facilitation) are seen as having a somewhat negative connotation from the perspective of developing countries. This is evidenced by the reality that, with the sole exception of trade facilitation, they were abandoned at the Cancun Ministerial in 2003. However, many other 21st century issues related to e-commerce, green energy, the global value chain, natural resources, regulatory issues, and standards and safety, are well-recognised by a full range of countries at various stages of development. Similarly, there are issues that are of particular interest to developing countries, such as food security and water management, that can and should be examined further. In addition, though it is not what could be inherently viewed as a new issue, currency is an item closely related to trade for which a developing member country has requested more attention.

Considering this, whether one is taking into account new or longstanding issues, there are a number of important points that the WTO can no longer afford to ignore. Discussion on these topics benefits all the WTO membership, whether developed or developing.

Plurilateral

The plurilateral approaches, although often considered as a threat to multilateralism, are in many ways rooted in the multilateral setting. Importantly, an accurate assessment of the GATT/WTO system would find that it has never consisted of a pure multilateralism: the GATT/WTO system allows for economic integration among willing countries in GATT Article XXIV and GATS Article V, and the WTO Agreement provides for a set of plurilateral agreements in Annex 4 including the Agreement on Government Procurement (GPA).

There is no denying that multilateral and non-discriminatory outcomes represent an ideal for many of us involved in international negotiations. Plurilateral negotiations that include only a fraction of the global community would be a secondary option at best. If the number and
size of the countries participating in plurilateral negotiations are sufficient to accomplish an effective critical mass, the results of the negotiations could, in practice, apply globally. In such a situation, any free riders outside of a given agreement would be negligible. A good example in this regard is the Information Technology Agreement of 1996 and the agreements on financial and telecommunication services, achieved plurilaterally after the WTO was launched, also applied in an MFN manner.

It is important to recognise, however, that if the free-rider level is too high, the participating countries might be inclined to exchange trade preferences only among themselves in a non-MFN manner. However, at this time the WTO lacks a framework to accommodate non-MFN plurilaterals. Granting a waiver to a plurilateral initiative or accepting it as another Annex 4 Agreement would require the consensus of the membership. In fact, it is not clear whether the GATT/WTO ever intended for plurilateral agreements to be applied in a non-MFN manner. The effects of the Tokyo Round codes are ambiguous and controversial. Clearly, the GPA is a non-MFN agreement taking effect only within the relevant group of plurilateral members. Looking deeper though, the reason for this may not be because of its nature as a plurilateral agreement. According to GATT Article III:8, government procurement is an area to which the basic principle of National Treatment and the MFN of GATT does not apply. Therefore, the issue of MFN or non-MFN is not relevant in the case of the GPA.

Often, rule-making is mentioned as a possible area for plurilateral approaches. Sometimes rule-making is even considered to be an easier task compared to that of market access. However, it is not feasible to apply systemic rules and regulations on a country-by-country basis, as only those participating countries will be subject to enhanced and more burdensome rules (WTO-plus), while the benefits are extended to all other trading partners who only apply the ordinary WTO rules. Countries will likely be hesitant to participate in plurilateral rule-making if they know that there is the ability to free-ride if they remain outside of the deal.

Another tricky aspect of the WTO plus rules relates to intellectual property rights. Most other rules areas such as sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), subsidy, or transparency, bind the participating countries and benefit other countries. Stronger protection of IPRs in a TRIPS-plus manner, however, whether it is implemented unilaterally or plurilaterally, could cause concerns from other countries adversely affected by the measure. Of course, if the measures are based on the multilateral agreement, it would mean that any concerns or objections had been already addressed and resolved.

Given this complexity, the bottom line is that we must be wary of giving up too easily on multilateral efforts and looking at plurilateral choices as convenient alternatives. At the time of the Tokyo Round code, only a handful of developed countries dominated the world economy and their agreement was qualified as a global rule. The global economy has now undergone a sea of change in its very structure and diversity. The ultimate objective of any plurilateral negotiation should be the multilateralisation of the outcome, although in some areas the effect could be bound within the group in the early stages in order to limit the free-riding and encourage wider participation.

**Preferential Trade Agreements**

Preferential Trade Agreements (PTAs) represent both challenges and opportunities. In its early years, the WTO did not feel pressure to prove its relevancy, whereas now it must take more proactive approaches to demonstrate its advantages and added value. In reshaping the world trading system, while multilateralism and the MFN remain the core principles,
the proliferation of regional agreements has become a reality that we must address. Many experts have argued that PTAs do not undermine, but rather complement, the WTO. That is not an automatic outcome, however, if we ignore or do not pay adequate attention to them. The relevant question, therefore, is how the WTO should best adapt itself to the new landscape. There are things that the WTO can learn from, such as certain elements or techniques of regional deals. In turn, through close monitoring and analysis, the WTO can and should do its part to help regional deals become more compatible both with each other and with the WTO framework as a whole.

There is a framework for this purpose. The RTA transparency mechanism adopted in 2006 is likely the sole early harvest item thus far to be drawn from the DDA. As further agreement was not made on more detailed substantive criteria of GATT Article XXIV, such as that related to the concepts of ‘substantially all the trade’ and ‘interim agreement’, the mechanism does not have real teeth to check those regional deals which are inconsistent with the WTO. One way forward for the mechanism could be a more systemic analysis of PTAs, which would represent a moving forward from the current isolated discussion on an individual agreement. This is all the more important, given the fact that the most problematic element of PTAs is not their proliferation itself but their complexity.

The WTO is not only the most appropriate but also the competent forum to discuss how we should go about addressing different rules of origin and other fragmented rules related to PTAs. One of the ideas recently put forward to ensure the consistent interpretation of rules was that the WTO could function as the central dispute settlement entity for regional deals. The idea must be carefully considered given the limited resources of the WTO, and further refined due to the fact that many rules in PTAs are non-existent in the WTO. Nevertheless, the idea could expand to other possible contributions by the WTO for a more orderly global trading system.

Lastly, regarding the large scale regional deals that are in the process of being carried out, there are concerns that they may draw critical resources, energy, and attention away from the WTO negotiations that are currently at a very vulnerable point. It is important that those members reconfirm their commitments to the multilateral trading system and put forward strong, demonstrated efforts towards progress on the current WTO agenda. Within this context, the size of the PTAs is not a matter of high concern. We already have large economic blocs such as the EU, NAFTA, and MERCOSUR. Trouble would only stem, however, from a large deal being negotiated and finalised among all the major countries, for example one that can include the US, China, the EU, India, and Brazil, and leave out many small countries. In this hypothetical situation though, there would be no reason that they would not conduct such an agreement in the multilateral setting.

Specifically, large PTAs are more efficient than small ones and can be further expanded or merged with other agreements. The Pacific-based P4 FTA for example has been expanding into the TPP (Trans-Pacific Partnership), and it is possible that this could merge with the Asian-based RCEP (Regional Comprehensive Economic Partnership) to form an APFTA (Asia-Pacific FTA), the long-term objective of APEC. If it could combine with other continents, their ultimate orientation would therefore not be different from that of the WTO. Although all of these potential agreements are far-off and optimistic projections, the guiding objective is clear. In this regard, the WTO-consistent approach in the relevant PTAs would help achieve those ultimate goals.
Industrial Policy

The recent focus on industrial policy is interesting, and to some extent counter-intuitive to many economists that believe in free market principles. At a number of key levels, a revival of industrial policy in advanced countries appears to bolster the arguments behind the school of thought that the economic power of a nation requires a strong manufacturing base. “Manufacturing fetish” can even remind us of the Singer-Prebisch thesis, which states that the terms of trade between primary producers and manufactured goods deteriorate over time. What is more curious is why advanced countries would revert to the secondary sector, rather than move up the ladder to the tertiary sector and leave space for less developed countries to move from agriculture to manufacturing. In particular, as long as jobs are concerned, governments should pay more attention to promoting their services industry, and most of all, seek to avoid sacrificing the services sectors such as sales, energy, and transportation, as a consequence of protecting certain manufacturing products.

In part, key reasons for the re-focus on manufacturing could centre on the reality that industrial goods represent the most traded sector across nations, while agricultural goods remain comparatively restricted, and services are, at a basic level, difficult to trade. Given these dynamics and especially in times of economic difficulty, industrial policy has more direct effects within the scope of international trade. Along these lines, it is interesting to note that support for the manufacturing sector by a government is almost certainly frowned upon by other governments, while the same types of support for the services sector could be praised as reflecting sound economic policy.

Looking closer, it is important to note that the tools for industrial policy are basically two-fold: including both protection from imports and government support. Import restrictions are relatively easy to recognise and identify, although many countries are using sophisticated forms of restrictions, including behind-the-border barriers. Some countries are in positions where they are only able to resort to outright restrictions because they lack resources for government support in the area of industrial policy. Because of this, countries in these types of situations often fall victim to controversy over protectionism. Taking this into consideration, it is also necessary to recognize that trade measures, whether they are protectionist or not, are well-regulated by WTO rules. To these ends, efforts and work such as close monitoring and peer-review are institutionalised as ways to consider whether such policies reflect legitimate concerns and are implemented to an appropriate extent.

On the other hand, various forms of government support cover a wider and increasingly diverse range of options, and the reality is that these are relatively poorly regulated by the WTO. Export promotion, research and development (R&D) support and foreign direct investment (FDI) incentives, as well as factors such as exchange rate and monetary policy, can in one way or another be viewed as representing types of subsidies. Taking a closer look, agriculture has a complex but realistic set of subsidy rules and commitments. By contrast, trade in services is not covered by subsidy rules at all. Industrial subsidy rules contained in the Agreement on Subsidies and Countervailing Measures (ASCM) is of a very high standard, but, due to a lack of details and specificity, remains heavily dependent on WTO jurisprudence. Moreover, however, it is necessary to point out the importance of the huge gap between the rules and the reality of how those rules are implemented in practice. Examples are: the large number of export promotion activities in spite of the prohibition against export subsidies; strong levels of R&D support to boost certain sectors even after R&D subsidies are no longer non-actionable subsidies; and tolerance with regard to the incentives given to foreign investors where the trade-distorting effect is not less than the support for domestic companies. The DDA negotiations aim for a modest clarification or improvement of the ASCM and do not seem to take into account this more important policy aspect.
Above all, trade agreements should be based on concerted and reciprocal action. Neoclassical economic theory teaches us that tariffs and subsidies will create negative consequences for the country that imposes them. In reality though, if a country takes measures that break the rules through the use of tariffs and subsidies, that country’s trading partners are often hurt worse than the imposing country. One positive aspect, however, rests in the fact that - unlike the losers in the prisoners’ dilemma - trading countries are in positions to negotiate the terms of agreements and then enforce the results of those negotiations. In particular, there is a strong need to revise the industrial subsidy rule, as it represents one of the most critical and pressing problems. To do this, members could negotiate a loosening and an adjustment of the level of rules to the current reality. For example, this could be done by reinstating the expired category of non-actionable subsidies. Or, alternatively, members could seriously enforce the current rule so that all actors would be obliged to abide by the high standards that now exist. Either way, it is important that the rules must be applied fairly to prevent the rule-breakers from benefiting.

**Food Security**

As a critical agenda item common to almost all members, food security is one of the most important shared priorities. Though there is widespread acknowledgement of this importance, there is a serious division of views concerning trade’s role in helping to address food security.

One school of thought centers on the belief that freer agricultural trade and less distortion by subsidies can enhance the food security of a given country. From this perspective, trade lowers the prices of agricultural products and stabilises global supplies as it would, at the same time, balance out differences in seasonal and geographically diverse yields. Comparative advantage that is based on maximising productivity and specialisation is the theoretical basis for this approach. The key requirement, however, for this pro-trade avenue is that all trading partners must trust each other. This means that, as yields vary every season, countries with good harvests will be asked to export more to countries with smaller harvests than as usually would be done. In return, the exporting countries would expect to have equal or reciprocal access to food in seasons when their harvest is worse. In this case, limiting export restriction is as important as opening the domestic market for imports.

Another school of thought holds that too much dependence on international supply endangers domestic food security and food sovereignty. It puts forward the argument that certain levels of domestic production must be maintained in case the international supply is limited or affected. Similarly, support for domestic agriculture and protection from imports is, to an extent, seen as necessary particularly for developing countries. This more closed view appears to have been bolstered, given the recent high and volatile international agricultural prices.

This difference of views is central to the debate on whether the framework of the WTO Agreement on Agriculture fits the current environment and whether or not this framework needs to be revised. These questions surrounding market access and subsidy matters are one of the largest hurdles in the ongoing DDA negotiations and, since the break-up of the talks in 2008, members have demonstrated a heavy resistance to restarting these particular discussions.

Setting aside the framework, there are more practical aspects of the issues directly affecting food security, such as public stockholding and export restriction. Exempting domestic purchase for public stockholding from subsidy disciplines is a very controversial matter stemming from different understandings on the intentions of the current rule for public stockholding as a type of Green Box subsidy. One option that would address the need
for domestic stockpiles includes proposals centred on creating an international stockpile or a safety-net revolving fund to allow countries with food shortages to borrow or buy food. The export restriction issue began in a meeting among a group of countries outside the WTO to remove export restrictions on humanitarian food aid. There is potential for a convergence of views by members on this topic, if it is properly discussed in relevant WTO meetings. In addition, there are important questions surrounding the issue of export subsidies in food aid being provided by individual countries as opposed to international agencies.

Over the course of the process where members seek to find answers to these practical questions, opportunities will arise for members to overcome these challenges and reduce gaps in their positions on the most fundamental questions.

Climate Change, Energy and Security

Climate change and trade are linked in a number of ways. The first and most obvious point is that increased levels of trade go hand in hand with increased production, and subsequently, increased production often is related to higher emissions. On the other hand, trade can allocate production where it is most emissions-efficient. Trade can also encourage the diffusion of climate-friendly goods and services, thereby making access to sustainable energy more accessible and driving the cost of clean energy down. Finally, measures that countries take in response to climate change, such as establishing emissions trading and carbon-related requirements for imports, can have a significant impact on trade. Because of these and other linkages, the WTO should not passively stand on the sidelines of climate change debates while waiting for a global climate change agreement under the UNFCCC. Rather, it should be proactive in addressing these important issues. That means that the WTO should do all that is within its reach to contribute to substantive action on climate change.

Looking specifically at trade-related topics, there are climate change issues dealing with both restrictions and subsidies. Restrictions centre specifically on regulations of products themselves, including elements related to production methods as well as the imposition of taxes. Domestic taxation alone is a complex matter, followed by the issue of border tax adjustments, which aim to ensure a level playing field between domestic products subject to carbon tax and those foreign products that are not. Subsidies serve as a tool working the other way, in that they provide incentives for products that emit less carbon in the stages of production or function. To be sure, these are familiar issues in the WTO. Existing rules such as non-discrimination can cover substantial parts of relevant climate change issues as long as those issues are directly related to trade.

However, there are views that current rules are insufficient to deal with such an important common global agenda item as climate change. The relationship between the WTO Agreement and other international agreements such as MEAs (Multilateral Environment Agreements) like the United Nations Framework Convention on Climate Change (UNFCCC), has always been a critical and sensitive issue, despite the reality that the two represent fully separate regimes. As with the Sanitary and Phytosanitary Measures (SPS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreements, there are a number of provisions in the WTO agreements that allow for other international rules to be adopted into the WTO system. Except in cases where there are explicit provisions however, compliance with other international agreements does not guarantee consistency with the WTO.

Some of these views might suggest that trade rules could be made more flexible for the purpose of allowing countries to better cope with climate change. However, many would argue that such efforts are more concerned with attempts to clarify the rules so that members would be better able to understand what they can and should do with regard
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...to climate change. If disputes are raised over renewable energy products and policies, for example, and if such disputes are expected to increase with regard to climate change, members would indeed benefit from clearer rules. In many ways this would also help relieve dispute settlement panels or the Appellate Body from the burden of gap-filling.

Lastly, in terms of negotiations, there are structural similarities for issues related to trade and climate change. From the point of view grounded in a “common but differentiated responsibility” approach to climate change, trade rules related to climate change may need to be applied in the same context. This remains true despite the fact that the traditional GATT rules such as non-discrimination and the subsidy rules do not substantially provide for “special and differential treatment” for developing countries. It is clear that we need to harmonise and better categorise the rights and obligations of members who possess varying degrees of capacity. It is equally apparent that these matters are best resolved through negotiations among members as opposed to dispute settlement.

Natural Resources

Trade of natural resources has a number of very different characteristics from that of agricultural or industrial products. In the latter case, trade conflicts arise where producing countries seek to sell more and importing countries resist, for instance, in order to protect their own domestic industry or for the purpose of reducing trade deficits. On the other hand - due to the reality that natural resources are both scarce and exhaustible - there are unique challenges, especially when demand is rising and supplies are scarce.

Export restrictions, instead of import restrictions, are the key issues in the trade of natural resources. GATT Article XI prohibits quantitative restrictions on both imports and exports, but the article does not cover duties or taxes at borders. In the case of imports, duties are bound at the concession rate. However, there is no such binding in the case of exports, although some other legal instruments such as China’s accession protocol provide such bindings on export taxes for a number of products. As export taxes, an effective tool to control exports of natural resources, are WTO-consistent and unbound , the current WTO regime is in need of other rules to manage and oversee natural resources.

To prevent depletion, restrictions on the production of natural resources can also be made at the domestic level. However, the WTO normally does not rule on domestic measures if those measures do not disrupt international trade. Though trading partners may have concerns about what would appear to be the unfair limited exploitation of a member’s resources, GATT Article XX specifically allows measures relating to the conservation of exhaustible resources.

Similar turnarounds exist in other trade rules that deal with distortionary effects such as dumping and subsidies. Unlike ordinary products, dumping and subsidies of exporting countries would be welcomed by importing countries as they would lower prices. Importing countries, however, might raise objections when measures opposite to that of dumping occur. In other words, this would happen when an exporting country sells more expensively to other countries than to its own domestic market. As this kind of pricing practice is difficult to challenge under the current rules, there is a proposal to identify it as a support measure for the domestic industry, which would benefit from lower prices of natural resources.

Subsidies present a more complicated array of issues. Typically, subsidies to exploit natural resources would not cause great concern for other countries, or as mentioned above, could be welcomed. However, in the case of the fisheries industry, subsidies become somewhat of a thorny issue. This is based not necessarily on the fact that fisheries are exhaustible, but rather that they are resources which are open to access by many countries. Another
interesting form of subsides related to natural resources is the so-called green subsidy which supports alternative sources besides that of exhaustible or environmentally harmful natural resources. In this regard, it is clear that the current subsidy rules are not appropriate to cover these cases.

Determining how the current WTO rules should be adapted to an arena defined by a growing importance of trade in natural resources is an enormous task. As the rule should deal with the opposite aspect of the current rules, more care should be taken to ensure the compatibility of the rules and their exact coverage.

The role of trade in promoting structural economic transformation

Expanding trade is without a doubt a necessary element of a country’s national development, especially in the case of LDCs, which have small domestic markets. What matters most for LDCs is making determinations on what to trade. LDC exports to the world market primarily consist of raw commodities and natural resources. Diversification of exports is a way forward that is most frequently advised by experts, although the word may cause some misunderstanding. For countries that attain a certain level of development, diversification should be one of the policy objectives meant to reduce volatility with regard to potential external crisis. However, given their sizes and current levels of development, LDCs should focus on a small number of products for which they have comparative advantages.

Through efforts geared towards diversification, perhaps, it is thought that LDCs should move on to higher value-added production such as processing or manufacturing. Indeed, the transformation is important, but whether that transformation is centred on agriculture, manufacturing, or services is a secondary question. Many highly advanced countries have ranked agricultural export competence as high as their prowess in manufacturing and services. Shifting from a focus on agriculture towards a promotion of manufacturing, although it certainly helps in the long-run, should not be considered a definitive solution to economic development for any country. The more important pursuit is the selection and focus on a strategy that, in a holistic manner, fits with each country’s economic conditions including, labour, natural resources, available capital, and connection to the global value chain.

Any such development strategy requires investment. As most LDCs lack domestic capital, they are dependent on financial aid or efforts to seek foreign investment if a more proactive approach is pursued. This requires a suitable business environment, which in turn can be made possible through economic structural reform. The multilateral trading system provides many useful instruments for this purpose. Duty-free and quota-free and relaxed rules of origin are some of the recently discussed topics that provide advantages to LDCs in their trade conditions. Aid for trade is offered to ease their supply-side constraints. Above all, their WTO membership itself - including the requirements and conditions they must fulfil to become or remain a WTO member - provide a transparent and predictable economic framework which also serves in many ways as a basis for their structural transformation.

To this end, the accession of LDCs to the WTO has a greater importance than is usually taken into account. WTO membership has provided credibility and energy to LDC governments’ reform policies and conveyed positive, pro-market signals to businesses and investors around the world. WTO members have further cemented the WTO’s ability to deliver benefits for LDCs in this context by recently adopting the streamlined accession process guidelines for LDCs. There is still much to be done, including unfinished negotiations on the LDC issues previously mentioned. Taking this into account, the WTO must deliver outcomes on the LDC agenda as early as possible. As they say that trade opening is a deficit-free stimulus package in times of economic downturn, enabling and promoting LDCs’ trade is another finance-free aid package for them.
Anabel GONZÁLEZ
Plurilaterals

The core mission of the WTO is two-fold: to open markets and to design and implement the rules to govern and pacify trade relations among members. The WTO and the GATT before it have been carrying out this dual task very successfully for three generations and we must guarantee that this continues to be the case.

In more recent periods, due to a large confluence of changes in the political, economic, and technological fields, some of which exert influences way beyond the WTO and trade governance, delivering on the organisation’s negotiating function has become more challenging. In particular, decision making has become more difficult as the number of members has increased and the range and complexity of issues involved has expanded. The difficulties associated with bringing closure to the Doha Round in its original format testify to this. In this context, it is increasingly relevant to explore new alternatives to negotiation -second-best approaches - that may bring political energy into the system and reinvigorate the institution, while allowing for the WTO rulebook to evolve in accordance with the times.

Negotiation of “plurilateral” and “critical mass” agreements that are open to all members and brought within the realm of the WTO can and should provide a multilaterally-friendly means for advancing the trade agenda and cooperation among members. These options are already permitted within the system and, while recognising that the current circumstances are indeed different, past experiences of plurilateral negotiations in the area of government procurement or critical mass agreements in the fields of financial services, telecommunications, and information technology may inform other negotiating processes.

These approaches are not without challenges, but members could explore institutional and procedural safeguards against potential risks, aiming at striking a right balance between facilitating the negotiation of agreements “inside” the WTO - as opposed to “outside” the organisation - and considerations necessary to guaranteeing the universality of the system.

 Preferential Trade Agreements

In discussing trade in different formats, a diversified portfolio of trade partnerships is useful in preventing protectionism, exploiting neighborhood effects, and boosting growth. Preferential trade agreements (PTAs) can play a role in promoting further market opening. They may allow for useful experimentation with new rules in novel trade-related areas. Moreover, in some instances, they may simply be the proper locus of trade governance as not everything needs to be defined at the global level. “Mega-regionals,” in particular, may serve the purpose of reinvigorating the trading system by bringing new political energy to significant trade liberalisation initiatives.

The fact that each WTO member is, on average, party to 13 PTAs reflects members’ willingness to integrate with the aim of promoting trade and investment and to explore all useful means to do so. The downside lies in the dangers posed by the discrimination that is inherent in these agreements and in their potential to exclude others. The trade marginalisation of countries, particularly lesser developed ones, does not bode well for the system and may exacerbate frictions among nations.

To avoid the pitfalls of plurilateral negotiations we must keep improving multilateral monitoring, we must be prepared to consider strengthened multilateral disciplines if needed - and desired. Overall, however, we must see them in a more dynamic, complementary manner to the multilateral system. In this context, again, negotiations of plurilateral or critical mass agreements may also serve a purpose in facilitating negotiations “inside” the WTO.
Industrial Policy

The concerns expressed in this question are not new; moreover, they have provided much of the underlying rationale for recent waves of trade rule-making and the periodic upgrading of multilateral disciplines in the WTO and the GATT before it. The most recent revision of the Government Procurement Agreement is but one example of such institutional adaptation.

Pressures to make greater use of - or expand the scope for - industrial policy activism under trade rules are strongly correlated with episodes of economic contraction of the type the world has experienced since 2008. Such pressures are also to be expected when the world economy undergoes - as it currently is - major spurts of industrial innovation, notably in regard to IT and green technologies. It is therefore important to understand, appreciate, and distinguish the cyclical from the more structural forces at play and ask, as WTO members always must if they are to preserve the organisation’s relevance and efficacy, if the multilateral tool box is up to the task or in need of revision.

Few WTO members can meaningfully engage in or even contemplate strategic mercantilism. This typically concerns countries with large domestic markets, high manufacturing density, a rich network of supportive service industries, superior technological capabilities, an ample supply of human capital endowed with cutting-edge engineering prowess and a capacity to derive - indeed to create - significant commercial gains and favourable terms of trade gains from policy-induced first mover advantages. The vast majority of WTO members do not fit this bill, nor do many have the economic resources required to pursue such policies. The role that WTO law plays becomes even clearer in this light - to ensure, in the interests of all, that members be able to deploy trade-neutral industry support measures and that recourse to discriminatory, trade-inhibiting investment and competition-distorting industrial support policies do not confer artificial advantages to some to the probable detriment of others.

The sudden recent rise of WTO judicial activism in response to allegations of potentially distortive industry support measures should not come as a surprise. If anything, such a trend confirms the continued relevance and embedded fairness of existing trade rules and the confidence members have in prosecuting these practices. I take solace in observing that the multilateral trading system offers - and is widely perceived as offering - robust protection against the risk of those tempted to tilt competitive advantages their way.

The trade regime survived the crisis of 2008-09 largely unscathed. There was a short-lived but precipitous decline in cross-border trading activity early on as trade finance and cross-border liquidity dried up, offering us a collective wake-up call on the crucial importance of such underlying lubricants of global commerce. But for the most part, the lurch into rampant protectionism - strategic or otherwise - that many feared did not materialize. To use a well-known expression: “the protectionist dog simply did not bark!” To be sure, the demand for protection or, in the case of strategic trade policy, for targeted industry support, has tended to be channelled into areas of trade governance - for instance certain areas of procurement practices, notably at the sub-national level, as well as certain types of state aids - that are perhaps more weakly constrained by multilateral disciplines.

If we are to derive any meaningful lessons for trade policy-making from the recent crisis, it is that the WTO membership must always remain vigilant and prepared to revisit and update its multilateral rulebook. Times change, technological revolutions unfold, development thinking and ideological precepts evolve. The need to adapt the rules of trade governance cannot and should not escape current realities. But the necessary evolution of WTO rules and procedures must always be done in the interests of the entire membership, in all its...
diversity. This must be done with a view to supplying the proper flexibility that weaker members require to harness the development dividends - and supply-side challenges - that come from greater engagement in world trade and investment activity. But we must also preserve adequate vigilance towards trade practices aimed at conferring undue advantages to some.

**Food security**

The WTO framework for agriculture continues to be central in resolving agricultural trade issues in global markets, including food security.

The so-called “traditional” focus on the elimination of trade- and production-distortive measures remains crucial in addressing production shortages in a sustainable manner, enabling farmers to be guided by transparent price signals in regulating (i.e. expanding or reducing) their production base. In particular, high prices represent powerful incentives when farmers take their investment, production and marketing decisions.

The WTO framework for agriculture recognises members’ need to provide a number of public goods in order to upgrade production incentive structures. Such policies, however, must be designed in a way that is fully WTO-compatible.

Incidentally, many observers, including the G-20, World Bank, the UN Food and Agriculture Organization (FAO), and the UN Conference on Trade and Development (UNCTAD), concur that the returns on government investment in public goods that take into account the needs and development objectives of rural communities (in terms of standards of living, food security, and competitiveness) have more robust and long-lasting impacts than the one-off provision of distorting subsidies. Specifically, the tool-box of public goods is firmly anchored in the Green Box (Annex 2) as well as in the Development Box (Article 6.2).

On the demand side, trade-induced economic growth has greatly enhanced the purchasing power of people around the world, notably through the binding and progressive reduction of all agricultural tariffs. A number of developing countries have taken recourse to the provisions related to domestic food security (domestic food aid and public stockholding for food security purposes) to protect the most vulnerable consumer groups, subject to complying with the relevant transparency criteria.

From a food security perspective, balancing world food supply and demand is only part of the story. The 2006-2008 crisis has shown that, in an integrated and interdependent world, the predictability and reliability of access to world food supply through trade channels were equally important. In the event of the institution of new export prohibitions or restrictions on foodstuffs, disciplines on notification and consultation obligations are available under the WTO. However, they are hardly complied with and the conclusion of the Doha Development Agenda (DDA) would certainly be a great leap forward in reinforcing these disciplines.

On the trade front, the agriculture reform contemplated in the framework of the DDA will reinforce developing countries’ resilience to food security shocks and price volatility. Such reform will be accompanied by potential gains and synergies to be had from the future negotiations on all goods, services, and trade facilitation; these will help reduce the cost of transport, distribution and marketing of food, as well as stimulate innovation and technology transfer, ultimately translating into lower food prices for the poor but remunerative prices for producers.
A transparent, stable, and predictable trade environment is important for addressing poverty and food security challenges, but it is not sufficient. Enhancing food security requires initiatives and policy actions on many fronts, with trade being only one element among others. Good governance, economic stability, clear land ownership rules, access to markets and financial services, as well as effective national and international legal, policy, and institutional frameworks are essential for encouraging the development and adoption of sustainable investment, production and marketing systems. All global/international “partners”, including the WTO, need to strengthen their collective ability to monitor and prevent food security challenges.

**Climate Change, Energy Access and Security**

Tackling the various economic, scientific, societal and developmental dimensions of climate change represents one of the most pressing challenges facing mankind today. This challenge will test the world’s - and its leaders’ - ability to find cooperative solutions to issues whose impacts transcend physical or political borders. While climate change exerts differentiated effects across the world, few topics are as inherently global in character, commanding concerted, multilateral responses and global public goods whose supply never comes easily.

Moreover, as recent treaty talks on climate change have shown, the struggles of multilateralism are not unique to the trade field. Rather, they are illustrative in my view of the transition in global governance that we are currently experiencing, a world of multi-polarities where new forms of burden-sharing and cooperation remain a work in progress.

The issues of climate change and energy access and security cannot, moreover, be looked at solely or chiefly through a trade policy prism. Finding workable solutions to them will force the world community to invent new forms of multi-layered governance cutting across fields as diverse as innovation, environment, development, trade, and security policy.

Jan Tinbergen, the great Dutch economist, was awarded the first Nobel prize in economics for his seminal work on the issue of policy assignation, reminding us that when one assigns multiple objectives to one specific policy instrument, it is unlikely to produce optimal results. I think Tinbergen’s rule is very relevant to the issues we are debating here, as we need to exercise caution in assigning too central a role to trade policy in climate change mitigation and energy security matters. Trade policy and the multilateral trading system can play an important supporting role in helping countries access energy sources more predictably and on fairer grounds. They can help contain the temptations some might have to use energy access or supply as a tool of economic or political leveraging. Trade liberalisation can reduce the cost of those technologies, goods, and services required to produce renewable, cleaner energies. Sound trade rules can afford adequate intellectual property protection to those who will invent the carbon sequestration techniques required for effective climate change mitigation. They can also prevent trade-distorting practices in the production and exchange of environmental goods and services.

Here again, as on so many other fronts, WTO members need to ask themselves if the trade toolbox they currently have is properly geared towards tackling the above challenges and, if not, whether and how the membership should upgrade its policy arsenal so as to enable trade policy to better play its part in the symphony of coordinated policy responses at work.
Natural Resources

The steady rise in world population and incomes (and thus in aggregate consumption levels) and the finite, non-renewable nature of many of the world’s natural resources involves inherent cross-border tensions and often outright conflict requiring careful political management and leadership and sound economic and environmental policies. These are, as with climate change mitigation - to which the question of resource use is closely linked - some of the most daunting challenges the world will confront in the coming decades. The tensions depicted above show few signs of abating as development, industrialisation, and the natural yearning for improved living standards take root in all corners of the world. Most informed forecasts these days call for a sustained rise in commodity prices under the combined impact of the above forces, reversing decades-old export pessimism in the sector and presenting new challenges of access to and use of scarce resources.

The changes described in your question have spawned a lively policy debate around the world. Such debates often lurch between the extremes of despair and hope. My own DNA suggests reasons for optimism, and I see ample scope for trade policy and multilateral cooperation to play their part in promoting sounder overall resource management and reducing the incidence of conflict-inducing beggar-thy-neighbour policies in the trade field.

That said, one must approach this question with particular caution given the unique economic characteristics of the natural resource sector. The pervasive nature of market failure in extractive industries and fisheries, including negative externalities of various sorts, set it apart from most other categories of goods and services from a trade policy perspective. The need for caution was well stated in the WTO’s 2010 World Trade Report, in which the Secretariat noted how natural resources trade was an area where the empirical literature had failed to produce conclusive evidence apt to underpin a global policy consensus. It is equally true that the WTO – and the GATT before it – was not designed with natural resource trade in mind. Though several elements of the existing trade architecture extend to natural resources just as they do to all other covered product categories, they may not always be adequately tailored to the sector’s peculiarities. At a time of significant growth in natural resource trade and increasing recourse to various trade-impeding policies exerting potentially damaging cross-border effects, such a rule-making mismatch could prove problematic. Here again, we witness the dual need for close surveillance of WTO members’ policies through the trade policy review mechanism and other notification processes and to assess the adequacy of the WTO’s existing set of rules. Among the areas of rule-making most chiefly concerned by such a critical re-examination are those relating to export taxes, tariff escalation, subsidies (including the treatment of support measures targeted at conservation objectives), and transit rights, as well as the broader question of the relationship between WTO agreements and the multiplicity of international legal instruments governing selected aspects of resource management.

Concerns over the trade-environment interface - soundly articulated by ICTSD and others - resonate with citizens the world over, particularly the younger generations. My belief is that WTO members cannot be deaf to such calls and will find benefit in working out cooperative solutions. Such solutions will need to strike a proper balance between the need for - and the trade compatible means of - sustainable resource management, equity in access to and use of resources, and reciprocal gains from non-discriminatory trade in inputs that are critical to much industrial activity. At the same time, members must be willing to make full use of the organisation’s crucially important policy surveillance and dispute management functions in an area potentially rife with cross-border tension.
The role of trade in promoting structural economic transformation

I am, here again, tempted to invoke Jan Tinbergen and caution against assigning to trade policy more than it can legitimately deliver relative to internal reforms and development policy more broadly. The path towards sustainable development of least developed countries includes determined domestic efforts to promote better overall governance; promote the rule of law; create and sustain healthy business climates; protect investors, domestic and foreign, and holders of property rights; provide the poor and disadvantaged, including women, with the educational opportunities best able to fuel social mobility and skills upgrading; and supply the physical infrastructure without which the benefits of channeling resources towards cross-border trade and participation in global value chains cannot take root in a sustained manner.

There is, all the same, much that trade can do to sustain an orderly, progressive process of structural transformation, including in least developed and other vulnerable economies. Many such economies have in recent years found ways of inserting themselves into regional production networks. They have added value to their production and trade by harnessing their natural resources and other factor endowments. The rising volume of South-South trade, including that between LDCs, attests to the integrating power of trade.

Better overall market access and more targeted aid for trade is needed to pull up those confronting the steepest learning curves, daunted by the most challenging climates, afflicted by geographies that entail weak connectivity to production networks and high trade costs, and lacking the physical and human capital necessary for sustained integration into production networks.
WTO at a Crossroads

This is an important moment in the juncture of the WTO, one of the foundation stones of the global economy. Access to the relatively open multilateral trading system - at least for world trade in manufactures - would never have been sufficient in itself for economic development to spread around the world, but it has been a vital ingredient. It is impossible to believe that some of the successful emerging economies today - economies that have brought hundreds of millions of their people out of poverty in recent decades - could have achieved what they did without export-led strategies, which itself is dependent on access to international markets.

Africa, while it has recorded some very encouraging growth in the last decade (average GDP growth is around six percent) remains the least developed region of the world in terms of industrialisation. Its participation in the international trading system is still too dependent on its rich natural resource base. There is nothing wrong with developing agriculture and mineral natural resources for export. But a more balanced future development path, as the African Union has stated quite explicitly, will be needed to enable Africa “...to play its rightful role in the global economy.”

It is more important than ever, therefore, to preserve and enhance the open, rules-based multilateral trading system to ensure the next generation of emerging economies can share the benefits. There is every reason to believe the development transmission belt that is the international trading system can spread increasingly to Africa. When I was being trained as a young economist many decades ago, I was introduced to the depressing Gunnar Myrdal study entitled ‘Asian drama’, which implied a deep and gloomy future for what we now regard as the world’s most dynamic region. The ‘flying geese’ theory of economic development still applies. Africa will have its turn and a relatively open trading system will be an essential part of that.

We should recall here that every developed economy in the WTO has been a developing country in its history, before each moved from an agrarian base to an industrial phase, and now to a post-industrial phase in which the distinctions between trade in goods and trade in services fade. Equally, as one developing country ambassador remarked to me recently, every developing economy wants to be a developed economy.

The multilateral trading system, underwritten by the WTO, is an essential part of the global economy and the development process. The ‘Global Value Chain’ is not called ‘global’ by accident. As we investigate ever more complex and far-reaching opportunities for regional economic integration, it is the WTO that makes these initiatives coherent.

The WTO is not facing a crisis. Rather, the challenge facing the institution is different. The problem is one of declining relevance. With the important exception of the WTO’s dispute settlement system, the WTO is clearly no longer the ‘go-to’ place for innovative trade policy thinking and practice. Some stakeholders have almost given up on us. Frankly, we would hard-pressed to muster a decent anti-globalisation demonstration against the WTO these days. There is a message about relevance there.

However, the situation is far from irrecoverable. Over two-thirds of world trade is still taking place on the basis of MFN rates. If the WTO were a company, not an inter-governmental institution, we would remain the market leader. However, our failure over almost two decades to bring out new goods and services to respond to our customers’ needs means our brand, though solid, is starting to look faded.
The WTO has a variety of functions – an advocacy function; an increasingly important development and capacity building function reflecting the modern membership profile; an implementation function; and it serves as a centre of intellectual leadership on emerging and traditional trade issues and is the mechanism for managing the most advanced form of economic law that exists. But its negotiating function is stuck - aside from one or two belated baby steps taken recently.

It would be wishful thinking to imagine these various functions of the institution are not ultimately linked. Certainly in the public mind, the 18-year hiatus in advancing the frontier of negotiating achievement is the central problem. We have lost momentum. We have to recover it.

The first essential step – making Bali a success - is obvious and the political contours of any deal at Bali are coming into view. Beyond that, the way ahead is anything but clear. I have argued that any candidate for the office of Director General who claims to ‘know’ the answer to the problem has clearly not understood the problem.

From the failure of the Cancun Ministerial meeting in 2003, when certain mandated issues fell off, one could say, the back of the political truck, we have been reducing the level of our ambition, ‘slicing and dicing’ the single undertaking as we go. We have done this, faute de mieux. We need to be open to new thinking.

In all this, one thing is clear. We cannot leap to the brave new world of 21st century issues by ignoring the detritus of unresolved problems of the 20th century. There is a large matter of unfinished business - a mountain to be climbed - even if Bali produces a result at the higher levels of ambition on the matters now under active discussion.

Having seen every Director-General operate since 1982, I am certain that the Director-General cannot afford to have a prescriptive view of the way forward. He or she must listen most carefully to members and proceed with enormous discretion and flexibility to take account of changing circumstances. That is why I have said - “I am not a man with a plan; I have a dozen or more different plans.”

There are in negotiations, I believe, only fixed strategic objectives, new opportunities, and shifting external (or exogenous) circumstances that have almost nothing to do with the internal logic of a negotiation but which require a constant adaptation of any strategy. In my presentation in Geneva to members (‘The Beauty Contest”) I quoted the great Prussian Field Marshall, von Moltke, and his famous observation: ‘No Battle Plan survives the first encounter with the enemy.” Another famous strategist, Sun Zi, said two millennia earlier - “Do not repeat the tactics which have gained one victory, but let your methods be regulated by the infinite variety of circumstances.”

To facilitate a deal will require the new Director-General to have proven competence, the confidence of all the members, not just a group of members, commitment, and above all creativity in helping the membership find solutions.

I turn now to the specific questions and issues put to candidates.

**Plurilaterals**

The WTO, like the GATT before it, has never enjoyed monopoly rights on institutional arrangements for trade and investment integration. The most important alternative to
multilateral agreements under the WTO is of course RTAs (Regional, or Preferential Trade Agreements; these are discussed below).

Nor are plurilateral agreements specific to a sector of commerce, a new phenomenon for the WTO. The Agreement on Government Procurement is one of four plurilateral agreements listed in Annex 4 to the Marrakesh Agreement. Furthermore, the WTO does provide legal mechanisms to conclude plurilateral outcomes both within the organization (the GPA and the ITA) and outside of it GATS Article 5, GATT Article 24).

The crucial issues, however, are twofold: first, whether the benefits of such plurilateral agreements will or will not be extended on an MFN basis - the core of the ‘free rider problem’; second, whether such agreements are ‘closed’ agreements or building blocks for wider fully multilateral agreements.

So-called ‘elegant’ legal solutions are not the way forward. It is quite clear that the fundamental driver for renewed interest in plurilateral agreements is explained by the core problem facing the WTO - the ossification of its negotiation function. If we could recover momentum in the negotiation function of the WTO, interest in concluding deals with a subset of the membership would be reduced almost by definition. For those who complain most vociferously about ‘plurilaterals’, the old phrase “physician heal thyself” applies.

The exploration of plurilateral solutions to problems that should clearly be solved multilaterally will proceed until we solve the broader problem of stasis in our negotiating function. I would hope however that they proceed on the basis of some clear points of principle:

• Inclusiveness: they should be open to full participation, even if this involves staged participation.

• Flexibilities will still be vital, if they are to be building blocks for fuller multilateral solutions. Nobody voluntarily puts on a straightjacket.

• There should be no punitive consequences for those countries that do not wish to become involved.

**Preferential Trade Agreements**

We have just survived the worst economic downturn in 70 years - and we are by no means yet out of the woods, with unemployment in some important developed countries at or beyond levels experienced in the Great Depression. Understandably, this has led certain commentators to say this is the underlying reason why it has proved to be so difficult to agree in the WTO on opening markets - i.e. the difficult economic conditions have reinforced protectionist thinking.

This is a manifestly inadequate argument. First, and this is to the great credit of earlier generations of GATT negotiators, the *acquis* of the multilateral system has held up remarkably well. Yes, there have been some failures. But as the great legal theorist Robert Hudec argued, it is impossible to design a legal system that is free of what he called ‘legal failure’.

Second, the impulse to integrate economies is as strong as ever, but it is taking the form almost exclusively of regional preferential trade agreements. This gives lie to the theory that governments have lost interest in expanding the frontier of trade and investment integration.
It is time to move beyond the debates of the 1990s - the old arguments about whether RTAs were ‘building blocks’ or ‘stumbling blocks’ for the multilateral trading system. It is also time to recognise the emergence of two important trends that demand a recasting of the 1990s debates over RTAs.

The first of these is a general tendency towards higher quality, not lower quality, RTAs. There are important exceptions from the past and we will certainly see further low quality bilateral FTAs being negotiated so they can be hung up on the trade policy wall as political trophies. I have likened this taste in acquiring low quality FTAs as akin to ‘hotel art’: yes, the look of my hotel bedroom may be somewhat improved by the so-called ‘Monet’ or ‘Van Gogh’ on the wall, but we know it is not real art. We are talking about a trend here, not a rule. Against this, is an unmistakable increase in the quality of many recent FTAs - certainly the comprehensive FTAs in which my country is involved in from Australia (CER) to our FTA with China are extremely high quality.

Second, there is a marked tendency towards what I call ‘convergent FTAs’ - FTAs that collapse bilateral FTAs into larger concentric rings of trade and investment liberalisation. North America and Europe are the leading exemplars. As the EU has expanded, many other European countries, some of them members of alternative regional agreements such as EFTA, have enlarged the boundary of integration. The earlier bilateral FTA between Canada and the United States did not last long in practice - it was collapsed into a broader NAFTA, embracing the three large North American economies in a single zone.

We have caught this wave in the Asia-Pacific: the two geographically contiguous FTAs in the centre of the Asia-Pacific (the AFTA, or ASEAN FTA and the CER between Australia and NZ) are slowly being merged into a broader 12-country FTA known as AANZFTA). This is extremely high quality. Its region-wide Rules of Origin, which are completely consistent with the emergence of supply chain linkages emerging in these Asia-Pacific countries, will slowly clean up the over-hyped problem of the ‘spaghetti in the bowl’, at least for the twelve countries concerned.

Three new, and potentially momentous, convergent FTAs are under negotiation. The first is the Regional Comprehensive Economic Partnership (RCEP) - a hugely ambitious negotiation in the Asia-Pacific only just launched in Cambodia by Heads of Government. It includes all the countries that have FTAs with ASEAN - China, Japan, Korea, Australia, New Zealand, and India.

Far more advanced is the TPP, or Trans-Pacific Partnership Agreement. Building on an earlier ‘convergent’ FTA involving four Asia Pacific economies (Brunei, Chile, New Zealand, and Singapore), it involves now eleven economies, including all the three giant NAFTA economies.

A similar process is underway in Latin America. Mercosul (Mercosur, in Spanish) now has a regional rival: the Pacific Alliance, which is a deep integration model aiming again to collapse bilateral FTAs amongst a group of Latin economies into a single agreement. Russia is at the early stages of forming a customs union with some traditional partners. The Arab countries are exploring ways of re-energising discussion about a customs union.

The recent announcement by the United States and the EU of the Trans-Atlantic Trade and Investment Partnership Agreement is potentially a game-changer. These are the two traditional giants of the WTO system, accounting for almost 50 percent of world GDP. Up to the end of the Uruguay Round (recall that China was not even a full participating contracting party to the GATT and therefore was not involved), it has been the EU and the United States that have provided the essential leadership necessary to conclude the
last successful multilateral trade round. Whatever happens here, this will deeply influence events in Geneva.

The evidence here is crystal clear: the world is not turning away from negotiating trade and economic integration agreements. Quite the contrary; there is an explosion of initiatives taking place. The problem is that it is all regional, not multilateral, and the problem is that Geneva risks becoming a backwater.

Events in the world of preferential trade agreements or RTAs are moving at such a pace and in ways that could not be anticipated in precise terms that we should pause before drawing any hard and fast conclusions as to what this means for the multilateral trading system. There are, however, certain realities that need to be taken into account.

First, forget any thought of trying to ‘leg-rope’ these RTAs through negotiating ‘stricter rules’ around GATT Article XXIV and GATS V. That would be the height of naiveté; consensus would be required from the very parties negotiating these agreements. We should always be open to any new proposal to improve the transparency of these agreements but it is a sobering fact that of all the scores of FTAs that have been notified to the GATT and WTO, only one – the Czech and Slovak FTA – has ever been held to be ‘consistent’ with the multilateral rules of the game. The rest, by definition, remain untested in a general sense. The way forward in Geneva is not a legal route.

Second, new approaches will be developed in these multiple negotiations that need to be taken into account in any new thinking we can develop about the best way forward multilaterally. As I observed earlier, the WTO does not enjoy trade policy monopoly rights.

Third, the only practical way to respond is for the WTO to find a way to restore momentum in its own negotiating function and that, we must admit, is a huge challenge. There is no clear single ‘solution’ sitting on the sidelines waiting to be applied. No new procedure, or elegant Green Room negotiating ‘mot du jour’, will suffice.

Fourth, while dogmatism is always to be avoided on such strategic matters, trade policy theorists and practitioners have generally (and I think correctly) held to the view that there will always remain some issues which no RTA can address, other than on peripheral matters. That is, only the WTO could address, say, subsidy peaks and contingency protection devices. The intersection of these new massive RTAs crisscrossing the Asia-Pacific and now the Atlantic with the WTO system needs careful reflection.

Finally, the logic of all this convergence should ultimately point to a long-term vision for the WTO itself, though it sounds insanely ambitious given the almost complete absence of traction in multilateral negotiations.

That is, just as bilateral and plurilateral RTAs are ‘collapsing’ into larger and larger ‘economic conurbations’ of trade and investment integration involving dozens of countries, could we not envisage a comparable long-term vision for the WTO itself here? Is not the ultimate ‘convergent’ zone of integration its global equivalent? It would of course require several negotiations, but there has been little or no discussion of a bigger long-term vision to drive our work.
Industrial Policy

The WTO is a system of rules, commitments, and undertakings. It is not a ‘plan’ or policy template for any economy. With a framework that has to cover economies as diverse as Tonga, Nigeria, China, and Switzerland it could hardly be otherwise. It is a system that wisely focuses on trade effects, rather than prescriptive policy-making. There are exceptions - certain policy instruments have been agreed by the membership to be so egregious in their trade effects that they are prohibited (e.g. prohibited subsidies in Article 3 of the Subsidies and Countervailing Measures, or SCM, Agreement). But generally, the WTO has left plenty of policy space for different policy choices - including industrial policy.

That said, the term ‘industrial policy’ is infinitely flexible. It would be hard to imagine any country that does not have ‘industrial policies’, a term that could cover anything from well-designed and generally available research and development grants to heavily interventionist subsidies for politically favoured designated ‘strategic industries’. It is at the latter end of the spectrum of policy choice that the problems arise.

First, deeply interventionist policies require deep pockets. It is a game biased against small economies without the deep pockets to play. Yet even large, developed economies should show some caution here. The huge budget deficits of so many significant developed economies are calling many of these generous subsidy policies into question.

Second, there is a huge intellectual and political problem involved in designating any part of the economy to be ‘strategic’ - compare the extensive literature around the deeply flawed ‘commanding heights’ concept of the mid 20th century. A century ago, as today’s developed economies moved from an agrarian base to an industrial base, there were those who argued that ‘new fangled’ industrial jobs did not add ‘real wealth’, which (according to these rural conservatives) came only from the land.

We saw an exact parallel as the concept of ‘post-industrial’ society emerged - politicians arguing that only ‘real’ jobs in manufacturing mattered. Tell that to a young IT worker working in a pleasant environment at twice the average manufacturing wage. Yesterday’s ‘strategic’ industries become tomorrow’s basket cases if they never become competitive.

Third, and most fundamentally, the concept is a negation of some of the most powerful forces shaping the modern world economy - the growth of global value chains and the increasingly porous distinctions between the worlds of ‘merchandise goods’, ‘services’, and intellectual property. Trade in intermediate goods and services now dominate world trade and the trend will only increase. Your economy may be unable to manufacture large civil aircraft or motor vehicles but be absolutely capable of manufacturing components for either. Even the small economy of my country can do this. We now understand better than ever before that traditional measures of ‘manufactured’ exports vastly understate the embedded value of services.

So what does this mean for the WTO? The first order conclusion is the most obvious: a liberal trade order, based on rules that focus on their trade effects still makes overwhelming sense in a world that is changing all the time. This approach leaves plenty of policy space for least developed countries (LDCs) and small, vulnerable economies (SVEs), precisely because the trade effects of their policies are by definition modest.
Food Security

Food security is, in my view, non-negotiable. It is among the most basic of human needs. It also exists on multiple levels. First, the issue of ‘food poverty’ is fundamentally an income problem, not one of agriculture production. Singapore has no farms. As far as we know nobody starves in Singapore.

The middle class of the emerging economies - and we use rather modest definitions of income in that phrase - has by and large gone beyond the primary issue of physical hunger. But millions will still be short of real food security in the sense of the definition by the World Food Summit in 1996. Let me restate their definition, since I think it is a great definition:

“Food security exists when all people, at all times, have physical and economic access to meet their dietary needs and food preferences for an active and healthy life”.

Note here the emphasis on access to food. I deeply agree: this is not actually about food production. That is the least of the food security problems, despite all the fashionable discussion that suggests otherwise.

Let us start by looking at the facts - always a good place to start. We know we have to produce 70 percent more food by 2050 - i.e. in roughly four decades' time. This is perfectly feasible: we increased global food supply by almost double that amount over a comparable period (to be precise: 140 percent in the 45 year period to 2005). Can we achieve about half the increase in production we achieved globally over the last 4-5 decades? Sounds very modest to me as a global goal.

Third, it is completely irrational to assume current agricultural technologies applying to any of these issues. This lies at the heart of the ancient Malthusian fallacy. On the contrary, we should assume at the minimum the same creativity and innovation of the past 40 years and that is probably very pessimistic. With billions more people likely to received elite education and all linked around the world by the internet, I think it is far more likely that the next two generations will accelerate invention and innovation; agriculture will be no exception.

The WTO has a vital role to play here helping markets work better, domestically and internationally. Recalling as always the key point - the essential problem is poverty, not food production - the role of markets here is simply crucial. This is not an ideological point. It is a practical reality. It is the role of markets to respond to resource constraints, local shortages (both temporal and permanent), and to drive productivity increases.

Think of some of the worst famines in the last 50 years. I have in mind, the huge population losses in China during the Cultural Revolution, localised severe famines in parts of Africa, the tragic starvation of hundreds of thousands in North Korea. Poverty or central planning, not global food shortages (there were none), allied, at least in the first and last case, to deliberate policies of economic autarchy, caused the famines.

As World Bank research so clearly illustrates: the vast majority of the very poor today - around one billion people - live in conditions of quasi civil war or conditions of deep physical insecurity. Properly targeted emergency food aid is what they need, but let’s not pretend that is real and sustained development assistance. For the rest of the world’s poor, freer agriculture trade policy to establish better functioning global food markets is absolutely part of the answer. I understand there will be a thousand voices that claim to speak in the name of the poor who will find that difficult to accept. They will be proven wrong as they have been proven wrong in the past.
Second, it is simple economics that illiquid markets fuel volatility. A small and thin international agriculture market relative to highly protected and large domestic production is a recipe for volatility. I come back again to the need for an increased role for markets. I cannot imagine it being appropriate for any person to lead the WTO who is antithetical to the concept of open markets as a matter of principle, even if the delicate politics of opening markets requires us to approach this from a very long-term perspective and always with well-designed flexibilities.

Climate Change, Energy Access and Natural Resources

The combination of an increasing global population and the massive shift towards urbanisation raises the prominence of numerous issues that may loosely be called ‘environmental’. Few of them are “new” per se; it is the increase of their relative prominence in the global conversation that is so striking.

Certainly, these intersecting debates are no longer just a pre-occupation of rich, developed countries; it is absolutely clear that there has been a huge shift in thinking amongst developing countries. More and more developing countries recognize that growth models which do not factor sustainability into them are not an adequate basis for moving forward in the 21st century.

The subject is too vast and complex to go beyond a few obvious points of observation and principle.

First, if it was a mistake to ignore environment in economics it is a mistake to ignore economics in the environment. Much progress has been made since the great development economist Ragnar Nurske observed “The world is too poor to ignore inefficiency,” but there is a huge development job still ahead of the generations who will follow us.

Second, we should be suspicious of those who argue continuously “it is all about balance.” That may certainly be a sound generalisation in many cases. But there will also be instances where win-win results can be attained and where multiple co-benefits can be harnessed. China has increased its energy efficiency per unit of output in the last Five Year Plan by a little under 20 percent. This is estimated by the World Bank to mean that nearly 1.5 billion tonnes of carbon dioxide emissions that would otherwise have been added to China’s (still growing) emissions have been avoided. This is equally a huge economic efficiency gain.

Third, the international trading system functions as a giant conveyor belt for distributing relative abundances of natural resources around the world. Seventy percent of the world’s fresh water is used in producing food. Though we in New Zealand suffer episodic localized droughts, we are blessed with an abundance of water. Our substantial food exports (we export roughly 90 percent of the food we produce) can therefore be considered as embodied water exports to regions of the world that have major and growing water problems.

An even smaller WTO member, Iceland, is a significant aluminium exporter. Nearly 80 percent of Iceland’s energy (effectively all renewable geothermal and hydro) goes into aluminium exports, which have now passed fishery products as Iceland’s most important export. One could equally consider Iceland is an exporter of embodied electricity, relieving importing countries of even more challenging energy supply problems and ever-higher emissions. In

1 Note that I have combined the separate question of competition for natural resources in this section, since I believe the issues of principle are fundamentally the same.
other words, once again, the international trading system is part of the solution to localised resource and environmental constraints, not the enemy.

Fourth, to have a general position in favour of open markets (as I argue is indispensable for any aspirant Director-General) does not imply a bias against appropriate regulation. We need tight environmental regulations in many areas to ensure high environmental standards, including outright import (and sometimes export) bans in areas which undermine human, animal, or plant health. As these issues assume increased prominence, we need to keep an open mind on the appropriate response. The foundation principles of Article XX will again be an invaluable guide.

There are some very delicate issues that arise in the intersection of trade and climate change policies. The challenge to negotiate a comprehensive new global climate change agreement by 2015 is every bit as challenging as the need to complete the Doha Development Agenda. The temptation to use trade measures unilaterally may increase. There are deep political issues behind this. The solution, as always, will be to work through the issues discreetly through quiet negotiation.

The Role of Trade in Promoting Structural Economic Transformation

Finally, there is no important distinction of principle between domestic trade and international trade: it is all about gains from specialisation. We can hypothesise that our ancient ancestors found certain villages, tribes or regions were better at some economic activities than others and trade (certainly in barter form originally) evolved from that. Change would have been glacial by modern standards, but there would have been some degree of specialisation and thus economic transformation that would have taken place.

Modern international trade is simply a super-charged version of this ancient reality and thus is causing economic transformation in our societies at an unprecedented nature. Of course, those of us who are continually defending open markets will always point out that technology is as potent, if not more potent, force for structural economic change. In reality, they work hand in hand.

The point here is to manage structural adjustment, not prevent it. Worse still is to refuse to participate in the international trading process. In the comprehensive study completed recently by a number of international institutions, including the WTO, UNCTAD, OECD and ILO, on jobs and growth, it concluded as follows:

“Despite all the debate about whether openness [on trade] contributes to growth, if the issue were truly one warranting nothing but agnosticism, we should expect at least some of the estimates to be negative...The uniformly positive estimates suggest that the relevant terms of the debate by now should be about the size of the positive influence of openness on growth....rather than about whether increased levels of trade relative to GDP have a positive effect on productivity and growth”.

Increased specialisation is the reason for international (and domestic) trade, the driver of increased productivity growth, higher incomes and, it must be added, dislocation associated with economic transformation. But to forsake the massive and proven benefits for fear of change is surely the wrong conclusion. The rise in the global value chain - the ever-increasing tendency towards trade being dominated by trade in intermediate goods and services rather than the finished products of the earlier concept of vertically integrated production - poses both new opportunities and fresh challenges. These have been well
documented in some recent outstanding empirical work led by the WTO Secretariat and other leading international economic institutions.

The correct policy response will inevitably involve domestic policy instruments to facilitate adjustment - training, flexible labour markets, social safety nets. It also requires us to use the full trade policy tools in the toolkit to phase in liberalization, allow for well-designed safeguards while recognizing the reciprocity - a key to the WTO - also opens up new opportunities.

At the same time, we need to recognise that this sounds like a counsel of perfection to many developing countries, particularly least developed countries. It is not wrong advice per se; it is just beyond their domestic resources to put much of this into practice. They need help, to put it simply. The link here to trade-related assistance and capacity building is direct and obvious.

It is a fine call as to whether we should call the ‘Aid for Trade’ initiative, launched formally at the Hong Kong WTO Ministerial, a glass half full or half empty. Let us choose a neutral characterisation: it is a start.

The literature suggests some real successes but some obvious policy deficiencies. My interpretation of the literature is that the same problems that bedevil development assistance generally - the matter of ‘aid effectiveness’ - lie at the root of the problem we need to work on. The quantum of money available is considerable and growing - going from some US$20 billion in 2005 to US$32 billion in 2011, and I suspect a real ‘taste’ in donors for doing more. The oldest cliché in development assistance still resonates with me - “Give a man a fish and he has food for a day; teach a man to fish and you feed him for a lifetime.”

Developing countries - least developing countries (LDCs) in particular - face massive logistical and other problems even participating in the international trading system. As one Ambassador from an LDC said to me during an informal discussion on the issue of Trade Facilitation - “It would be nice to have some trade to facilitate.” Point taken.

The WTO is not a development institution in the true sense of that phrase and is unlikely to become one: we simply do not have the billions of dollars necessary to make a real difference. But the WTO can act as a ‘train-spotter’ or catalyst for key trade-related development needs. I have certain ideas here with respect to re-orienting the TPRM process in this respect which I would like to develop if I have the opportunity.

But let us look at this in perspective. For millennia, our ancestors lived materially impoverished lives, generally with as little physical and personal security as economic security. Without in any way wishing to under-estimate the magnitude of the development challenge, we have made major progress amongst a growing number of countries. I am convinced that the WTO, the bedrock of the multilateral trading system, can continue to play a vital role in all our futures.
Alan KYEREMATEN
Section 1.

There is a clear and urgent need to renew the negotiating vocation of the WTO. I would not rule out any possible means of doing so. On the contrary, I would work with members to help them converge on an approach-or mix of approaches - that is broadly acceptable and likely to produce results.

Clearly we need to find a way out of the Doha Development Agenda (DDA) impasse. All the members in this member-driven organization are on record as reaffirming the need to make progress. The guidance from the WTO’s Eighth Ministerial Conference was to explore different possible ways of doing this while respecting our basic mandates. My task as Director-General (DG) and Trade Negotiations Committee (TNC) Chair would be to work closely with all the Membership to put this guidance more effectively into practice.

We have a solid basis in the work done on the DDA over the last decade. But it is now clear that this work also contains the sticking points that have held up the round. This was implicitly recognized by ministers at the Eighth Ministerial Conference. Since then, there has been serious, quiet work to advance in a more flexible and pragmatic way, focusing on trade facilitation and on a number of other areas. This approach is the right one for where we are now. We need to rebuild trust and confidence among negotiators and achieve outcomes, even if limited ones, both for their own value and to show that the system is still capable of negotiating and producing results. The further we can get along this road by the time of the Bali Ministerial the better, though we also need to keep our ambitions for Bali realistic. Looking further ahead, though, it is unlikely that a piecemeal approach can either deliver on the Doha mandate or re-energize the WTO’s negotiating vocation for the future.

The inclusive logic of the New Trade Consensus (NTC) I have been advocating as a vehicle to strengthen the WTO to confront effectively the challenges of the 21st century postulates that agreement on finishing the DDA has to go hand in hand with charting out new directions. The issues do not divide themselves neatly into present and future and nor can we. The immobility of the last few years has illustrated the weakness of a strictly sequential approach. It has made a stop-start process inescapable, with all the costs it brings. The WTO should be able to negotiate continuously as long as we are open to the possibility of a range of approaches to issues and outcomes. Just as in the Uruguay Round, we will not achieve all we want or need by concluding Doha, not least because the world has changed since 2001. Committing to an ongoing negotiating process was an important element in finishing the last Round and it is likely to be the same this time. The scope and specificity of the forward agenda will need to be negotiated and agreed among members, and this will be challenging. I suggest that we approach it in a bottom-up way, building incrementally on our shared core commitments.

Beyond Bali, the NTC means a constructive and open-minded perspective on the whole range of trade issues and concerns. We have to break out of the bunker of narrowly defensive thinking. A system which refuses to look forward will lose its way. If the WTO is to progress it must be capable of embracing both longstanding and emerging trade concerns of its members.

Part of the solution, I suggest, is to take a broader and more flexible view of possible negotiating approaches and outcomes. We are not tied for ever to the Big Round or to “hard law” solutions. The WTO should be able to advance on agreements in individual sectors, as we did fifteen years ago in financial services and basic telecoms; it should have enough confidence to be able to consider plurilateral agreements on their merits; it should be able
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to allow those members who want to go further or faster to do so, provided that the results are eventually accessible to all; and it should be able to consider non-binding or “soft law” agreements where these could help build confidence as basis for something more solid. In these and other ways we should not hesitate to learn from and adapt the best practices of other trade forums.

Section 2.

Old debates about regionalism versus multilateralism are irrelevant, for example, when almost all WTO members are in or are actively pursuing bilateral or regional trade agreements. The recent WTO Report on the “WTO and PTAs: From Co-Existence to Coherence” shows how widespread this phenomenon has become and the dangers associated with it. With the exception of Mongolia, all WTO members are parties to one or more preferential trade agreements. It is my understanding that Mongolia is even negotiating a free trade agreement with Japan and there could perhaps be agreements with other countries.

There is the risk that the MFN principle, which has been the bedrock of multilateralism, would become the exception rather than the norm in international trade relations. While PTAs can be building blocks for the multilateral trading system, there is always the risk of trade diversion from competitive third countries, thereby diminishing global welfare. PTAs can increase transaction costs associated with implementation and enforcement of different sets of trade rules and regulations, including rules of origin and other non-tariff measures. Regionalism can never be a perfect substitute for multilateralism. In fact, there are certain issues, such as agricultural subsidies, which cannot be effectively negotiated at the regional level. The WTO dispute settlement system has endured the test of time. There are several countries that are parties to PTAs, but prefer to have recourse to the Dispute Settlement Understanding (DSU) instead of the dispute settlement systems established under their PTAs. The two approaches to liberalisation can be complementary, but to ensure that the WTO needs to keep abreast of developments in the global economy.

The WTO rules relating to regional trade agreements - Article XXIV of the GATT 1994, Article V of the GATS, and the Enabling Clause need to be clarified and strengthened to remove the ambiguities which have contributed to the paralysis in the examination process. The Committee on Regional Trade Agreements (CRTA) should be strengthened so as to enable it to come to decisions. Apart from the Czech-Slovak Customs Union, the GATT/WTO has never been able to reach a definitive conclusion on the consistency of notified agreements with WTO disciplines. Given that regional trade agreements evolve, their impacts should be reviewed periodically by the CRTA to determine whether they are having a positive impact on the multilateral trading system.

Section 3.

I believe that WTO rules are flexible enough to allow developing countries to pursue development-oriented policies. In the context of agriculture and non-agricultural market access (NAMA), least developed countries were exempted from undertaking reduction commitments and developing countries were allowed to make lesser reductions than their developed country counterparts. Similarly, least developed countries and developing countries undertook fewer commitments in trade in services than developed countries. There are also flexibilities for developing countries under the Agreement on Subsidies and Countervailing Measures. The totality of these measures provides some space for developing countries to adopt development-friendly policies.
While there is a view that developing countries should be given greater flexibility to provide subsidies and impose local content rules and other related measures to establish and promote their infant industries, I believe that this does not require a wholesale amendment of the relevant WTO agreements. The requests of individual developing countries can be accommodated through waivers. The process should be streamlined to ensure rapid consideration of requests that should be granted when a justifiable case is presented. Effective special and differential treatment provisions should also be included in the agreements being negotiated under the Doha Development Agenda.

Section 4.

Renewed global attention to food security as a result of the price spikes and high volatility episodes of 2007/2008, 2010 and 2012 and the low level of stocks for some commodities has underlined the urgent need for new energy and creativity in tackling one of humanity’s oldest problems. I believe it is an inviolable right of every country to seek to feed its people. Food security has always been a central element of agricultural policies. And as the international community has recognised, trade makes an important contribution to achieving food security. The contribution of a well-functioning and open rules-based trading system to global food security objectives has been endorsed by major international gatherings and reflected in the UN Secretary-General’s Zero Hunger Initiative presented at Rio+20. As the Director-General of the FAO has said, food security cannot be achieved in one country.

Food security is a key element of the WTO Agreement on Agriculture (AoA), which aims to establish a fair and market oriented agricultural trading system. The preamble of the AoA stresses that commitments should take into account food security concerns. Food security is explicitly mentioned several times in the AoA and is reflected in the Marrakesh Decision on measures concerning the possible negative effects of the reform programme on net food-importing developing countries. Developing countries are also permitted exemptions from reduction commitments for a number of policies with a food security element, especially public stockholding. The December 2008 draft modalities text would extend these provisions further. I am aware that the G33 has recently proposed adopting relevant elements of the draft as an early harvest under paragraph 47 of the Doha Declaration in order to respond to pressing food security concerns. As I understand, this proposal is still in the early stages of discussion. Food security is also mentioned explicitly in several other provisions in the draft modalities text. The question of whether these go far enough is one that needs to be addressed in negotiations, and it is yet another reason to get the Doha negotiations back on track.

Of course, this is not the only way in which the WTO can address food security. Exempting food supplies for the World Food Programme from export restrictions can also help promote food security. The WTO’s active participation in inter-agency co-operation on this issue, notably the Agricultural Market Information System (AMIS) – should be commended. The WTO’s contribution to the global campaign against hunger should be enhanced and there is a need to emphasise coherence with the work undertaken in other forums, with a view to ensuring effective global governance on this critical topic.

Section 5.

The WTO’s core mandate is to promote trade liberalisation among countries. It is important for the organisation to stay focused at all times. There are other institutions that have vast experience in some of these new issues and should take the lead in the elaboration of global disciplines to ensure a level playing field. Having said that, the WTO has to keep pace with developments in the global economy. Insofar an issue has a bearing on trade and with the
agreement of all members, the WTO should be able to address some of these emerging issues, such as climate change.

I do not think it is helpful to divide up issues chronologically. Trade is an ancient human activity which is also a vital part of our future. Many of the issues we face go back a long way, even if they show up in new forms. Trade in agricultural products is a major example. The important point is that the WTO system must be capable of evolving, just like the challenges we face. No issue of importance to members should be excluded from consideration - the WTO cannot afford to put up barriers to trade in ideas. The New Trade Consensus will no doubt have to encompass issues with a long history in the WTO as well as some which are newer to us - the mix will be for members to decide. The WTO cannot stand still, any more than the world can, but it cannot ignore its inheritance either.

Section 6.

Two of the fundamental principles of the WTO are the non-discrimination principle and security and predictability of market access. The WTO cannot coerce a country endowed with natural resources to give access to other countries. On the contrary, Article XX of the GATT 1994 permits countries to adopt measures to conserve exhaustible natural resources. WTO rules, however, oblige a member not to adopt a measure which invariably gives an advantage to its domestic producers over foreign producers. The WTO can play a facilitative role in the development of disciplines to regulate fishing subsidies, which cause over-fishing and depletion of major stocks. In that regard, the progress being made in the Negotiating Group on Rules to come up with disciplines to regulate fisheries subsidies should be welcomed.

Similarly, the WTO can play a similar role in the development of disciplines to regulate export taxes and other measures which may impede access to food and energy products. Both supplying and consuming countries have an interest in seeing a credible framework under which trade can take place. Unilateralism is neither in the interest of supplying countries nor of consuming countries. As the main negotiating forum for trade negotiations, the WTO is uniquely placed to work closely with its members to develop disciplines to promote security and predictability of market access, while at the same time contributing to other equally competing global and national objectives.

Section 7.

With the 48 least developed countries in the world accounting for around 0.8 percent of global trade, every effort should be made to facilitate their full integration in the multilateral trading system. As an African I am particularly aware of the needs of LDCs, but this is not just an issue for Africa or other regions, it matters to the whole world. It is not happening anywhere near quickly enough to address the human needs involved, and it would be a priority for me as Director-General. The WTO does not have all the answers, but it can and must make an important positive difference.

I certainly see it as essential that issues of importance to LDCs, including duty-free, quota-free access with flexible rules of origin, be given priority in the continuing effort to advance the Doha work programme. This needs to be backed up with practical measures to enable LDCs to make use of new opportunities such global value chains. In that regard, public-private partnerships should be strengthened, so that targeted programmes can be implemented to ensure that LDCs benefit from market access opportunities.
While a lot is being done by the WTO and other international organisations and donor countries in the area of trade-related technical assistance, it is my considered view that a holistic approach is needed to ensure the active participation of LDCs and other economically weak developing countries in the multilateral trading system. The Enhanced Integrated Framework for LDCs and the Aid for Trade initiative have been a positive step in that direction, as they seek to not only enhance the understanding of beneficiary countries about the multilateral trade agreements and negotiating processes, but also assist them to address the supply-side constraints that have undermined their efforts to enhance their participation in the trading system. Aid for Trade is also a tool to improve coherence and cooperation between donors to ensure the best possible use of public funds.

These mechanisms should, however, be reinforced. There should be secure and predictable funding which would allow for long-term planning and the implementation of activities to address identified capacity gaps. The monitoring mechanisms should be strengthened to ensure that the implemented activities are actually assisting the beneficiary countries to enhance their participation in the multilateral trading system. The Fourth Global Review of Aid for Trade, “Connecting to Value Chains,” which is to be complemented by a monitoring exercise addressed to the private sector and will be held at the WTO in July 2013, should in this regard give useful information and feedback to decide whether it is necessary to update the role and objectives of Aid for Trade.

Aid for Trade is, however, not a panacea for all the challenges faced by developing countries in the multilateral trading system. It cannot be a substitute for continuing with negotiations that would create a more level playing field for developing country exporters and open up new opportunities for growth.

Access to trade financing should be improved for LDCs and poor developing countries. In recent times, some steps have been taken by the World Bank and regional development banks, but more needs to be done to ensure that LDCs and other poor developing countries have reasonable access to trade financing under optimal conditions.

LDCs should be assisted to put in place an enabling trade that would allow trade and investment to flourish. There is a need to implement appropriate supporting policies to enhance the gains from trade liberalisation that would ultimately contribute to the alleviation of poverty, both at the regional and multilateral level. The identification of the appropriate supporting policies must be adapted to each particular situation. We should build on previous success stories but also recognise the differences between the different regions of the world. There is no “one size fits all” approach. There is also a need to ensure coherence between trade policies and other policies (e.g. macroeconomic, fiscal, social, agricultural, and competition policies) in order to ensure that LDCs derive significant gains from the multilateral trading system.
Mari PANGESTU
The ICTSD poses seven issues – let me respond by first setting out my views on trade and development. I will then respond to the remaining issues by organizing my views around three themes.

I want to start with trade and development because this is at the heart of the issues set out by ICTSD. Moreover, this link between trade and development is the reason that Indonesia has put forth my candidacy for the position of Director-General of the WTO.

*Trade can play a transformative role in development - I have witnessed this and I am hoping that I can share my experience.*

The importance of trade in the structural transformation process of countries is well established. However, as Indonesia’s Trade Minister for seven years, I experienced how trade transformed our nation after the Asian crisis and led to economic growth, development, and poverty reduction. Our exports almost tripled in the seven years I served as trade minister. More broadly, I saw the reality and the potential for the transformative role of trade in ASEAN and in the WTO as coordinator of the G33. This experience means that not only do I understand the challenges faced by developing countries when they are in the process of opening up, but also how to manage these challenges.

I believe an open rules-based multilateral trading system can facilitate the full integration of least developed countries (LDCs) into global trade and support structural economic transformation of LDCs. However, in order to reap the full benefits of trade, a multilateral trading system has to be inclusive. That means to bring along the lesser and least developed countries so that they can benefit from greater market access.

For trade to support structural transformation, an appropriate international enabling framework must be in place to provide a level-playing field and enable LDCs to overcome their structural challenges. We need to ensure that market opening is accompanied by capacity-building initiatives to help those countries bring to market internationally competitive and tradable goods and services. I believe the WTO is and should continue be at the forefront of efforts to make this happen in cooperation with other partners, which would include other international agencies, multilateral and bilateral donors, regional development banks, and the private sector.

Trade facilitation, including technical assistance and capacity building, should be an important element of multilateral trade negotiations. We need to reaffirm that special and differential treatment for developing countries and LDCs is an integral part of WTO agreements. We need to accommodate LDC concerns regarding the specific constraints they faced in implementing effectively the understandings reached in negotiations. At the same time we do need to account for the role of emerging economies in giving more, though not as much as advanced countries, and in contributing to capacity building.

I believe we should continue to promote WTO’s role in Aid for Trade and in the effective implementation of the Enhanced Integrated Framework (EIF) for LDCs. The Aid for Trade initiative provides a platform to help developing countries and LDCs leverage funding to benefit from market opening. We need to strengthen our support for the effective implementation of EIF which allows LDCs to access Aid for Trade funding, complementing resources available in the EIF Trust Fund. LDCs need to be supported in mainstreaming trade into their national development plans and to address their trade capacity-building requirements.

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1 The discussion on trade and development is also in part represented in a *vox-E* publication currently being prepared by Bernard Hoekman.
Finally, significant progress toward conclusion of the Doha Development Agenda (DDA) can play a transformative role in development of LDCs. Elimination of trade-distorting policies in agriculture as well as improved product and market access for products and services which would benefit all members, especially developing countries, could be realised by concluding the Doha Round. I continue to believe that progress can be made in the DDA and would work toward that goal.

Let me now turn to the six specific issues raised by ICTSD.

First, I will address the issues of plurilaterals and preferential trade agreements.

*International trade is a vehicle for boosting growth and development - the WTO should pursue this mandate directly and by supporting other compatible processes.*

The WTO is at the centre of defining the global framework for international trade. The task that the international community has set for the WTO is to boost free and fair trade to promote growth and development. This goal must be our focus. We should avoid drawing judgments or being lost in the morass of jargon (plurilateral, variable geometry, critical mass etc.) that has come to characterise too much of international trade discussions.

It is more relevant to focus on how the multilateral system and other arrangements can play mutually supportive and complementary roles. The multilateral system should both secure the tremendous progress made in the international trading system through its monitoring and rule setting procedures and pursue further gains through multilateral understandings and agreements. In addition, as the voice of the international community on international trade, the WTO should accommodate and in fact encourage all approaches and agreements that meet clear and well-defined principles of the international trading system. These principles include:

- **Consistency with WTO** - Agreements should be consistent with the WTO and build on existing WTO obligations where these exist.

- **Inclusion and open accession** - Participants in any process should be as open and inclusive as possible and be encouraged to permit accession to other countries willing to fulfil the implied responsibilities of any agreement.

- **Special and differential treatment** - Agreements should promote economic and technical cooperation recognising the different stages of development of participants. Special and differential treatment can be justified in circumstances where participants face challenges in benefitting from an increase in trade.

- **Transparency and predictability** - Recognising that the goal is to promote transformative private investment, agreements must provide clarity and predictability for investors.

These principles contribute to a framework that can guide trade reform and ensure that the WTO is appropriately at the centre of the global framework.\(^2\) We need to recognise that the WTO should play this critical role.

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\(^2\) Parallels can be drawn with other international frameworks that have mutually supportive and consistent global and sub-global regimes. In the case of development, the World Bank operates alongside and often in collaboration with regional development banks. In the international financial system, the International Monetary Fund works in collaboration with regional arrangements such as the Chiang Mai Initiative of the ASEAN plus three group and the EU. In each of these cases, the relevant global organisation shapes the global rules and benchmarks but each organisation, global and regional, exploits its comparative advantage within the global framework.
The WTO has made considerable progress in pursuing its mandate. The WTO has been very successfully at widening the tent by bringing in new members. It is not by coincidence that so many countries have acceded to the WTO since its formation in 1995. It has been very successful at ensuring transparency through the notification and trade policy review mechanisms. It has also been broadly successful at ensuring everyone plays by the rules as evidenced by the rise in use of the dispute settlement function. The emerging work on aid for trade is also a very important part of the work the WTO.

All of these functions underscore that the WTO is much more than the DDA. Nonetheless, I continue to believe that the DDA is an important vehicle to deliver meaningful trade reform, economic growth, broad-based job creation and related development outcomes for its membership. The DDA challenge is not technical nor is it the single undertaking; the challenge is to explore new pathways. The recent work on trade in value added is an example of how we need to re-evaluate the premises on which our trade discussions are based. We must identify new approaches to securing our overarching goal of transformative free and fair trade. This is the challenge for the incoming Director-General working with the members and engaging their stakeholders to bring clarity to the payoffs from conclusion of the DDA.

In sum, the WTO can be an active partner in promoting a broader and deeper engagement between trading partners and provide the framework for addressing global trade-related issues. We must be open to securing mutually beneficial economic partnerships whether in a sequential manner, as a single undertaking, or through any other modality. By focusing on the substantive issues we can promote the shared objective of growth and development and not become lost in debates that label plurilateral approaches or regional arrangements as “good or bad.”

Let me now turn to the topics of industrial policy and food security.

*Markets, national governments, and the WTO have essential and well-defined roles to play in policy issues like industrial policy and food security.*

The challenge for the WTO is to play its role in ensuring that the approaches to issues, such as industrial policy and food security, are conducive to the global goals of open and free trade that promotes growth and sustainable development. The WTO is operating in a world still stressed by the global financial crisis and its consequences; an environment that has intensified focus on growth and jobs. In this environment and in the context of extensive global production chains, many international trade policy issues reach far behind national borders.

How should the WTO address these issues?

First, the WTO can define best practice where there is potential for government interventions that might impinge on free and fair trade. The WTO can, in collaboration with other agencies, offer guidelines or principles. It has worked along the lines of this model with the WTO reference paper on telecommunications that spells out the regulatory principles and offers a blueprint for sector reform that reflects best practice in telecoms regulation.

We need to recognise the appropriate policy assignments of the various stakeholders. National governments should intervene in markets when those markets do not function effectively i.e. where there is market failure. The first policy task is to make sure the relevant markets are operating as effectively as possible. Beyond this, governments may
intervene to correct market failures. Some externalities cross borders and may be global in nature. International organisations are the vehicle that delivers these global public goods.

Second, many of these issues (industrial policy and food security being examples) are broader than the WTO mandate and call for collaboration with other organisations and fora. I see scope for the WTO to coordinate with the UN system including the Bretton Woods’s institutions and the G20 process. The G20 can also play a key role in providing international political leadership on trade issues. It has already recognized the key role of trade in global recovery through its efforts to resist protectionism. The WTO has been and should continue to be an active participant in the G20 process. Translating the political will of Leaders to negotiations and outcomes will of course continue to be a challenge.

Let me turn specifically to the issue of food security. The WTO’s focus must turn from a mindset of trade distortions associated with a low price markets and production surpluses to a mindset more attuned to production shortages and high prices for food and farm products. Food prices may well rise over time with growing populations and especially rapid income growth. Low levels of food stocks, demand for bio-fuels, and rising energy prices create the conditions for price volatility and the risk of counterproductive trade policy responses. Food security is likely to remain high on the global agenda and the WTO has a leading role to play, including completing the Doha negotiations which would remove the trade distorting policies.

Finally, let me turn to climate change and natural resources, the remaining topics highlighted by ICTSD.

Global public goods and externalities associated with climate change and natural resources necessitate a global response - the WTO should play a supporting role within its mandate.

The WTO should make sure that global understandings on climate change and natural resources are respected in the realm of international trade. The effective resolution of global challenges, such as climate change, may have profound effects on international trade because they will revalue resources. In fact, by giving appropriate valuation of natural resources we should expect a welcome improvement in sustainable development. The WTO should play its role by ensuring that greenhouse gas commitments are not offset by subsidies or other border measures.

The WTO should be an active participant in climate change fora pointing to how rules-based and fair international trade can contribute to environmental goals. It can, for example, highlight the benefits of rules based framework to expand trade of environment goods and services. Energy efficiency regulations create an incentive to develop such energy efficient products. The WTO can promote free and fair trade in these products and its monitoring and adjudication role can be employed to ensure that relevant WTO rules on border measures, subsidy, discriminations, technical regulations and standards, and intellectual property rights are observed.

The role for the WTO with respect to climate change, natural resources, and industrial policy is about securing growth and development while respecting national sovereignty. We must keep in mind that the international system is based on the principle of national sovereignty. Preserving the appropriate respect for national sovereignty requires that actions taken by any country recognize the interests of their neighbours and manage spillover effects of their actions. The global community established the various international organizations to help ensure not only that spillover effects from one country to another were resolved
in a mutually beneficial manner but also to secure the national benefits from a strong international framework to govern relations between nation states. The WTO has made good progress toward that goal in international trade but the payoff to further progress is enormous. It is these gains in sustainable development that I hope the WTO can attain.
Other Publications from ICTSD’s Programme on Global Economic Policy and Institutions include:


- Rebuilding Global Trade: Proposals for a Fairer, more Sustainable Future. Edited by Carolyn Deere Birkbeck and Ricardo Meléndez-Ortiz, 2009.


ABOUT ICTSD

Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank based in Geneva, Switzerland and with operations throughout the world, including out-posted staff in Brazil, Mexico, Costa Rica, Senegal, Canada, Russia, and China. By enabling stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity-building, ICTSD aims to influence the international trade system so that it advances the goal of sustainable development. ICTSD co-implements all of its programme through partners and a global network of hundreds of scholars, researchers, NGOs, policymakers and think-tanks around the world.