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From the Director's Desk



Dr. Surajit Mitra

Multilateralism, especially, in the economic and trade related spheres have yielded rich dividends to a large number of countries. The gains accrued from the system have led these countries to adopt complementary policies to make deeper integration with world economy. The rule based arrangements and institutional mechanisms under the aegis of the GATT and the WTO have strengthened multilateralism and enabled them to bring down the tariffs to a reasonable level, so as to allow world trade to flourish. Multilateralism thus restored confidence among countries since 1995 with the establishment of the WTO.

However, current round of multilateral trade negotiations under Doha since 2001 have not delivered adequately. Critical issues like negotiations in agriculture, NAMA and services still remain unresolved. As a result, multilateralism is facing serious challenges. Significant tariff reduction may have increased the quantum of global trade, but simultaneous rise in non-tariff barriers (NTBs) is equally decreasing the prospects of world trade. *Secondly*, spectre of global financial crisis may be receding but protectionist policies in industrialized countries and lack of trade finance are still in practice to curtail the export interests of developing countries. *Thirdly*, unfulfilled desire and expectations of least developed countries (LDCs) are not adequately addressed. LDCs feel that the institutional arrangement of WTO, i.e., the procedural requirement is too cumbersome and beyond their technical expertise. Sub-optimal achievement at Doha is resulting in proliferation of RTAs which slowly leads to decline of importance in multilateralism.

Currently, many countries are adhering to exchange rate management to help their exports. This mechanism is used by a number of countries as the WTO has prevented member countries from indulging in other trade promoting measures like subsidies or export incentives. There is a growing apprehension that such exchange rate mechanism may lead to procedural currency problems among some countries. Aggressive behaviour in the currency market may lead to confusion and mistrust among member countries, thus significantly affecting the prospects of Doha multilateral trade talks. To restore confidence and trust in multilateralism, developed and developing countries need to play a constructive role under the guidance of the WTO.

Multilateralism: Current State of Play

*Parthapratim Pal**

The global financial crisis and subsequent protectionist policies imposed by the US and other developed countries during the last five years on world economy have affected the growth of world trade. While most of the countries are engaged in various efforts to revive their economies, world economy still experiences a downturn. Rise in protectionism and failure of WTO negotiations are hampering the forward movement of multilateralism. Doha Round of negotiations which promised to provide real gains to many developing and other countries today stands at the crossroads. In spite of several rounds of negotiations, Doha has not delivered developmental gains to the developing countries. This article makes an attempt to analyze the issues in detail; highlight the promises and pitfalls of WTO negotiations; and suggest the impact on India. What are the constraints the world economy is currently facing and what role the WTO can play to bring back the trust and confidence in multilateralism.

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I. Introduction

WTO was established in 1995 amidst great expectations that it would lead to a more open and fair world trading system. During that time, the predominant view among policymakers was that the WTO would usher a new regime of global trade governance which would bring significant welfare benefits to developing countries. The underlying hypothesis was that a free and fair system of international trade and more effective integration of developing countries with the global market would allow developing countries to pursue export led growth.

Also, from the perspective of developing countries, the establishment of the WTO was seen as a positive step because it introduced new rules to open up trade in agriculture, textiles and services sectors. During the early 1990s, a very high percentage of exports from developing countries were from these three sectors. Therefore, it was felt that developing countries would benefit from the establishment of the WTO. But there was also a worry that stricter intellectual property rules and removal of import restrictions might harm domestic industries of developing countries. However, most experts

were of the opinion that, overall, the WTO system of trading would help developing countries increase their share in the international market. It was also assumed that trade would lead to higher growth and would contribute significantly in overall economic development of these countries.¹

II. Unfulfilled Promises and New Challenges

After eighteen years since the WTO was established, if one looks back at the performance of the WTO, a mixed picture emerges. While there has been growth in world trade and some countries have benefited from it, many expectations of least-developed and developing countries from the WTO remain unfulfilled. These countries feel that, in spite of its initial promise, the WTO did not bring fundamental changes in the international trade regime and the disadvantages faced by developing countries have not been adequately taken care of. It was also felt that poorer countries are increasingly getting marginalized in global trade. Among developing countries, there is also a growing resentment against the institutional make-up of the WTO. It is felt that the procedural requirements of the WTO are costly and require a

level of expertise, which sometimes is beyond poorer countries.

Moreover, negotiations at the Doha Development Round are not progressing well. Due to a number of reasons Doha Round of trade talks have hit repeated roadblocks. Consequently, some amount of uncertainty has crept in about the multilateral trading system. Also, due to a number of economic and strategic reasons, many countries are exploring formation of regional trading blocs.² As trading among these blocs are outside the purview of the WTO, the proliferation of Regional Trading Agreements (RTAs) in recent years can be perceived as a decline of importance of the WTO as the supervisor of international trade.

WTO is also facing some new challenges which resulted from some recent economic events. During the recent financial crisis which originated in the US real estate market, global trade shrunk significantly and to prevent leakage of domestic demand, some countries started imposing protectionist measures in different guises. There was an apprehension that "beggar thy neighbour" policies may be adopted as retaliatory steps by other countries which may lead to a collapse of world trade like it happened in 1930s (the so-called 'Spiderweb' crisis). But countries and multilateral organizations including the WTO managed to prevent such an occurrence. The world trade has recovered well after the crisis and the WTO and other multilateral organizations deserve certain

amount of credit for this. However, protectionist tendencies in some big countries continue to be in operation like the US and it remains to be seen how the WTO deals with this new challenge.

The financial crisis has also led to an understanding that very high level of export orientation can be problematic for countries. There is an interest shift in mainstream thinking about the role of domestic demand in economy. For example, Prasad (2009) says: "With the increasing importance of Asian emerging markets in the world economy, rebalancing growth in developing Asia towards more reliance on domestic demand and less on exports is an important component of the global effort to stabilize world financial and economic systems."³ Increased emphasis on domestic demand and domestic markets may also imply that the motivation for faster completion of the WTO trade talks may be less for developing countries in the present situation.

Another issue that has emerged in recent times is that countries are increasingly resorting to exchange rate management to help their exports. This method is now being used by many countries as the WTO has prevented Member countries from other trade promoting measures like subsidies and export incentives. There is growing apprehension that such exchange rate management may lead to currency wars among some countries.⁴ Uncooperative behaviour in the currency market

may spill over and may affect the Doha Round of trade talks. It is not yet clear whether the WTO is the organization responsible to deal with this issue. It is possible that it is more in the ambit of the International Monetary Fund (IMF). This is another challenge that is facing the multilateral system right now.

III. WTO and its Impact on India: Industry and Industrial Policy

India has been a founding member of GATT and has been a member of the WTO since its inception. Data show that since joining the WTO, India has managed to increase its merchandise and services exports quite significantly. But the increase in imports has also been very high. Since India liberalized its trade regime in the early 1990s and joined the WTO in 1995, India had a current account surplus for only a brief period (Figure 1). In spite of its high export growth, India has remained largely a current account deficit country. And since 2003-04, India's current account deficit has increased over the years (both in nominal terms as well as percentage of GDP). However, because of increased flow of foreign capital during the last decade, India has not faced any major problem financing the current account deficit. With the decline in foreign capital flow since the last year, there is increasing pressure now on the rupee and consequently the rupee is declining at an alarming rate over the last few months.

India's export growth has largely been driven by services

and - to a lesser extent - by manufacturing goods. Among services, Information Technology and Information Technology enabled Services (IT and ITES) form a very high percentage of India's exports. As mentioned before, there are worries that anti-outsourcing sentiment and other protectionist behaviour shown by some of India's major trade partners may put a brake on India's services exports.

As far as merchandise exports are concerned, there is a strong feeling in India that implementation of Uruguay Round agreement has not helped manufacturing exports from developing countries. Indian Commerce Minister during the Hong Kong Ministerial meet brought up this issue in his statement. He says: *"The small and medium enterprises in the developing world provide livelihood to hundreds of millions of industrial workers. They need the elimination of tariff peaks and tariff escalations to obtain effective access into developed country markets. It is no use having zero duty levels*

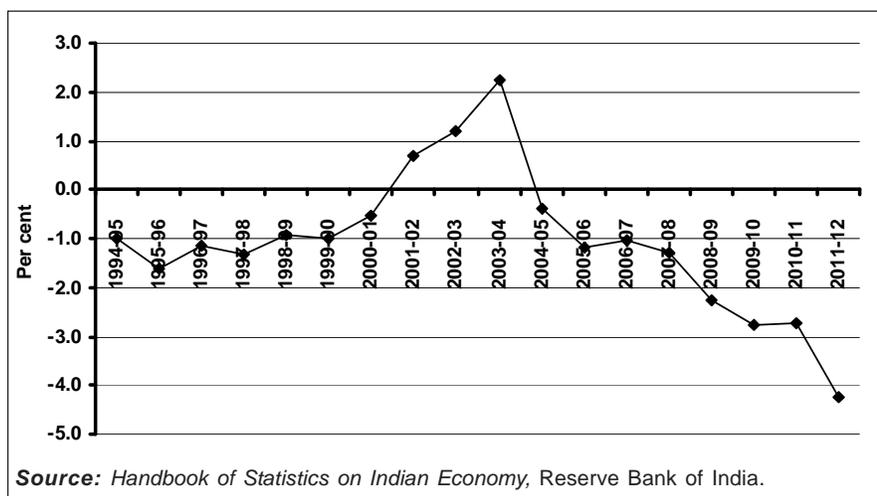
on aeroplanes, while maintaining a 30 per cent duty on leather handbags! Such traditional industries as textiles, clothing, leather products, footwear, and a range of other medium technology products have long faced barriers. Their future growth would be blunted in the absence of new markets and technologies" (WTO Document number WT/MIN(05)/ST/17 dated 14 December 2005).

India, like most other developing countries, expects to get a better deal in Non Agricultural Market Access (NAMA) negotiations in the present round. Also, India has faced increased Non-tariff Barriers (NTBs) for its merchandise exports. Use of SPS and TBT provisions to restrict imports are on the rise in many developed countries. Indian exports have also faced anti-dumping and countervailing duties in a much higher proportion than India's share in world market.

These issues lead to a bigger debate whether the WTO rules and commitments are restricting

the policy space for industrialization for developing countries. The crux of the debate revolves around the concepts of static and dynamic comparative advantage. WTO implicitly works on the principle of static comparative advantage and assumes that countries will specialize in their respective areas of comparative advantage as dictated by their resource endowments or technology. Given this premise, the WTO rules try to promote free trade by gradual reduction of tariff rates and it also includes a number of provisions to ensure that countries do not indulge in unfair trade practices. These include rules like anti-dumping measures and countervailing duties to prevent predatory pricing, Technical Barriers to Trade (TBT) to ensure that standards are met, Trade Related Intellectual Property Rights (TRIPs) to ensure that copyrights and patents are not violated, etc. However, there are enough reasons to question the basic premise of the WTO that countries should focus on present factor endowment and technology to develop their export sectors. A number of authors (Eric Reinert, Yilmaz Akyuz, Ha-Joon Chang and Mehdi Shafaeddin to name a few) have questioned the basic premise of trade specialization based on static comparative advantage. They argue that universal and across-the-board policies of the WTO may lead to premature trade liberalization which would seriously affect the industrialization process of developing countries. These

FIGURE 1
INDIA'S CURRENT ACCOUNT DEFICIT (AS A PERCENTAGE OF GDP)



authors cite actual experience of successful early industrializers to show that role of state and interventionist trade and industrial policy are crucial to promote dynamic comparative advantage in different countries. Two famous examples are given of South Korea and Finland. During the 1960s, South Korea's traditional exports consisted of resource intensive low end products like fish, cheap apparel, wigs and plywood. In the late 1960s, South Korean government set up the Pohang Iron and Steel Company (POSCO). South Korea had no "comparative advantage" in steel at that time as it possessed neither iron ore nor coal. However, the government actively protected and nurtured POSCO through a mix of protection and incentives and today, POSCO has become one of the most efficient steel makers in the world. This is an example how interventionist policies can lead to dynamic comparative advantage for an economy. The second example is of Nokia,

which started as a timber company then gradually moved to footwear, manufacturing for Philips, manufacturer of own-brand household electronics and finally became a mobile-phone giant. While Nokia was going through such interesting technological transformation, the electronic subsidiary of Nokia was cross-subsidized by its sister companies for 17 years before it became viable. Therefore, there are numerous examples across the world which show that countries have progressed by developing comparative advantage in high technology areas rather than getting stuck into exports of low value added goods which were dictated by the principles of static comparative advantage.

Study of India's export composition shows that light manufacturing goods, agriculture and primary commodities taken together still dominate India's merchandise export basket. It is important that India tries to move up the value chain in its exports.

This is becoming more important because the adverse terms of trade problems that were highlighted by the Prebisch-Singer hypothesis about primary goods, gradually seems to be catching up with light manufacturing goods as well. The only escape from this problem is through higher value addition and moving up the value chain. This also reduces the risks of volatile demand that come from exchange rate fluctuations (as higher value products tend to be less price sensitive). But the present WTO regime will not allow full flexibility to developing countries to pursue the development models used by successful industrializers of the past. Table 1 shows the WTO restrictions on the policies followed by some early industrializers. It is up to the policymakers to ensure that the WTO recognizes the different economic and developmental needs of countries and allow them to pursue appropriate trade and

TABLE 1
POLICIES FOLLOWED BY CURRENT-INDUSTRIALIZED COUNTRIES DURING THEIR PHASE OF DEVELOPMENT AND CURRENT WTO RULES WHICH PROHIBIT THEM

Country	Policy	Economic Rationale	WTO Restriction
USA	High tariff and non tariff barriers	Infant Industry Protection	Tariff liberalization, removal of non-tariff measures
UK	High tariff and non tariff barriers Colonial exploitation	Infant Industry Protection, Extraction of resources	Tariff liberalization, removal of non-tariff measures
Japan	1. State supported investment in R&D, 2. Adaptation of designs of products developed by other countries 3. Learning curve pricing	Improve Competitiveness Taking advantage of economies of scale	1. Countervailing duties, 2. Trade Related Intellectual Property Rights 3. Anti-dumping laws
South Korea	1. State supported export growth, 2. Directed credit 3. Export Subsidies 4. Learning curve pricing 5. Interventionist industrial policy	Strategic and innovationist trade policy Economies of scale	Countervailing duties Outright ban of export subsidies Anti-dumping duties Privatization as pushed by the World Bank

Source: Compiled by the author from Chang (2002).⁵

industrial policies. Otherwise if developing countries are forced to specialize based on their static comparative advantage then they will be pegged at the lower end of the value chain which will hurt their long-term economic objective.

Some of these concerns were raised during the Doha Round of trade talks and the Doha Ministerial Declaration promised to address the major problems facing developing countries. However, the Doha Round of trade talks are not progressing according to the expectations of developing countries. The negotiations have been repeatedly stuck on issues related mainly to agriculture subsidies and market access. It has been 12 years since the Doha declaration was launched and still the negotiations show no sign of completion. It is not very surprising that the Doha Round is taking so long to get concluded. In the earlier rounds of multilateral trade talks, negotiations were essentially done by a few developed countries and most developing countries had little or no role in these negotiations. In the Doha Round, the number of active players in negotiations has increased significantly. Dani Rodrik,⁶ points out that in the Doha Round there are 153 countries, of which Rodrik reckons probably 60 or 70 are actively involved in the negotiations. And as the WTO works on a "consensus" based approach, every member has a potential veto power.⁷ Therefore, it is not completely unexpected

that this Round of trade negotiations is dragging on for so long.

Moreover, the present economic recession has complicated the scenario even more. Countries are now more focused to restore their domestic economy and prevent job losses. Right now turning the attention back to further trade liberalization may not be the first priority for many countries. As discussed above, the rise of protectionist sentiments across the world makes it difficult for the WTO to push forward the agenda of further trade liberalization. Immediate focus of the WTO should be to ensure that the global trade revives and countries do not impose retaliatory protectionist measures to block each other out. A revival of global trade will be the best catalyst for the successful conclusion of the Doha Round.

IV. Are there Alternatives?

As the multilateral trade talks are not progressing, most countries are opting to increase trade through the bilateral channels. However, RTAs are not also free from problems. North-South RTAs exacerbate the power imbalance between the trade partners. This is evident from the fact that many North-South RTAs are now pushing WTO-plus clauses. *Secondly*, by pushing aggressive trade treaties on a bilateral basis, developed countries are weakening the power of developing countries in multilateral trade negotiations. *Thirdly*, in North-South RTAs, developing countries are accepting long-term commitments in

exchange of uncertain and often transient market access promises. As mentioned before, in such RTAs, developed countries manage to push through a number of conditions like stricter TRIPS regulations, highly unfavourable Bilateral Investment Treaties (BITs), wide range of market access openings and extraneous clauses like labour and environmental rules. These can have serious long-term repercussions on a developing country. Whereas stricter TRIPS laws can lead to serious issues like availability of life saving drugs and medicines at an affordable price, BITs can restrain the options of developing countries to use FDI as a policy instrument to improve sectoral/regional balance of their economy. BITs are particularly troublesome because not only the BITs are used to introduce harsh labour and environmental commitments on developing countries but the clauses of the BITs also try to align a developing country's financial and legal systems to a market-oriented system which favours such enterprises. This can have serious implications for developing countries.

In this context, South-South trade blocs may emerge as a viable alternative to developing countries for expanding their market. With growing income in many parts of the developing world, this may provide many countries from the South with significant market access. There might be some concerns about lack of trade complementarities among the developing world. But it can be pointed out here that

developing countries are currently a diverse lot and have enough variety in their export basket to generate sufficient trade among themselves. Also, with increased industrialization, it will be possible for some developing countries to engage in intra-industry trade and allow their firms to exploit the economies of scale.

However, one should be more careful about North-South trade blocs. Most North-South RTAs, tend to cover much more than liberalization of tariffs and quotas. Most of these RTAs have provisions on enforcement of labour laws, environmental laws, services, intellectual property rights issues, competition policy, government procurement and investment. It is notable that many of these provisions, especially issues like labour and environment, investment and competition policy are no longer on the mandate of the WTO negotiations. These issues have been dropped from the Doha Development Agenda mostly because of strong opposition from developing countries. However, most North-South FTAs contain these issues and because the asymmetry in negotiating power in such RTAs, developed countries not only manage to include these new issues but also impose stricter rules on issues like TRIPS and opening up of services on developing countries. In fact, RTAs are also being used by some developed countries to remove controls on capital flows.⁸

Inclusion of these clauses in the trade agreement leads to a

number of problems for developing countries. *First*, inclusion of these clauses reinforces the problems mentioned above and further reduces the policy space available to developing countries. It is important to note that the provisions of most North-South RTAs go well beyond the WTO rules and are likely to impose much more restrictions on the developing countries. It will also force countries to adopt more “market friendly” measures in areas like investment and IPR issues. As the UNCTAD *Trade and Development Report 2007* points out, these new RTAs have increasingly included provisions for deeper integration among countries and include policies which require much higher degree of harmonizing national policies with “a reform agenda that favours greater freedom for market forces”. For a developing country, where the level of industrialization is not high, such measures can have serious negative impact on its industrialization and growth of the economy.

V. Conclusion

Overall, it can be said that the domino effect of regionalism has caught up with India. India, like other developing countries, is scrambling to forge RTAs and other deeper forms of economic cooperation agreements to protect itself from exclusion in key markets. WTO negotiations are also not going forward and countries are falling back on FTAs to liberalize trade. This is creating a vicious cycle where lack of

progress in the WTO is prompting the growth of regionalism and the growth of regionalism is reducing interest in the WTO trade talks. It must be kept in mind that despite its shortcomings, the WTO is still a rule-based and democratic set-up and it is easier to get a fair deal in the WTO than in a North-South trade and investment agreement. India must ensure that in its quest for market access it does not give up policy space and compromise on key development issues.

ENDNOTES

¹ The Preamble establishing the WTO mentions that:

“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, while allowing for the optimal use of the world’s resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.” - Preamble, Marrakesh Agreement Establishing the World Trade Organization.

² This has been discussed in detail in Pal, Parthaprathim (2009), “Regional Trade Agreements and Improved Market Access in Developed Countries: The Evidence”, *Economic and Political Weekly*, Vol. 43 No. 48, 29 November – 5 December 2008.

³ Prasad, Eswar (2009), “Rebalancing Growth in Asia”,

Finance & Development, December 2009, Vol. 46, No. 4, available at <http://www.imf.org/external/pubs/ft/fandd/2009/12/pdf/prasad.pdf>.

⁴ "Currency Turmoil Could Jeopardize Recovery: WTO Chief", *Economic Times*, 19 October 2010.

⁵ Chang, H.J. (2002), *Kicking Away the Ladder? Policies and Institutions for Economic Development in Historical Perspective*, London: Anthem Press.

⁶ "Don't Cry for Doha" Dani Rodrik (2008) (http://rodrik.typepad.com/dani_rodriks_weblog/2008/07/dont-cry-for-doha.html)

⁷ Though WTO has the provision of a "one-country one vote" system in its constitution, so far voting has not been used in WTO.

⁸ Williamson (2006) points out that in the post-Asian crisis period trade agreements are used by the US treasury to impose free movement of capital on developing countries. Williamson says "Since then the main pressure for liberalizing capital flows has come from the US treasury. When countries wanted to negotiate bilateral free trade agreements with the US, they found the treasury insisted that US negotiators demand that the partner country should commit itself to never reimposing effective capital controls for any length of time. Several of the partner countries that had made effective use of such controls in the past, like Chile and Singapore, found themselves forced to choose between abandoning their aim of

securing a free trade agreement with the US and abandoning their ability to control capital movements with the object of avoiding or at least attenuating crises. Given that governments, like markets, typically take a rather short-term view of costs and benefits, and that the countries could not see the prospect of a crisis on the horizon at the time the negotiations were king place, the US treasury got its way." pp. 1848. Williamson, John (2006), "Why Capital Account Convertibility in India Is Premature", *Economic and Political Weekly*, Vol. 41 No. 19, 13-19 May 2006.

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WTO: The Fight for Relevance

Four Areas That Require Immediate Attention

It has become a cliché to say that the WTO is at the crossroads. The multilateral Doha Development Agenda (DDA) negotiations are about to mark their 12th “birthday” with no end in sight. Policy-makers in industrialized nations seem to be both distracted by the effects of the financial crisis and more intrigued by preferential trade agreements (PTAs) and plurilaterals (e.g., the International Services Agreement) than by the multilateral approach. The large emerging economies continue to adopt a wait and see attitude, ready to fight for their agenda but unwilling (or unable) to exert positive leadership in advancing the DDA. The private sector, in turn, seems increasingly frustrated with the multilateral trade system. There is a general perception that WTO disciplines and modus operandi are outdated and cannot keep pace with globalization. Unsurprisingly, some observers are even asking whether the WTO is worth “saving”.

This is the wrong question. The ongoing DDA talks are just the tip of the “iceberg” that encompasses all WTO functions. Even if the DDA were to fail, the WTO would continue to play an important role regarding transparency in trade practices, monitoring and enforcement of existing multilateral rules and agreements, and dispute settlement procedures. And even amid the difficulties of the DDA, the WTO has made a major contribution to the world economy by disciplining trade protectionism and helping prevent the Great Recession morphing into a Great Depression à la the 1930s.

Moreover, not all is doom and gloom at the multilateral level. The selection of the Brazilian

WTO Ambassador Roberto Azevêdo as the next WTO Director General (DG) occurred in a timely and efficient manner and without the confrontations that often accompany these procedures. The outcome is also a testament to the “democratic” approach adopted for the selection. In the Bretton Woods institutions, for example, a candidate that was not the first choice either of the US or the EU – as was the case of the Brazilian candidate to the DG post – would never have been selected.

Still, the WTO members and the new DG will face an uphill struggle to revitalize the organization. Four areas require immediate attention if this challenge is going to be met. They are the need to: (1) dispel the impression that the DDA “coma” is terminal; (2) recognize that mega-PTAs are here to stay and to engage with key WTO members to foster complementary multilateral solutions; (3) rekindle the interest of the private sector in the WTO (e.g., by better addressing topics such as the trade rules for Global Value Chains, GVCs); and (4) initiate a process of WTO reform that strengthens the ability of the WTO system to address the current needs of the trade community and member countries.

Can the DDA be Saved?

The best antidote to the perception that the DDA “coma” is terminal is concrete progress in the negotiating agenda, even if this entails small steps. As pointed out by Evenett (2011), a small number of countries (particularly the US) are not ready to accept a low-ambition deal, and a large number of countries are not ready to accept a high ambition deal. Several other key players have intermediate positions: Brazil has high ambition in agriculture and low ambition in non-agricultural market access and services. In short, the “landing zone” for a comprehensive deal is not yet clear. Still, significant

background work has already been done and the costs of non-Doha are even higher in terms of systemic damage and lost opportunities for trade liberalization. So although no final agreement is likely in the near term, it is worth continuing.

In this context, a successful Bali Ministerial in December 2013 would be a great help. The foundations for this can be established by achieving concrete progress in a few areas (in agriculture, especially, with respect to food security and export competition; and trade facilitation). This will require flexibility from all parties involved. But time is of the essence and one cannot wait for the new DG to structure such a deal.

PTAs: Friends or Foes?

This is an old debate. The reality is that PTAs are here to stay. In 1990, there were roughly 70 active PTAs and now there are more than 300 (WTO 2011). Moreover, the interest in PTAs is being driven by deep integration objectives that often have WTO-plus characteristics in terms of protection of intellectual property rights, harmonization of behind-the-border regulations, investment protection, etc. The new mega-PTAs being negotiated, such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), are better attuned to the needs of transnational corporations and the dynamics of international trade in the 21st century.

To ignore these trends, or to assume that conventional multilateral trade disciplines for PTAs will be complied with, is a receipt for disappointment. The WTO needs to learn from these preferential trade deals and fashion complementary trade liberalization schemes that minimize the potential for discrimination while preserving the centrality of the multilateral dispute settlement mechanism.

Rekindling the Interest of the Private Sector

The private sector observes the WTO system with an increasing sense of frustration. This reflects the poor performance of the system in delivering timely results, and also a growing perception that the WTO “business model” with its emphasis on market access (via tariff cuts and bindings) plus its “silo” approach to trade negotiations is outdated.

WTO-insiders tend to argue that the private sector will rally around a multilateral deal when the “landing zone” for the DDA becomes clear. This is, however, a dangerous belief to the extent that it can make the failure of the DDA a self-fulfilling prophecy, since the pressure from private interests for a deal will continue to languish and their focus will be increasingly diverted to PTAs and plurilateral deals.

In the meantime, one helpful step would be the establishment of a business advisory council. This could be modelled after the Business and Industry Advisory Committee of the OECD, as an example, offering a platform for the business community to provide advice on WTO priorities. Such an innovation, in turn, could be part of a broader agenda on WTO reform.

WTO Reform: The Road Ahead

The previous considerations underscore the need to revitalize the system in terms of its capacity to deliver results. For some, initiating a debate on WTO reform at this stage is dangerous since it could easily become a discussion about form rather than substance and would detract attention from the urgent need to advance the DDA agenda. In a recent debate on this topic hosted by the Evian Group@IMD, it was clear that many WTO Ambassadors do not see this agenda as a priority. At the same time, there is a clear link between the reform process (e.g., the adoption of a “critical mass” approach to facilitate consensus building practices) and the capacity of the WTO to tackle new issues such as rules for state-owned enterprises engaged in international trade and the manipulation of exchange rates to boost economic performance. These topics, in turn, are directly related to the WTO’s relevance to the global economy.

The WTO and its new DG will have to address many of these challenges in real time. Although the new management team will have a window of opportunity, WTO members are the ones with the power to make change happen. They will have to further reflect on their commitment to the multilateral system and avoid adopting a complacent stance, as evidence mounts that the relevance of the WTO system is being gradually eroded. The international public good associated with non-discrimination is like oxygen. One only

realizes its vital role when it is curtailed. Let's hope that all stakeholders will have the wisdom to avoid cutting this critical life-line for the world economy.

(<http://www.imd.org>, June 2013)

Swiss Negotiator: Regional Trade Deals are Good for Multilateralism

FRUSTRATED by the slow pace of multilateral trade negotiations, more countries are seeking to liberalize trade through bilateral and regional agreements. This may prepare the ground for further multilateral deals, Ambassador Didier Chambovey, the Swiss trade negotiator, tells EurActiv.

Ambassador Didier Chambovey, Delegate of the Federal Council for Trade Agreements, is the Swiss trade negotiator, working for the Secretariat of Economic Affairs. He spoke to EurActiv editor-in-chief Daniela Vincenti.

- **The WTO on Friday cut its forecast for trade growth this year to 2.5 per cent as the euro-region debt crisis drags down the global economy, the US, and China. Western countries are eyeing at export-led growth to lift them out of the crisis. Are they doomed?**

The declining growth momentum in key emerging markets, namely in China, makes the global economic situation indeed still more difficult. In many Western economies, domestic demand is held back by a mixture of restrictive fiscal policies and deleveraging in the private sector. As a consequence, especially the southern countries of the eurozone (Greece, Portugal, Spain and Italy) are facing severe recessions with sharply rising unemployment.

It is clear, that booming export markets outside Europe would make the crisis easier to handle, because export-led growth could compensate weak domestic growth. But the unpleasant reality is that the unavoidable structural adjustments in the euro area – and also beyond, in the US, the UK and Japan – have to take place in a subdued world economic environment.

All in all, slow progress towards more balanced growth seems possible, but it might be a hard task

over the coming years. For many countries, a return to the high growth rates recorded before the financial crisis is not in the cards.

- **It is no secret that trade barriers and protectionism are creeping up. If the fight does not deliver, is there a risk we will not be able to avoid mistakes of the 1930s?**

The most recent report of the WTO on trade-related developments shows indeed that there has been no slowdown in the imposition of new trade restrictions in recent months and this is not good news.

At the same time, the regular monitoring of trade policies undertaken in the WTO since the outbreak of the financial and economic crisis in 2008 has also shown that on the whole governments have largely continued to resist large-scale protectionism.

Despite the persistent risks, WTO rules and commitments have acted as an insurance policy against protectionism and have been instrumental in maintaining for a large part trade openness during the global financial and economic crisis.

Thanks to the existence of the WTO, some large mistakes of the 1930s were not repeated. But there is no room for complacency. WTO members need to preserve and strengthen this system so that it can keep performing this vital function in the future.

- **Will this flurry of trade disputes not weaken already stretched political ties, especially with emerging economies?**

It is true that a large number of trade disputes does not create the best possible atmosphere for trade talks to strive. However, the main problem here is that the economic difficulties of industrial countries are concomitant with the entry on the world scene of emerging economies which are conscious of their importance.

While the United States and the EU are losing influence, emerging economies are not ready yet to assume a leading role commensurate to their economic weight in the search for multilateral solutions. This is one of the reasons why the Doha negotiations are presently stalled.

It is therefore difficult to see how and when the [Doha] Round can be revived. The top priority is, therefore, to preserve the *acquis* of the WTO, i.e. its agreements, institutions and dispute settlement system.

As long as countries settle trade disputes through the WTO and comply with its decisions, the system will function. At the same time, WTO members should advance the trade agenda in the areas where this seems to be feasible. Trade facilitation is a case in point.

Furthermore, a thorough reflection on possible avenues to further develop international cooperation in trade is also badly needed. This process will have to take into account the increasing importance of global value chains.

- **The Doha Round is moribund if not dead. There is a proliferation of regional trade agreements. Are they really a good thing? What impact do they have on global trade rules?**

There is an obvious link between the current impasse in the Doha Round and the proliferation of preferential trade agreements [PTAs]. Given the absence of progress in the multilateral trade negotiations, a growing number of countries are seeking to liberalize trade through PTAs.

They are catalysts of trade liberalization and may prepare the ground for further multilateral deals. In this sense, PTAs are complementary to but not substitutes for the WTO.

One should not lose sight of the fact that PTAs build on WTO rules and commitments. You would be surprised by the number of references to WTO provisions contained in these agreements.

Likewise, the WTO remains fully relevant, a kind of basic point of reference. Of course, in an increasingly globalized economy it would be ideal for trade operators to weave together the current flurry of PTAs into a coherent whole.

- **Does the WTO need to be reformed?**

Multilateral trade negotiations are not only about trade liberalization. They are also about rulemaking. The WTO was established with a wide set of rules and a very effective dispute settlement system.

There are few international organizations, if any, which are comparable to the WTO in this respect. The *acquis* is good and its preservation should rank high among the priorities of member states.

This is all the more true at a moment where governments are faced with protectionist demands and need to defuse trade conflicts.

We should therefore think twice before envisaging a major overhaul to the system.

This being said, one has to admit that the development of the *acquis* is extremely tedious and that broad-based negotiations may not be, at least in the current circumstances, the best way to achieve tangible results.

Focusing on the most promising elements of the Doha mandate is certainly a good avenue. In addition, it is also worthwhile testing various approaches, including plurilateral initiatives such as the one which is already under way in Geneva on the further liberalization of information technology products.

- **Some are advancing the idea of keeping the best parts and launching a global recovery round that would focus on manufacturing and services, leaving out agriculture which has wrecked Doha. First is it feasible and would it work?**

Agriculture was not the only or even the main problem in the impasse of the Doha negotiations.

While agriculture was clearly a sensitive issue for some, mainly developed countries, including the EU and Switzerland, non-agriculture market access and services were issues at least as sensitive as agriculture, notably for some of large emerging economies.

Therefore, focusing only on manufacturing and services would not be conducive to a successful outcome of the negotiations as it would be strictly refused by a considerable number of countries.

Already now, some developing countries, including the large emerging economies, are trying to link progress in the current negotiations on trade facilitation to the progress in some aspects of the agriculture negotiations such as disciplines on the administration of tariff rate quotas.

• What about the idea of a new International Services Agreement?

This idea is worth pursuing provided a certain number of conditions are met. The International Services Agreement, conceived as a plurilateral initiative in the first place, is a good vehicle to advance co-operation in services.

Most participants have already concluded several free trade agreements covering services. The new initiative will allow to pool, revamp and improve what has been achieved so far as well as to enhance the coherence of the regimes governing global trade in services.

The downside is that not all key players, especially among emerging markets, have joined this project. It is, therefore, of utmost importance that the International Services Agreement remains compatible with WTO rules and open to outsiders. It should provide for accession procedures to attract a critical mass of parties so that its implementation can eventually be envisaged consistently with the most-favoured nation tenet.

(<http://www.euractiv.com>, 9 October 2012)

Multilateralism is at a Crossroads

MULTILATERALISM is at a crossroads. This is a crucial matter for environmental and sustainability issues, as we have seen in the Rio+20 Summit, and for trade and other economic matters. The G20 Summit in Los Cabos, Mexico, focused precisely on improving our collective response to the current economic turbulence, which is at the heart of developments in the European Union (EU) as well.

More than three years have passed since the beginning of the 2008-09 crisis and the world economy remains very fragile. World Trade Organization (WTO) projections indicate that trade growth will further decelerate this year to 3.7 per cent, down from 5 per cent in 2011. Moreover, WTO economists believe that downside risks of an even sharper slowdown in trade growth remain high. Many of the achievements in poverty reduction over the past decade could be threatened with unravelling.

The impact of the crisis is being felt not just in developed countries but also in the developing

world. China's dynamic economy is expected to grow more slowly in 2012. India's growth is decelerating. Many poor countries are seeing their exports to major markets such as the EU and the US slow down.

Mr. Pascal Lamy, DG, WTO mentioned, while the crisis continues to loom, the world has not remained static. New economic players and new patterns of trade have emerged, dramatically changing the nature of trade and resulting in greater economic interdependence.

In the past decade, developing and emerging economies' share of global gross domestic product (GDP) has risen from one-third to half. Developing countries' share of global exports has jumped from 33 to 43 per cent over the last decade.

Global trade patterns are also changing rapidly. Not too long ago, goods were referred to as "made in China" or "made in Germany". Today, the expansion of global value chains means that most products are assembled with inputs from many countries. In other words, today's goods are "made in the world". At a growth rate of six per cent a year, trade in intermediate goods now comprises close to 60 per cent of total trade in goods and has become the most dynamic sector in international trade.

The map of global greenhouse gas emissions has also changed. Emissions of the developing world are rising fast, and China's emissions are said to be either equal to, or to have actually overtaken, those of the US.

The same can be said of macroeconomic cooperation. As subsequent G20 summits have demonstrated, whether monetary policies, fiscal policies, currencies, the fight against tax havens or regulation of financial activities, a virtuous path requires global cooperation.

However, the rules governing multilateral cooperation have not kept pace with these changes. We are to a large extent living by the global rules created in the 1990s.

The last couple of years have seen the emergence of a worrying attitude towards multilateralism. In stark contrast to the calls for greater and improved international regulatory coherence that dominated the headlines during the outbreak of the global

financial crisis in 2008, international cooperation has slumped into an ever more precarious state.

Cynical observers would say that over the past decade international efforts to forge legally binding agreements have continued to set the threshold of expectations so low that even an agreement to continue to talk is considered a successful outcome.

Such cynicism ignores the fundamental lessons about international cooperation that we have learned over the past century. Most of all, it disregards the fact that for most countries more multilateralism and more international cooperation remain the only sustainable way forward.

Certainly, the changes of the past few years demand a re-configuration, rethinking and adjustment of traditional multilateral cooperation, including in the WTO. The proliferation of different informal coalitions and groups of countries and civil society – the G8+, G8+5, G20, B20 and L20, to name but a few – are symptomatic of the constantly evolving nature of international relations.

However, their effectiveness will depend on whether they are representative enough to address the increasingly complex challenges on our agenda. A stable global economy cannot be built without including all key stakeholders in the decision-making process.

More fundamentally, while the crisis continues to hit national systems hard, it will be very difficult to achieve high-standard multilateralism, believes Mr. Lamy.

Contrary to conventional wisdom, international agreements necessitate a high quantum of political energy at home. They require strong political leadership because they are about bringing domestic constituencies on board.

This situation is a dangerous one and risks turning into a vicious circle: exiting the crisis sooner rather than later implies strong leadership to craft the necessary international cooperation agreements. But governments' legitimacy is weakened by popular discontent generated by economic and social hardships. This erodes the ability to act together, which in turn further prolongs the crisis, leading to the syndrome of "too little, too late".

For these reasons, he believes that multilateralism is at a crossroads. Either it advances in the spirit of shared values and enhanced cooperation, or is allowed to falter, at our own peril. Without global cooperation on finance, security, trade, the environment, and poverty reduction, the risks of division, strife and war will remain dangerously real. Waiting for better times will simply not suffice. A consensus on inaction would simply mean a consensus on more pain for all. We must, together, be bolder if we are to cope with the growing risks of today's world.

(<http://www.globalissues.org/>, 27 September 2012)

Lubna Urges WTO Members for Strengthened Economic and Trade Openness

UAE's MINISTER of Foreign Trade Sheikha Lubna bint Khalid Al Qasimi said the current global multilateral trade order is in a crisis and expressed cautious optimism towards it.

The minister called for more contributions from WTO's member states to this order and the current negotiations.

She made her remarks in a keynote speech at the opening session of the WTO's Public Forum in Geneva, Switzerland.

"The most negative impact that came about as a direct consequence of the global economic crisis was the rise of ultra-protectionist measures in the direction of reducing trade finance, which has in turn reduced the activities of Small to Medium Enterprises (SMEs) and threatened their prosperity in many world countries, adversely affecting the continuation of the global trade boom," she added.

Ms. Sheikha Lubna also underlined the importance of strengthening the frameworks of economic and trade openness and its role in increasing the stability and ensuring the prosperity of countries.

Titled "Is Multilateralism in Crisis?", WTO's session also saw the participation of a number of other world dignitaries and was attended by around 1,300 participants from civil society organizations, universities and public and private sector enterprises from around the world.

It tackled whether or not multilateralism was in crisis with the aim of proposing new methodologies for the global trade order in light of many global concurrent developments. It also discussed matters that require new approach mechanisms and how to strengthen the multilateralism-supporting role of all parties involved.

The session discussed the issues that most affect the global multilateral trade order with an attempt at proposing suitable solutions.

WTO's Director-General Mr. Pascal Lamy said, around 90 per cent of all global trade is affected by trade finance, and that SMEs and small countries have been negatively affected.

Mr. Lamy had stated in a press statement before the forum that multilateralism was indeed at a crossroads; it would either advance through shared values and close cooperation or it would suffer impediments, which were evident in the recent setbacks in the Doha Development Round and in increased protectionism.

The opening session's discussions also underlined the fact that the growing difficulties that have confronted the WTO and a number of other multilateral entities over the past few years are testament that previous remedies weren't working, and cannot be applied in confronting current challenges, with participants discussing new ways to move forward.

The opening session, which was opened by former Swiss Confederation President, Micheline Calmy-Rey and saw a mapping of global political and trade patterns, with Sheikha Lubna stating that the biggest setback of this crisis was the movement away from trade finance, which is curtailing the activities of SMEs.

Asked about whether or not the Multilateral Trading System was in crisis, Sheikha Lubna said that it indeed is in crisis, while voicing cautious optimism towards the system as it did prove its success during the global crisis, calling for the importance of adopting more of the contributions of members states.

(<http://www.gotemirates.com>, 27 September 2012)

“Multilateralism is Struggling”: Pascal Lamy

THE WTO DIRECTOR-GENERAL Pascal Lamy, in welcoming participants to its Public Forum 2012 on 24 September 2012, said: “While multilateralism is struggling in almost all spheres of global co-operation, I stand here before you with some optimism.

This year, like last year, has been marked by extraordinary turbulence. Sluggish economic growth rates, high unemployment, and newly released figures on world trade that are just as worrying. In this slowdown, no one has been spared.

But the turbulence we witness this year goes beyond the economic sphere. Like last year, political turbulence is rampant across the globe, food prices are starting to rise once again, although not in the same alarming fashion, and the climate crisis is continuing to go unabated.

As this kaleidoscope of problems plays out, we are also witness to a redistribution of the geopolitical deck of cards on a global scale. With the rise of the emerging countries, new and stronger voices from the developing world are making themselves heard. The poorest countries, once silent, are today much clearer and vocal about their priorities. What they are saying loud and clear is that the rules of the multilateral system must change.

The rules of the game – whether in the trade sphere, in the economic sphere, in the environmental or food security spheres – and indeed across all areas of international policy making, are in need of adjustment. Governments are not only struggling to cope with the vast panoply of domestic problems that they are confronted with, but they must do so against a landscape in which their relative powers have also changed. They must also do so in a world in which interconnections are greater and therefore global commons require stronger multilateral cooperation. And they must compete for spaces, for which previously no one had competed, like the Arctic or cyberspace.

In this challenging era that we live in, citizens are asking for the right to a decent living. They want jobs, they want human rights and they want dignity. The question becomes “can multilateral

cooperation live up to their expectation?" Will the international community be able to rise to the multiple challenges with which it is confronted today?

While multilateralism is struggling in almost all spheres of global co-operation, I stand here before you with some optimism. We are after all gathered in the "house of trade". An international house that rose out of the ashes of two world wars and which took some 60 years to create. Across from this house is the seat of the United Nations, the International Labour Organization, the International Environment House that groups many environmental treaties, and many other symbols of successful international cooperation. This is 'la Genève internationale' after all.

It is these organizations that teach us a very important lesson: progress in international cooperation is incremental, with some of our best episodes having been born of our worst excesses. Yes, the challenges we face today are multiple, and yes, multilateralism is struggling, but we have proven ourselves to be up to the task before, and we can be up to it again.

The WTO, in many ways, is one of the most successful examples of rules-based multilateralism at work. Its capacity to administer and enforce the global trade rules, including in the present crisis, is widely recognized as a major success in international cooperation. But our members' difficulties to agree to update our rule book also demonstrates that the WTO is not immune to the geo-economic and geo-political transformations of our time. The WTO is both an organization and an institution. And I dare say that it is in a better shape as a member-driving institution than as a member-driven organization.

This year's forum will deal with a vast array of challenges that you, yourselves, have brought to the house of trade. Over a three-day period, we will be hearing from you on issues as diverse as trade and the environment and the regional Free Trade Agreements. You will also meet with the 'WTO Panel on Defining the Future of Trade' that I have established to advise me on the profound transformations in the global economy, and the drivers of today and tomorrow's trade.

(<http://www.wto.org>, 24 September 2012)

Multilateralism at Crossroads: Pascal Lamy

THE WTO Director-General Mr. Pascal Lamy, in a speech at the Humboldt-Viadrina School of Governance in Berlin very recently, said that, "multilateralism is at a crossroads. Either it advances in the spirit of shared values and enhanced cooperation, or we will face a retreat from multilateralism, at our own peril. Without global cooperation on finance, security, trade, the environment and poverty reduction, the risks of division, strife and war will remain dangerously real." This is what he said:

"More than three years have passed since the beginning of the 2008-09 crisis and the world economy remains very fragile. World growth remains below its potential. WTO projections indicate that trade growth will further decelerate this year to 3.7 per cent, down from 5 per cent in 2011. Moreover, WTO economists believe that downside risks to an even sharper slowdown in trade growth remain high. Unemployment remains unacceptably high in many of our societies. Many of the achievements in poverty reduction over the past decade run the risk of unravelling."

"And the impact of the crisis is being felt not just in developed countries but also in the developing world. The contribution of trade to growth in emerging and developing countries is decreasing. China's dynamic economy is expected to grow more slowly in 2012. India's growth is decelerating. Many poor countries are seeing their exports to major markets such as the EU and the US slow down."

This sluggish pace of recovery raises concerns that a steady trickle of restrictive trade measures could gradually undermine the benefits of trade openness. Although the WTO has so far deterred large-scale economic nationalism, vigilance is to be redoubled on this front. History tells us that protectionist pressures will linger as long as unemployment rates remain unacceptably high. Recent history also tells us that protectionism does not protect. Given that one country's exports are another country's imports, such behaviour is only likely to lead to a downward spiral for all - losers and no-winners.

In the past decade, the share of developing and emerging economies has risen from one-third to half of global GDP. The value of South-South trade has increased from about one-tenth of total trade to some two-fifths. Developing countries' share of global exports has jumped from 33 to 43 per cent over the last decade, with China's exports growing annually at a staggering 20 per cent. A similar picture of shifting composition arises with respect to foreign direct investment. While global FDI inflows have stagnated over the last decade, emerging and developing countries' share has risen from around 20 to over 50 per cent.

In fact, the difficulties observed in the EU mirror the troubles of the multilateral system, since Europe remains a microcosm of the cosmos. Global governance, the legal and institutional framework to manage the ever-growing interdependence and interconnectedness at the world level, much like the European edifice, is built on a thin balance between disciplines, solidarity and legitimacy. And while the depth of integration is shallower at the global level, the mechanism and dynamics of this balance is not different.

(<http://www.indiantextilejournal.com>, August 2012)

Russia's WTO Accession Signals Multilateralism and IP Protections, While SOPA Signals Protectionism

THE major challenge to Russia's 18-year bid for WTO membership was the nation's weak intellectual property (IP) protections. Russia's commitment to greater IP protections was a major requirement for the US support of its WTO membership. Russia now has until 15 June 2012 to domestically ratify its WTO Agreement, adopted on 16 December 2011 by WTO ministers. Thirty days after ratification, Russia will become a full member of the WTO.

As the Doha Development Rounds remain stalled, Russia's accession to the WTO signals a greater movement towards multilateralism in international trade; meanwhile, ironically, US bills like the Stop Online Piracy Act (SOPA) indicate a move towards a more protectionist posture in resolving international IP infringement disputes.

"The multilateral trading system is at a crossroads," said WTO Director General Pascal

Lamy in an opening statement to the WTO's Eighth Ministerial Conference held during 15-17 December 2011. Mr. Lamy stressed that advancements will be made "in the spirit of shared values and enhanced cooperation, or we will face a retreat from multilateralism, at our own peril."

The US, along with dozens of other WTO member-nations in attendance at the WTO conference, affirmed a pledge against protectionism. The proposed SOPA anti-piracy legislation, now stalled before the US House Judiciary Committee, aims to protect the IP rights of US parties against Internet piracy by imposing new requirements on search engines, advertising networks, ISPs and other key internet players. While the US supports multilateralism before the WTO, a battle simultaneously rages over SOPA before Congress - a bill described by bloggers such as Richi Jennings of Computerworld as "DNS Balkanization".

On 18 November 2011, the European Parliament adopted a strong resolution criticizing SOPA. The parliamentary resolution stressed "the need to protect the integrity of the global internet of communication by refraining from unilateral measures to revoke IP addresses or domain names".

Russia's move towards ratifying its WTO Agreement includes harmonizing its IP laws with the multilateral agreement. Part of Russia's WTO obligations include introduction of a specialty court of first instance and cassation to resolve IP rights. The Russian IP court is slated to open by 1 February 2013 to adjudicate IP disputes, including patents and trademarks. Under Part 4 of the Russian Federation Civil Code, copyright and neighboring rights are currently beyond the court's jurisdiction.

Russia must also reduce its import tariffs and adhere to the WTO's rules on non-tariff barriers pursuant to Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Technical Barriers to Trade (TBT). Russia will be bound by the TRIPS Agreement to protect IP rights. Also, data protection rules will protect IP data arising from pharmaceutical pre-clinical and clinical trials.

Economic issues addressed by Russia's WTO accession include the elimination of discriminating provisions under Russian law, such as patent fees that were four times greater for non-resident

applicants. With WTO accession, equal fees will be introduced – though fees are generally projected to increase by 30 per cent for certain government patent services.

Quantitative import restrictions, such as certain import license requirements, must be justified under WTO provisions. Price controls cannot be used to protect domestic products or services. Technical regulations must not be more restrictive than necessary to fulfill legitimate objectives under the TBT agreement.

Russia's accession to the WTO will mean more export opportunities for US exporters in areas such as medical devices and pharmaceuticals. Among the world's largest economies, as Russia moves towards increased multilateralism, this is not the time for US legislators to create national laws like SOPA that signal movement towards protectionism.

(<http://www.patexia.com/feed/russia>, 4 January 2012)

Multilateralism at Crossroads

THE collapse of multilateral trade talks among the G-6 countries comprising Australia, Brazil, the European Union, India, Japan and the US on 24 July led to the suspension of trade negotiations. The World Trade Organization (WTO) Director-General, Mr. Pascal Lamy, was optimistic in his report to the General Council on 14 December about “an increasing level of engagements” which seem to surface in interminable consultations by the chairs of the various negotiating groups.

“We can be ready to engage fully on substance when the time comes. We need to maintain the rhythm of the informal work in order to exploit the window of opportunity that remains ahead of us in the first quarter of next year,” Mr. Lamy bravely said.

Considering the jerks and impasses in the history of multilateral trade talks, the stalemate at the WTO signifies just a procrastination of the Doha Round and not its end. No wonder, the inflexible negotiating ploys resorted to by some of the key advanced countries with their ambitions of market access contributed to the deadlock. Developing countries led by India and Brazil have on more than one occasion made it clear that the chasm is basically of “mindsets” and “not numbers,” and that while

winding up the Doha Round was crucial, it could not be at the expense of its contents. The rich world would like to convert the Doha Development Round, into a market access round, and all stakeholders must work to ensure that this Damocles's sword does not fall on the world trading system.

With the imminent expiry of the Fast Track Negotiating Authority of the US President and the convincing return of the Democrats, which has always had a pronounced bias towards protectionist policies, the dice is heavily loaded against easy wrap up of the framework agreements that would bring the Doha Round to a successful close.

Alternative Routes

Despite the professed support to multilateralism, developing countries, in general, and those of South Asia, in particular (India included), have begun looking for alternative mechanisms to expand trade. Hence, the growing popularity of free trade agreements (FTAs) and regional trading agreements (RTAs); these bilateral treaties are proliferating to the detriment and exclusion of non-members. To explore the possibility of how the economies of South Asia can engage in the ongoing trade talks with limited options and without sufficient cushions to fall back on, the Centre for Trade and Development (Centad), a not-for-profit autonomous think tank tailored to reinforce the abilities of governments and communities in South Asia to make globalization work for development, is hosting a two-day conference.

An executive summary of the Yearbook gives a synoptic picture of the development linkages of trade policies in the region. According to the experts who have contributed to this tome, the touchstone of any trade regime should be its potential to maximize welfare and minimize pains of adjustment so that the miseries of people at the margins are not aggravated. But the aggressive push for preferential trade agreements (PTAs) by rich countries, particularly following the suspension of the Doha talks, would attenuate the rule-based multilateral system and the limited developmental gains scored by the WTO up till now.

(Contd. on p. 36)



BOOKS/ARTICLES NOTES

ARTICLES

Reflections on the International Trading System and Inclusive Development,
24 April 2012, UNCTAD, <http://unctad.org/>

THE international trading system now stands at a crossroads. The multilateral trading system embodied in the World Trade Organization (WTO) remains a central pillar of the international trading system. The decade-long WTO Doha Round negotiations are in a stalemate, however, and the prolonged Round negotiations are fuelling the creation of regional trade agreements, further fragmenting the trading system. The growing importance of developing countries in international trade, along with the increased prominence of regional trade agreements and South-South trade, has given rise to a multipolar trading system.

At the multilateral level, the impasse of the Doha Round negotiations may reflect wider tensions between globalization and national development interests, underlining the need to seek new ways to foster multilateral consensus in addressing trade barriers and enhancing more open and fairer international trade. There have also been concerns about how the multilateral trading system should address twenty-first century challenges, while also dealing with long-standing development concerns. The current architecture and instruments of the international trading system need careful review to assess what adaptations are necessary in order to deal more effectively with rapidly evolving economic realities and development priorities. Trade unquestionably remains an important instrument for economic recovery, growth and development. However, trade dynamism is concentrated in some countries, primarily in Asia. Polarization and inequalities remain a major concern

at the national and international levels. The least developed countries, sub-Saharan African countries and other vulnerable economies remain marginalized in world trade. The recent economic and financial crisis has further aggravated poverty and inequality, with long-lasting effects on the achievement of the Millennium Development Goals. With 205 million people unemployed worldwide, job creation is a critical development challenge.

Furthermore, continued global imbalances are emerging issues that are expected to influence the sustainability and patterns of trade and growth in the coming years. A new generation of trade barriers, a proliferation of regional trade agreements and a host of key public policy concerns – food and energy security, climate change, sustainable energy use and production, employment creation, productive capacity diversification, infrastructure development, affordable access and structural transformation – require coordinated and coherent action. New ways of conducting trade through global supply chains increasingly influence countries' trade and specialization patterns.

The crisis has prompted a rethinking of the role of government in development, and the unequivocal positive association between import openness and growth has been increasingly questioned. Recent thinking and national policies have emphasized, among other things, that (a) gains from trade are dependent on a number of conditions, including underlying productive capacities, regulatory and institutional frameworks, and complementary domestic policies (e.g. labour market policies); (b) industrial policy and proactive trade policy has been successful under the right conditions; (c) the content, depth, sequencing and pacing of liberalization, and its coherence with development objectives, are of crucial importance; and (d) there is need to balance export-led and domestic

demand-led growth. Indeed, various national initiatives are increasingly combining trade-led growth strategies with proactive industrial, agricultural and services policies. Many of these initiatives define productive capability, formation and employment creation as two major policy objectives, seeking to incorporate all of these elements into a coherent and integrated policy framework. Such new policy orientation is exemplified, for instance, in India's Foreign Trade Policy for 2009–2014, South Africa's Industrial Policy Action Plan for 2010–2013, the United States National Export Initiative and the European Union's growth strategy, Europe 2020.

These developments are likely to influence the future directions of the international trading system. The robustness of the rules-based multilateral trading system against protectionism was reaffirmed during the crisis. There is concern, however, that prolonged negotiations have already affected the credibility of the multilateral trading system and have made some negotiating issues less relevant to today's economic realities. Some developed countries have thus called for new twenty-first century issues to be addressed – investment, competition policy, government procurement, food security, export taxes, climate change and exchange rates. At the same time, it remains central for the relevance of the system to inclusive development that trade liberalization help tackle fundamental development challenges, such as poverty reduction, employment, productive capacity, diversification, structural transformation and universal access to essential services and to public health.

Systemically, a lack of leadership became apparent in the negotiations. While developed countries stressed that emerging countries should take more responsibilities given their dynamic economic growth, emerging countries emphasized that they still suffered from poverty and daunting development challenges. The question as to whether the single-undertaking principle underpinning the Doha Round should be reviewed in favour of sector-specific or plurilateral approaches has also been posed. In view of systemic factors contributing to the Round's stalemate, the case for WTO institutional reform has increasingly been recognized.

The drive towards regional trade agreements represents a major challenge for the multilateral trading system. The proliferation and deepening of such agreements point to the need for coherence and organic linkages between multilateralism and regional processes. This coherence and linkage would aim to ensure an optimal mix of both arrangements and provide for trade creation rather than trade diversion. The development potential of South–South integration and cooperation in promoting economies of scale, economic diversification and resilience should be harvested for inclusive development. The expansion of South–South trade cooperation, building on the successful conclusion of the Third Round of the Global System of Trade Preferences negotiations in 2010, provides a viable avenue for further strengthening the growth of South–South trade.

Crisis into Opportunity: Reinforcing Multilateralism, Second Report on the Global Food Crisis by Olivier De Schutter, <http://www2.ohchr.org>

THE United Nations Special Rapporteur on the right to food presented his second report on the Global Food Crisis to the UN Human Rights Council.

Executive Summary

Since the global food crisis put hunger at the top of the political agenda, important efforts were put, at both international and national levels, into increasing the supply of food. But producing more food will not reduce hunger if we neglect to think about the political economy of the food systems and if we do not produce and consume in ways which are both more equitable and more sustainable. Nor will increased production suffice if we do not ground our policies on the right to food – as a means to ensure adequate targeting, monitoring and accountability, and participation, all of which can improve the effectiveness of the strategies put in place.

This report seeks to explain why. It describes the current state of the global food price crisis, and what the right to food has to contribute at the operational level. It goes on to argue that States should ensure that the reinvestment in agriculture will effectively contribute to combating hunger and

malnutrition, by assessing the contribution to the realization of the right to food of different modes of agricultural development; and it explains why we need to accelerate progress towards an international consensus on the production and use of agro fuels, and on large-scale land acquisitions or leases. It also emphasizes the need to guarantee the right to social security, and which role the international community could play in enabling countries to strengthen social protection. It discusses how countries may cope with increased volatility of prices on the international markets, and how international cooperation could combat the sources of such volatility. It ends with a plea to improve the global governance of food security: in times of crisis more than ever, only by strengthening multilateralism can we hope to effectively realize the right to food. If we achieve this, the crisis can be made into an opportunity.

Conclusions and Recommendations

One sixth of the planet's population is hungry, and one third suffers from acute malnutrition – the lack of micronutrients essential for both for a healthy active life and for physical and intellectual development. This massive violation of the right to food is a threat to the political stability of a number of States. It is a question of national security for others. It is an economic liability – no economy can prosper with such a large proportion of people who are too hungry to learn, and to work. Because the focus of world public opinion is now on the question of hunger, and because the past year has witnessed an unprecedented degree of mobilization of the international community into reinvesting in agriculture and rural development, we can transform this crisis into an opportunity. But this will only happen if we work, immediately, on four areas.

First, governments need to consider the choices they have to make in terms of agricultural development, taking into account the impact of these choices on the full realization of the right to food. There is no single way to move towards developing agriculture. In order to move towards socially and environmentally sustainable forms of agricultural production, States should ground their agricultural policies into broader strategies for the realization of the right to food, developed through

participatory processes. This will ensure that agricultural development will effectively contribute to combating hunger and severe malnutrition. On at least two issues – the production and use of agro fuels and transnational large-scale land acquisitions or leases – international guidelines using a human rights framework should be adopted, in order to provide guidance to States and in order to avoid the dangers associated with unilateralist approaches and beggar-thy-neighbour policies.

Second, governments should guarantee the right to social security, particularly in order to shield the urban poor or other net food buyers from the impact of high food prices. Consistent with a human rights-based approach, social protection should be granted to all without discrimination, and the targeting of the beneficiaries should take into consideration the specific constraints faced by groups particularly vulnerable to discrimination and rely on criteria that are fair, effective and transparent, and are a safeguard against discrimination. The establishment of standing social protection schemes is far more preferable than the adoption of schemes only for the duration of a crisis. In order to alleviate the fiscal constraints faced by developing countries in establishing such schemes, these countries should be able to rely on a reinsurance mechanism, improving their resilience against internal or external shock.

Third, net-food-importing countries must be better protected from the volatility of prices on the international markets. The implementation of the Marrakesh Decision within the WTO, the establishment of food reserves at local, national or regional levels, long-term supply arrangements between countries, or contingent option contracts, all could shield countries from the impact of volatile prices. But volatility itself may be combated more effectively, particularly by addressing the specific source of volatility that results from the activities of commodity index funds. This is a further area in which international cooperation is needed.

Fourth, States should improve global governance of food security. The reform of the CFS is an opportunity to fundamentally change the incentives structure for both States and international agencies, and to ensure that they will agree to bind themselves to specific targets, to be achieved within clear timeframes, for which they will be held accountable

to their public opinion and to their partners within the CFS. Most importantly, a revised and strengthened CFS could provide a forum in which, where the need for international cooperation is identified, a dialogue can take place between governments, international agencies, and civil society. As a global common good, the right to food requires no less.

Power Shifts and Power Diffusion: Implications on the Multilateral System

by Mohamed Mansour Kadah,
www.ipris.org/php/download.php

SINCE the end of the Cold War, the international multilateral system has been facing many challenges. However, response to these challenges has been slow and insufficient. On one hand, globalization is growing more complex, and on the other, the system is struggling against historic predicaments that have largely rendered it ineffective and irrelevant. At the same time, the system is attempting to improvise around its constitutional and structural restrictions to adapt to challenges. In particular, power shifts have taken the system by surprise since the end of the Cold War. From unipolarity in the aftermath of the Cold War, to underway power shifts southward and eastward, the system has been unable to manage evolution in the international political environment. These shifts have been further compounded by power diffusion from state to non-state actors, with the latter consolidating as autonomous, active players at both international and domestic levels. Moreover, non-state actors have been challenging nation-states and their international system and have been seeking more recognition and sway. In light of the above, this article attempts to analyze the implications of power shifts and power diffusion on the multilateral system.

Power Shifts: The Dynamics of State Power Politics

For the multilateral system to be effective, it needs to reflect the distribution of power among its members. The current system was formed in the aftermath of World War II. The victorious allies designed it according to their interests, at the exclusion of the defeated states. Although there have been some subsequent changes in the

membership of multilateral institutions, the underlying power formula remained flawed. This is most obvious in the composition of the UN Security Council. During the Cold War, power politics stood in the way of more effective multilateral cooperation. Afterward, the system witnessed some signs of progress, but it quickly fell victim anew to great power complacency. More recently, flaws in the distribution of power have increasingly troubled the system. Specifically, the main dimensions of power imbalances in the system relate to shifts in US power, shifts inside the conventionally powerful North and the rise of new powers from the developing world. This section analyzes these three dimensions, while keeping focus on the relationship between power distribution and the performance of the multilateral system.

While the United States maintains its position as the world's military hegemon, it faces possible military power redistribution in the future, and it has already lost its dominance as the economic hegemon. Current trends suggest further shifts in other elements of power. This is truly a multipolar world, where power – hard or soft – is distributed asymmetrically. This world order is characterized by the emergence of new global actors such as China, India and a resurgent Russia. Most importantly, the rise of new and old powers puts pressure on the United States and diminishes its capacity to lead. In other words, the world power map is being rebalanced with no single power center. By challenging US power and making new allies around the world, the EU and China have shifted power towards three relatively equivalent centers: Washington, Brussels and Beijing. In addition, pivots, such as Brazil, Russia, India, China and South Africa (BRICS) and India, Brazil and South Africa (IBSA), are consolidating in the international arena.

Together, these shifts could have serious global implications, especially that no single country or combination of countries can conceivably substitute for US leadership. Notably, the US administration admits that it needs more help in dealing with global challenges, as President Obama made it clear before the UN General Assembly in September 2009. Of particular concern here, power shifts pose challenges to the power base of current multilateral

institutions. These institutions, be it the UN or the Bretton Woods institutions, reflect the international power status in the aftermath of World-War II. Today, however, power distribution has substantially changed and there are several ascendant powers on a quest to advance their own interests. In fact, the current world order reflects a move from the old East-West dichotomy to a new South-North dichotomy. It also resembles the world order of the 19th century, where Great Britain was at a tight lead ahead of several other powers.

As a result, current multilateral institutions are becoming ineffective. Indeed, recent power shifts raise questions about the legitimacy of the structures of these institutions, which in turn weigh on their effectiveness. Moreover, there seems to be a great deal of ambivalence about multilateralism, particularly from the United States. Although the United States is widely acknowledged to be the greatest beneficiary of the current system, domestic US politics and its foreign policy reflect dissatisfaction with it. Hence, the system is indeed in a precarious situation.

Conclusion

The multilateral system is undergoing a critical phase of its evolution since its consolidation in the aftermath of World War II. Major reasons behind this situation include shifts in world power distribution, especially over the last two decades. These shifts are slowly rendering the underlying power formula of the current system unsustainable and depriving it of more legitimacy and effectiveness. At the same time, non-state actors have been gaining ground and popularity as agents capable of tangible action. In addition, they have been challenging state power and the nation-state system and have been seeking more recognition and legitimacy as independent actors. Hence, the rise of non-state actors has further exposed the ailments of the multilateral system.

Shortly after the end of the Cold War, the multilateral system has fallen victim to great power indifference and lack of political will. In particular, the world's sole superpower has demonstrated a great deal of ambivalence about the system and has itself dealt it some of the gravest blows throughout its history. Lacking US respect and

support, the multilateral system will be headed towards further marginalization. Recently, however, with the current Obama administration, there has been some improvement in the multilateral attitude of the United States, motivated by its more sensible need for help from others. But this relative improvement still falls short of what is needed to address the complicated challenges of the multilateral system.

It should also be noted, that there has been some effort to address both power shifts and power diffusion, together with other age-old problems of multilateralism. For instance, the recently revamped G-20 is one case in point attesting to the fatigue of traditional powers and the necessity of bringing emerging powers onboard. However, forums such as the G-20 are selective, informal groupings that raise concerns about the future of multilateralism. As for non-state actors, states and multilateral institutions have their doors open for partnership with these actors, giving them a stake in global governance.

Nonetheless, the increasing role of non-state actors raises several legal and practical problems, including in terms of legitimacy and division of labour. In the meantime, reform efforts in multilateral institutions are slow and ineffective. And problems posed by increasing global connectivity, paradoxical proliferation/shortage of multilateral responses and dualism of multilateral structures make steering a clear path to the future a very challenging task. In sum, what is needed, today, is a holistic revision of the current multilateral system enjoying the indispensable support of the US and other great powers, in order to make it more responsive to the imperatives of our global world order.

The World Trading System at the Crossroads: Multilateral Trade Negotiations in the Era of Regionalism by Peter Nunnenkamp, Working Paper, 1993, <http://www.econstor.eu>

THE article examines that the multilateral trade negotiations in the Uruguay Round have stagnated for years. At the same time, the world economy has witnessed a strong revival of regional trade arrangements. This juxtaposition suggests that major trading partners are drifting away from the GATT.

Systemic weaknesses in the GATT framework, particularly the lack of effective sanction mechanisms, and the overly ambitious agenda of the Uruguay Round have rendered it difficult to reach a multilateral trade accord. In the EC, the Internal Market programme has been given priority over the GATT negotiations. And the recent move by the United States towards regionalism also threatens to undermine the basis upon which multilateralism could rest in the future.

The future of the world trading system depends critically on whether the trading partners realize that regionalism cannot be defeated successfully by forming countervailing protectionist blocs. To prevent a further erosion of the fundamental GATT principle of most-favoured-nation treatment, sweeping decisions are required in three respects:

- In concluding the Uruguay Round, swiftness is more important than completeness. An immediate agreement should comprise all tentative achievements reached so far.
- Trade disputes left open for the time being and new challenges such as ecologically motivated trade barriers should be tackled in follow-up negotiations to be started immediately after conclusion of the Uruguay Round.
- The EC and the United States should commit themselves to open regionalism by relaxing restrictive accession procedures. Moreover, GATT obligations must be extended by a provision stipulating that third countries whose trade is negatively affected by regional integration schemes will be compensated. The responsibility to establish the conditions under which regional integration and multilateral trade liberalization could reinforce each other rests with the world's leading trading partners. Open regionalism in a strong multilateral framework would not only break the vicious circle that is eroding the world trading system, but may even induce a virtuous circle of mutual trade liberalization between regional groupings.

Introduction

Recent trends in trade policies provide a startling picture. It has become more and more

widely accepted that liberalizing foreign trade is a powerful means to achieve an efficient allocation of scarce resources and, thereby, foster economic development. Since the start of the Uruguay Round of the GATT in 1986, dozens of developing countries throughout the world have removed trade barriers unilaterally. However, this move has not prevented the persistent stalemate in international trade negotiations under the auspices of the GATT. The era of multilateralism appears to have come to an end. At the same time, we have witnessed a strong revival of regional trade arrangements. Partly as a response to integration widening and integration deepening in Europe, the United States concluded the North American Free Trade Association (NAFTA) with Canada and Mexico, and have launched the Enterprise for the Americas Initiative. New attempts at institutionalized regional integration gained momentum in the Asian-Pacific region as well, the most prominent example being the Malaysian initiative to form an East Asian Economic Caucus (EAEC).

In all probability, the pendulum will swing further towards bilateralism and regionalism if GATT talks in the Uruguay Round will not be concluded successfully in the near future. The formation of trading blocs would seriously interfere with an efficient division of labour at a worldwide scale, if closer integration among partners were only achieved by erecting higher trade barriers against outsiders. The ensuing welfare losses would be particularly high for those developing countries that are not invited to participate in any of the major integration schemes in Europe and the Western Hemisphere. Latin America may develop closer links with the United States, and Africa may continue to rely on preferential trade arrangements with the EC. It is mainly the world-market-oriented economies in Asia which have to fear most from major trading partners drifting away from GATT principles.

As stated by the Director General of the GATT, Arthur Dunkel, "the keys to a final conclusion (of the Uruguay Round) are held in a very few hands" [quoted in the *Financial Times*, 28 August 1992]. Regrettably, these hands are not

those of the actors with a particularly keen interest in preventing a further erosion of multilateralism, i.e. the Asian countries. The future of the world trading system rather depends on those countries which are the driving forces of regionalism today, i.e. the EC and the United States. Hence, the role of the EC and the United States figures prominently in the subsequent discussion of international trade negotiations. The remainder of the paper is structured as follows. The next section confronts the ambitious working programme at the start of the Uruguay Round with the modest achievements reached so far. The discussion will show that the major responsibility for the persistent impasse rests with the EC and the United States, i.e. the negotiation parties which initiated the new round of GATT negotiations in the mid-1980s. Section III analyzes the reasons for the serious delay in reaching a final agreement. It is argued that the Uruguay agenda was overloaded with too many issues, while major stumbling blocks to further trade liberalization received insufficient attention in the early phases of the negotiations. This refers to the conflicts with regard to agriculture in the first place. Based on a critical assessment of the behaviour of major actors, the chances for a liberal world trading system are evaluated (Section IV). The focus is on the possible conflict between multilateralism and regionalism. Possible ways to reconcile both concepts are discussed in Section V. Section VI summarizes and provides some clues on new challenges which the world trading system is going to face in the future.

**The Multilateral Trading System:
Opportunities and Challenges for East Africa,**
CUTS/WTO Regional Outreach Workshop,
Nairobi, 29-30 April 2009,
<http://www.cuts-geneva.org>

THE world's economy is currently marked by a severe financial crisis caused, among others, by lack of regulation, supervision and excess. The crisis, which started last year, is having tremendous consequences in every household in the world. Trade has become one of its casualties with a sharp decrease in world trade flows. The biggest challenge today, therefore, is to ensure trade is part of the solution and not part of the problem.

This is why, now more than ever, it is time to stress the value of trade as a multiplier of growth and the value of the multilateral trading system - with its 60 years of global regulation - while tendencies are emerging to engage more intensively in bilateral and regional trade negotiations in which smaller developing countries may have less bargaining power.

The current multilateral trading system is under continuous pressure for further reforms in favour of the interests of developing countries. The Doha "Development" Round launched in 2001 seeks to redress some of the imbalances that currently exist in the rules-based multilateral trading system. The Doha Round also seeks to further the integration of developing countries into the multilateral trading system so that they can better reap the benefits of increased market access opportunities.

Giving the current global economic context, a successful conclusion of the Doha Round would send the political signal that at harsh and difficult times, governments are capable of working together to provide the kind of global answer which is needed and it could be an "insurance policy" against protectionist trends. The Aid for Trade initiative needs also to be maintained and reinforced, particularly now that the crisis is hitting hard many of the most vulnerable countries.

The WTO, besides promoting multilateral negotiations, has an important and active role in the midst of the current crisis. It can promote an early end to the recession by restoring sustainable growth in world trade and by monitoring trade and trade-related developments. Governments' stimulus packages and subsidies programmes are receiving special attention in order to ensure that economies remain open to competition from abroad. In addition, and as WTO Director-General Mr. Pascal Lamy and CUTS Secretary-General Shri Pradeep S. Mehta have often highlighted, International Cooperation is the way to overcome the crisis and any isolationist/protectionist measures should be avoided.

But to overcome the crisis and strengthen the foundation of the multilateral trading system efforts from all stakeholders are needed.

Efforts should be to strengthen multilateral trading system by fulfilling objectives such as (i) fostering greater awareness and interest in the multilateral trading system; (ii) enhancing participants understanding of the basic operations of the WTO, key issues on the international trade agenda, and status of the DDA; and (iii) encouraging dialogue and exchanges of views and ideas among civil society representatives on trade-related and development related issues of particular relevance to the EAC countries. In addition, throughout the workshop civil society representatives are encouraged to consider their respective roles in multilateral processes and ways to increase public awareness of the international trade agenda.

“Coherence in Global Policymaking: Multilateralism at a Crossroads”, *Report of the Secretary-General of UNCTAD to UNCTAD XII on Globalization for Development: Opportunities and Challenges*, www.rrojasdatabank.info

A. Systemic Imbalances in Global Finance and a New Mercantilism

COMPANIES gaining market shares at the expense of other companies are an essential ingredient of the market system, but the idea of nations gaining at the expense of other nations is much more problematic. All countries can simultaneously raise productivity and wages and the level of trade to improve their overall economic welfare, but they cannot all together increase their market share or their current account surpluses.

It is thus worrisome that many important players in the global economy are engaging in a race to the bottom in an attempt to gain market shares. Until now, the international community has not been able to agree on rules that could prevent “economic battles of nations”, despite the fact that they are counterproductive in the long term.

This has brought into focus a phenomenon that could be termed the “new mercantilism”. It is not only wages and social contributions that are under downward pressure to improve the “international competitiveness” of a country. Many governments in Europe, for example, have been reducing corporate taxation and have granted generous subsidies to companies in an attempt to attract

them. In the same way as a regional entity such as the European Union or a global sectoral institution such as WTO has tried to prevent this kind of unbridled competition that is attractive for the single player but cannot be successful for the area as a whole, the world has to find ways to limit such unproductive competition of nations.

The extraordinary deficit in the current account of the United States (more than \$850 billion in 2006) and the surplus of several developed countries and China testify to the unsettled state of the global integration process. This situation is leading to increasing political pressure within the United States Congress to act unilaterally to protect the country from becoming swamped by imported goods. Paradoxically, despite much tension and negotiations, no decisive action plan has been launched to reduce the imbalances in the medium or long term. Diverse attempts to alter the course of currency markets ended in some changes in the real exchange rates of the countries involved, but most of these changes did not lead to the expected outcome.

Most of the financial crises in the post-Bretton Woods era of floating exchange rates have been characterized by nominal interest rate differentials and the resulting portfolio investment. As a rule, the quantity of inflows is big enough to increase the short-term attractiveness of the high-inflation country’s currency, resulting in appreciation, which further raises the return on investment.

In what is a clear systemic failure, a revaluation of the currency of the higher inflation country fundamentally undermines the normal functioning of the “exchange rate mechanism” in the short term. The high-inflation country’s higher prices on the world market are not offset by a nominal depreciation, and the appreciation adds to the loss of competitiveness of that country and worsens the current account situation rapidly.

If exchange rates do not follow the purchasing power rule in the short term and destabilize the external accounts, the introduction of this rule as a political target is the only way out. The presence of carry trade brings into question the widespread acceptance of floating as the only feasible solution to the problem of the external balance. Thus, the pressure on China to float its currency may actually

end up with unexpected results. As China's interest rates are still rather low the renminbi could be carried to high-interest-rate locations, and it would then depreciate and further increase China's competitiveness. Such an outcome would accentuate global imbalances.

B. The Case for a Multilateral Effort in Global Finance

For small open economies, and developing countries in particular, a stable and prospering external sector is of enormous importance. That is why the exchange rate is the single most influential price in these economies, as it dominates overall competitiveness and has a strong impact on the national price level. To avoid the fight for market shares through manipulation of the exchange rate, wage rates, taxes or subsidies, and to prevent the financial markets from driving the competitive positions of nations in the wrong direction, a new "code of conduct" is needed regarding the overall competitiveness of nations.

Such a code of conduct, reflecting a new spirit of multilateralism in global economic governance, would have to balance the advantages of one country against the disadvantages of other directly or indirectly affected countries. For example, changes in the nominal exchange rate deviating from the fundamentals (inflation differentials) affect international trade in exactly the same way as changes in tariffs and export bounties do. Consequently, such real exchange rate changes have to be subject to multilateral oversight and negotiations. The reasons for the deviation from the fundamentals and the necessary dimension of the deviation have to be identified by an international institution and have to be enforced by a multilateral decision making body. Only if such rules apply can all trading parties avoid unjustified overall losses or gains of competitiveness and developing countries systematically avoid the trap of overvaluation that has been one of the most important impediments to prosperity in the past.

The exchange rate of any country is, by definition, a multilateral phenomenon, and any rate change in open economies produces externalities and multilateral repercussions. That is why the idea of a cooperative global monetary system is as compelling as the idea of a multilateral trading

system. In the same way as intended by multilateral trade rules, a well-designed global financial system has to create equal conditions for all parties involved and help to avoid unfair competition. Avoiding competitive depreciations and other monetary distortions that have negative effects on the functioning of the international trading system is more important in today's highly interdependent world than at any other time in history.

With respect to their external financing needs, developing countries can be divided into two groups: low-income countries (and some lower-middle-income countries) with limited or no financial market access, and middle-income countries with market access (often referred to as emerging market countries). These two groups of countries face different challenges. Most of the external finance that flows to the first group consists of concessional loans, grants and official development assistance (ODA). The main challenge for these countries is to mobilize adequate financing to sustain development and poverty-reduction programmes. The second group of countries, however, can issue sovereign bonds in the international markets. In this case, the main challenge is to either reduce the high volatility that characterizes private capital flows to these countries or implement policies aimed at reducing the costs of this high volatility. For both groups to obtain the financing, they need to sustain growth or prevent erosion of recent achievements. Multilateral cooperation is more necessary than ever, be it for moral, political or financial coherence imperatives.

C. Sustainable Financing for Sustained Development

The second half of the 1990s was characterized by declining ODA, but this situation was reversed in 2002, and by 2005 ODA from donors from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) had risen to \$82 billion (0.33% of gross national income, GNI of developed countries). Despite this recent trend, which was spurred by debt relief and other exceptional flows, the current and projected levels of ODA still fall short of the G-8 pledge to double aid to Africa by 2010, and donor countries as a group are still committing less than the agreed target of 0.7 per

cent of GNI to aid. Notwithstanding the inconclusive evidence and arguments presented by aid sceptics as to the necessity and impact of ODA, for many least developed and low-income countries, ODA remains the only source of financing for a range of developmental and poverty-reduction policies and programmes.

Aid allocation, however, continues to be characterized by selectivity and instability. The top 20 aid recipients received more than half of net bilateral ODA, and less than 50 per cent of aid recipients received 90 per cent of all aid, with many poor low-income countries receiving very little assistance. A large part of the recent increase in aid was due to debt relief under the Heavily Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). Debt forgiveness represented 5 per cent of overall ODA flows in 1990, whereas in 2006 they stood at 30 per cent. A key component of the HIPC initiative upon establishment in 1996 was the notion of additionality. However, ODA less debt forgiveness declined from the start of the initiative to its lowest level in 1997, and only since 2003 has nominal ODA less debt forgiveness risen above the 1995 value to levels comparable to those in the early 1990s.

The fact that several developing countries have become lenders in the international capital markets reflects deeper inconsistencies in the current structure of the international financial architecture. Many middle-income and developing countries maintain undervalued exchange rates and accumulate international reserves because they want to be able to face potential crises without requiring support from or having to comply with policy conditionality by the international financial institutions. Hence, the mandates and the functionality of these institutions are subject to sustained scrutiny, as they risk marginalization, since major developing countries are making do without them, either by self-insuring or by proposing alternative institutions.

Reforming existing institutions in line with new realities and building consensus on crisis prevention mechanisms (such as debt sustainability analysis) and crisis resolution mechanisms (such as debt restructuring) could help in improving the efficiency and universal credibility of the international financial system. Donors can play a major role in

helping developing countries improve their debt management capabilities and also their capacity to record and disseminate information on the structure of total public debt.

Over the last few years, the IMF has developed the debt sustainability framework (DSF) for middle-income market-access countries and the IMF and World Bank have jointly developed a DSF for low-income countries. While the main objective of the DSF for market-access countries is to examine vulnerabilities and devise policies aimed at reducing the probability of a debt crisis, the DSF for low income countries is also aimed at guiding IDA grant-allocation decisions. Although the increasing importance of domestic borrowing is often recognized, most debt sustainability analyzes concentrate on external debt. An aggregate debt ratio where "riskier" types of debt have a higher weight than safer types would be superior to the current practice. Better information on debt structure and more research on vulnerabilities arising from different types of debt could help in designing such an indicator. This would in turn improve debt management and reduce the probability of debt crises through better tracking of debt risks.

The most important issue with the DSF for low-income countries has to do with its use of debt thresholds aimed at measuring a country's risk of debt distress and determining eligibility for IDA grants. According to the Framework, debt sustainability is driven by a combination of the country's debt ratios and the quality of its policies (as measured by the Country Policy and Institutional Assessment index, CPIA). Several concerns remain with respect to the use of the CPIA index. The thresholds are calculated by using an econometric exercise that may lead to sub-optimal outcomes, as the borrowing capacity of those at the top of each CPIA category may be underestimated and those at the bottom may be overestimated. The concept of good governance and institutions is inherently subjective and, since the World Bank is also making recommendations on issues of governance, the index may reflect how well countries are implementing that advice. Another concern pertains to the accuracy of the measure and the consistency with which it is measured across countries, and it may not offer

the proper incentives and rewards for low performers and fragile states.

Furthermore, the DSF is based on the primacy of debt servicing and does not explicitly include an evaluation of needs in respect of reaching the millennium development goals (MDGs). As stated in the United Nations Secretary-General's follow-up Report to the Millennium Summit: "... we should redefine debt sustainability as the level of debt that allows a country to achieve the MDGs and reach 2015 without an increase in debt ratios." Other considerations have also been cited, for example by the United Nations Commission on Human Rights, which is drafting guidelines for external debt relief to ensure that the need to service foreign debt does not undermine obligations for realization of fundamental economic, social and cultural rights. Meanwhile, the growing legal and political interest in concepts such as odious debt and responsible lending adds yet another dimension to the concept of debt sustainability and its applicability as currently defined.

Another important trend in development finance relates to the increasing importance of corporate versus sovereign borrowing. In 1996, only 20 per cent of long-term external debt was owed by private borrowers. In 2006, that share had doubled to 41 per cent. The increase in corporate borrowing has been especially important in Eastern Europe and Central Asia. East Europe and Central Asia is the region with the highest external debt ratio and accounts for over a third of the global debt stock of developing and transition economies. Of long-term debt (\$743 bn), 89 per cent was owed to private creditors and 63 per cent was held by private borrowers.

The accumulation of foreign exchange reserves (reaching \$522 bn in 2006) has put the countries in the region in a relatively safe position in case of future financial or debt stress. Nevertheless, by relying more on the international markets, corporate borrowers may have increased their exposure to interest rate and currency risk, and this exposure raises several policy challenges. The most important among these is to assess the public sector's contingent liabilities arising from private sector borrowing. Governments need to pay particular attention to the rapid increase in foreign currency borrowing by domestic banks. Although

there are no indications that the banking sector as a whole has over-borrowed in recent years, some banks in Eastern European and Central Asian countries have borrowed heavily in international capital markets and on-lent those funds in the domestic market. This could lead to currency mismatches either in the banks or in the ultimate borrowers' balance sheets and thus increase financial fragility.

The international community will come together in Doha in 2008 to review the implementation of the range of commitments made in the areas of finance, trade and investment in the Monterrey Consensus. This should result in greater attention to the important interplay between external debt and other, new elements of strengthened financial policy space for developing countries. A major objective of an international financial architecture better adapted to the realities of the new century should be the development of safer debt instruments (such as GDP-indexed and commodity-indexed bonds). Multilateral institutions could play a role through policy advice and by promoting the coordinated issuance of such instruments by a number of countries to provide benchmarking. Multilateral development banks could issue loans with repayment schedules linked to GDP growth as a way of promoting the idea of indexing debt payments to economic performance. The structure of the new financial architecture should focus on crisis prevention but should not rule out that even an improved system would not be crisis-free and hence should also include mechanisms for crisis resolution along the lines of the now defunct proposal for a sovereign default restructuring mechanism.

D.Redressing Asymmetries in the Multilateral Trading System

Doha at the Crossroads

At a multilateral level, the Doha Round of WTO trade negotiations launched in November 2001 was intended to offer an opportunity to mainstream development into the multilateral trading system and to correct existing imbalances in the trading regime. A development-oriented outcome is imperative for realizing Millennium Development Goal 8 of "an open, equitable, rule-based,

predictable and nondiscriminatory" multilateral trading system. Today, however, the system stands at a crossroads.

Following the Sixth WTO Ministerial Conference in December 2005 in Hong Kong, China, the Doha Round has entered its most crucial phase. There is an urgent need to find solutions on key issues, namely agricultural market access, domestic support in agriculture, industrial tariffs and services. Ambitious structural adjustment in agricultural policy is important to enable a balanced and development-focused outcome. It remains imperative that substantial development content with additional commercial opportunities for developing countries be included on a contractual basis in the final outcome of the Doha Round. Five key elements of a development package must be delivered to ensure the credibility of the system:

Firstly, the Doha Round must result in significantly enhanced and additional real market access and entry for developing countries' exports of manufactured goods, commodities and services in their major markets so as to enable them to grow and prosper. This implies tariff elimination, removal of tariff escalation and peaks, and providing access to services sectors. Developing countries are engaged in providing such services especially in modes 4 and 1, and addressing non-tariff barriers. The provision of duty-free and quota-free treatment to all LDCs for all their products on a lasting basis, as agreed at the Sixth WTO Ministerial Conference, and which remains to be implemented fully, is symbolic of this emphasis;

Secondly, the Doha Round should bring about improvements in multilateral rules that address and remove existing asymmetries and enhance the fairness and equity of the multilateral trading system. Substantially reducing and removing trade-distorting agricultural subsidies is indispensable for levelling the playing field for fair competition in agricultural trade. An appropriate pacing and sequencing of market opening, as well as institutional and regulatory reform, are also important, particularly on services, accompanied by flanking policies and support for building domestic supply capacity;

Thirdly, the development dimension signifies an adequate and sufficient degree of policy autonomy

for economic governance that would allow countries to effectively manage and regulate their domestic economic policies in the light of national development and public policy objectives, within the multilateral framework of rights and obligations under WTO. This translates into such measures as more operational special and differential treatment and less than full reciprocity; preserving tariff revenue; promoting domestic nascent industries and pre-empting de-industrialization; preserving long-standing trade preferences; safeguarding food security, livelihood security and rural development; providing for use of policies and measures to foster commodity sector production, diversification and competitiveness; universal access to essential and infrastructure services; access to essential drugs; implementation related issues; and concerns of small and vulnerable economies;

Fourthly, development solidarity is required from the international community for developing countries for undertaking adjustment and meeting implementation costs, building trade-related infrastructure, and supplying capacity-building for taking advantage of trade opportunities. In this context, Aid for Trade is an essential complement to trade liberalization in the trading system. If it provides for additional aid, it can play an important role - along with improved market access, balanced rules and sound domestic policies - in helping developing countries realize sustained gains from trade;

Fifthly, it is important to ensure coherence and a positive interface between regional trade agreements (RTAs) and the multilateral trading system. In successful conclusion to the Doha Round is the best guarantee against the continuing erosion of the multilateral system. Specifically, the WTO rules on RTAs, under negotiation in the Doha negotiations, need clarification and improvement so as to improve compliance and better take into account developmental aspects of RTAs.

The universality of WTO membership is essential for the legitimacy and governance of the trading system. Accession of 29 developing countries and countries with economies in transition is thus a systemic priority. However, experience has shown that relatively deep liberalization and stringent reform commitments, including WTO-plus commitments, have been requested from acceding

developing countries. It is crucial to ensure fair and equitable terms of accession commensurate with the acceding country's trade, financial and development needs, and provision of increased support in all stages of the accession negotiations.

A notable trend in the international trading system is that, with the decline in tariffs as a result of eight multilateral trade negotiations, the relative importance of non-tariff barriers has risen, both as instruments of protection and for regulating trade. The nature of the non-tariff barriers most applied has also changed: measures intended to protect local consumers have increased, while measures meant to protect local producers have declined. In many developed countries, regulatory policy now focuses on protection of the environment, public health and safety, and often includes higher standards for the domestic market than existing international standards. While these regulations do not contravene WTO rules directly, they open avenues for protectionist abuse and also entail greater compliance costs than would otherwise be the case.

Proliferation of Regional Integration Agreements

Another notable feature of the international trading system is the worldwide proliferation of regional integration initiatives, in particular RTAs. The number of operational RTAs, whether South-South, North-North or North-South, is expected to grow to 400 by 2010. Currently, trade between RTA partners accounts for nearly 45 per cent of global merchandise trade. Given the growing number, membership and trade coverage of RTAs, their impact on the international trading system will be significant. Careful attention needs to be paid to the scope of such agreements and their development impact on developing countries, especially the tendency towards deeper liberalization, a WTO-plus agenda, and an inward-looking approach that hampers trade with third parties and undermines the multilateral trading system.

When properly managed, regional cooperation can offer another avenue to protect the weakest participants against unfettered market forces and unpredictable shocks. Regional liberalization cannot be expected to deliver substantial development gains by itself, but it can support innovative approaches by extending cooperation to common

or well-coordinated policies in the monetary and financial area, industrial development, infrastructure and employment. Effective cooperation on these fronts could not only enhance developing countries' output growth and trading capacities, but also strengthen their influence on global economic governance.

The close association between regionalization and industrialization in Western Europe and East Asia has often been cited as part of a virtuous development path. In this respect, the European Union is an excellent example of regional cooperation for other regions. It holds certain lessons in terms of institution building and the development of common policy approaches that can usefully inform formal cooperation among developing countries. On the other hand, the regional integration experience in East Asia, which has taken place without formally agreed policy cooperation, provides a lesson of growth and structural change at the regional level, which can be helpful in identifying the real driving forces behind economic dynamics.

The Challenges Facing the Multilateral Trading System in Addressing Global Public Policy Objectives by Christophe Bellmann, Jonathan Hepburn and Marie Wilke, <http://poldev.revues.org>

DESPITE a record-breaking 14.5 per cent increase in world merchandise exports, the effects of the financial crisis and global recession are still hampering faster economic recovery. Relatively, high oil prices combined with persistent unemployment and measures designed to reduce budget deficits have undermined short-term growth prospects.

While South-South trade continues to explode, trade imbalances – i.e. the gap between exports and imports – widened in 2010 compared to 2009 (though smaller than pre-crisis levels). Meanwhile, trade negotiations under the Doha Round have reached an impasse, generating uncertainties about the future of the World Trade Organization (WTO) as a negotiating forum. Under these circumstances, should the system rethink its decision-making process founded upon the predominance of member states, the principle of consensus and the notion of single undertaking, as some critics have

suggested? And, if so, how could such a reform agenda be initiated at the WTO? Moreover, beyond the negotiating function of the WTO, the paralysis of the system also raises urgent questions about the ability of the system to respond to pressing challenges of our times, such as trade and climate change, or food security and price volatility.

Introduction

The 2008-09 financial crisis and the current sovereign debt crisis in Europe have not only highlighted the high level of economic interdependencies existing worldwide, but also the growing challenges in pursuing international collaborative actions to address urgent sustainable development challenges. In a rapidly changing multi-polar world in which economic wealth is progressively shifting towards the East and the South, and in which resource constraints have become increasingly pressing, international cooperation remains in crisis. The rise of emerging countries like China, India or Brazil and the relative decline of traditional economic powers have created new opportunities, as reflected by the unprecedented growth in South-South trade observed over the last decade or so. However, it has also generated new tensions, not least between countries with large trade surpluses and those with growing trade deficits. Such tensions are equally palatable in international negotiations such as the ones dealing with climate change.

Meanwhile, the number of hungry people is estimated to have reached one billion in 2009, catapulting food security back to the top of the political agenda. As growth in demand continues to rise faster than increases in supply – due fundamentally to low productivity growth – food prices are expected to remain high and volatile in the coming years. Several factors have contributed to enhancing price volatility: low stocks resulting from a succession of weather-related production shortfall, growing demand for biofuels feedstock, rising energy prices and a depreciation of the US dollar; however, these have been aggravated by policy responses such as export restrictions.

This rapidly changing environment and the pressing needs for international cooperative action to address concerns around food security, climate change or unsustainable trade imbalances contrast

sharply with the current paralysis of the multilateral trading system. The Doha Round of trade negotiations under the World Trade Organization (WTO) has now remained in a limbo for several months with no real perspectives for the near future. While several factors explain the stalemate in the ten-year-old trade talks, this paralysis raises uncertainties about the future of the multilateral trading system.

As a contribution to this discussion, this chapter looks at how the multilateral trading system has sought to address global public policy objectives, and how it can do so in the future. After a short review of current trends in international trade and recent developments which have led to the current crisis in the Doha Round, Section 3 considers possible options for reforming the way in which the WTO conducts negotiations. Finally, Section 4 focuses on how the WTO has sought to respond to specific public policy objectives in the past – using the case of food security as an example – and what this tells us about the way in which the multilateral trading system relates to broader global public policy goals.

Conclusion and the Way Forward

The WTO is not what it used to be a decade or so ago. Many new developing countries have since joined, and shifts in the balance of global economic and political power have transformed the playing field. Accordingly, new needs and different expectations have emerged, including demands on the decision-making processes, and their fairness and transparency. As described above, modern global trade governance requires a careful balance between greater efficiency, legitimacy and inclusiveness. These objectives are not incompatible, but would require WTO members to move from essentially promoting their individual short-term mercantilist interests to developing a shared vision to effectively advance global public policy goals. Numerous proposals have been put forward to strengthen the multilateral trading system. But as for any intergovernmental institution, change must come, and be agreed to, from the inside. This calls for the establishment of an inclusive and bottom-up process, one that seeks input from all WTO members, as well as seeking submissions from the different actors in the international trade community. Only with such a process will ideas

have a realistic chance to be considered, and be transformed into agents for strengthening the system.

Years of near-exclusive focus on the Doha Round have inhibited institutional evolution and even diminished some of the WTO's permanent, non-negotiating functions such as the work of the regular committees. Beyond the WTO negotiating function, there might be therefore merit in strengthening the work of the regular WTO committees. In the run-up to the 2009 Ministerial Conference, several such proposals were put on the table, notably by India. These covered a variety of issues such as the need to enhance the WTO trade information system by including data on non-tariff barriers; monitor developments in regional trade agreements (RTAs) and develop non-binding best practice guidelines for negotiating new RTAs; establish an 'omnibus legal system' that would address all forms of preferential market access for LDCs in a coherent way; address the increasing role of standards and standard-setting bodies in international trade. Many of these proposals are still relevant today.

Finally, in parallel with efforts to revive the Doha Round, members could undertake work on a number of pressing global challenges. These could include concerns around the trade dimension of food security, food prices and export restrictions; the potential trade impacts of emerging domestic policies designed to combat climate change; or highly controversial matters around exchange rate policies and current trade imbalances. This is not to say that the WTO should become the sole or even primary body to deal with these matters. Several other institutions such as the United Nations Framework Convention on Climate Change (UNFCCC), FAO or IMF have indeed a major role to play in this area. The WTO, as the main organization dealing with trade rules, should nevertheless contribute to addressing them insofar as they are linked to trade. Willingness to do so has already been expressed by a wide and cross-cutting segment of the WTO membership, but as a first step it might be more realistic to address these issues in a non-negotiating setting. In doing so, members could assess whether the WTO rule book is properly equipped to deal with emerging challenges or whether existing disciplines need to

be clarified or amended. Existing institutional structures such as the Committee on Agriculture could be used for such an exercise. Precedents for doing so already exist. Singapore, for example, has recently made a submission to the regular session of the Committee on Trade and Environment to embark on work examining possible trade applications of border tax adjustment as a way to address competitiveness and carbon leakage concerns in climate change. Such an approach would enable the system to address challenges of the twenty-first century and prepare the ground for future negotiations when the political situation is ripe.

Trading in Protectionism?

by Suparna Karmakar, *The Hindu Business Line*, 2 January 2009.

THE article in the beginning mentions about the current slowdown in the global trade and says that the fast deceleration in the trade will further decelerate in coming days. It also points out that the global slowdown started in 2007 when world trade growth slid to 5.5 from 8.5 per cent in 2006 and weak demand in key industrialized economies may contract the global merchandise trade growth rate by 2.1 per cent in 2009 from about 4.5 per cent in 2008.

The next part of the article discusses about the slowdown in export and the impact of tariff. While discussing about the slowdown in exports it points out that there are bleak prospects in the export for the emerging economies, as China has faced a 2.2 per cent decrement in exports and growing reports of factory closures indicate that future orders have declined significantly. It points out that deceleration in Indian exports by 12 per cent has forced exporters to re-negotiate the prices and orders with the buyers and such slowdown has started a retaliatory war of mostly non-tariff trade protectionism. The entire process has initiated an imposition of protectionist measures such as export subsidies and bans, higher anti-dumping and other safeguard duties. Assessing the impact of tariff on global trade the article explains that the conclusion of Doha round negotiation can keep the trade engine running by preventing policy rollback and can help to fight the fear of increasing tariff by many countries. It also predicts that maximum allowed raise in tariffs by

all countries can double the average global rate of duty and the effect can shrink global trade by 7.7 per cent, causing a 1930s type of trade deceleration.

The article takes the reference of the views by Dr. Aaditya Mattoo and Dr. Arvind Subramanian and argues for enhancing the Doha agenda to re-energize the private sector interest in multilateral trade negotiations. It also says that current trade liberalization agenda under Doha promises only marginal gains. There are arguments that behind such a wide and complicated agenda stays an agenda that provides enough time to rich country's private sector to reorganize and restructure in order to make more credible offers. This theory argues that unless the new bound rates fall below the applied tariff rates, reduction of tariff bindings in emerging economies will not offer enough incentives to rich country and therefore rich countries will need more sops to participate effectively in negotiations.

The article finally mentions that the minor roll-backs would restrict market access of industrial country products in key items of trade interest. It suggests that issues like high applied duties in farm products and manufactured products of export interest to developing countries and many other things like anti-dumping, countervailing duties and safeguards need to be addressed openly during negotiations rather than widening the agenda to non-trade issues.

Multilateralism is the Cure

by Pradeep S. Mehta, *The Financial Express*, 22 March 2009.

THE article in the beginning mentions about the US reaction on the issue of hike on tariffs of soyabean and steel by India and says that India, European Union and other countries have slammed the US for its 'Buy American' law. It also questions the sensibility of the other countries for adopting alternate protectionist measures in order to protect their economies and not following the one-year suspension of new trade protectionist measure by the G-20 countries. Mentioning about the 'Buy American' law, the article points out that current law will invite disputes at the WTO by the countries who are members of the agreement on government

procurement. It points out that India's initiative to raise the tariff on select items is immoral in the multilateral context. While referring to the protectionist measures it points out that such responses in the global financial and economic crisis are natural and mentions about the experts fear that protectionist measures may cause another great depression, as happened in 1930s.

The article also differentiates between current economic crisis and the economic recession of the 1930s and says that 1930s was the resultant of the fixed exchange rates and failed multilateralism. The current economic crisis is also different in a way that the contraction of the global trade in earlier downturn in 1975 was 1.9 per cent while this time the World Bank expects a contraction of 2 per cent in global trade due to collapse of developed countries demand and its deleterious impact can seriously obstruct the targeted achievement of UN's Millennium Development Goals by pushing 53 million people into poverty. It also points out about the risk of increase in the applied rates which are not in violation of ceilings set by multilateral agreements, use of non-tariff barriers, and more frequent application of anti-dumping measures and safeguards. The different statistical figures reveal that protectionist measures have shown a sharp increase in anti-dumping measures and many other parameters and the process is accelerating due to retaliation by many other economies in response to the measures taken by Europe and America like Buy American law.

Although the pressure from the countries like Canada and European Union has forced the US lawmakers to add a caveat in order to ensure that the Buy American clause should not violate international trade agreements. The article also points out that countries like the US and the EU pursuing protectionist measures have prohibited the hiring of the professionals from other countries. While Italy is against transfer of production and jobs to Poland, the British trade unions have demanded British jobs for the British workers and France has demanded a halt on the transfer of production to other countries and support to the indigenous industries involved in supplying parts and services in return to stimulus package to bail out crisis-ridden industries. It states that

protectionist clauses attached to such bailout packages might prove counterproductive, but in totality it would lead to a further contraction of the global economy.

Finally, the article suggests that the current global crisis needs concrete global response which can be achieved by reviving the Doha Round and at the same time it is also important that countries should notify the WTO about all protectionist measures with a plan to roll them back within two years.

Europe and the Protectionism Trap

by Wolfgang Munchau, Spiegel Online International, 13 February 2009.

THE introductory part of the article presents different views on the issue of the protectionist measures specially adopted by the two European countries – France and Germany and response of the other members of the EU on the issue of such protectionist measures at the time of economic slowdown. Taking the reference of French President's statement, the article mentions that French attempt to protect its auto industry is clearly a protectionist move and suggests that protectionism will reduce Europe's economic output and there will be no winner in a protectionist race. The article further mentions that manifold reduction in non-wage labour costs by Germany, anti-liberal positions by France and bailing out their banks by these two countries of the EU without consulting other members of the EU is not in the spirit of a common European competition policy.

The article also mentions that despite an undercurrent of protectionism in Europe, the European Commission deserves a great deal of credit for the important successes it has notched up in fighting protectionism in case of the German Landesbanken and the French energy policy but it's difficult to cap protectionism in the time of financial crisis as the member states are using it to their advantage. The article also points out that open protectionism quickly leads to escalation, which would not be a favourable development for the world's leading exporter Germany, which bears a significant share of the responsibility at the current juncture of global economic and financial crisis. It states that in the absence of effective European plan

to combat the crises, countries will devise their own plans to come out of such economic downturn.

The second part of the article mentions that protectionism made in Germany is designed to primarily benefit the German auto industry and is structured somewhat more cleverly than the French plan. Pointing out the view of Paul Krugman that protectionism is justified to some extent if we coordinate stimulus packages and properly manage national measures such as tax cuts, etc., the article says that if domestic producers derive the most benefit from the stimulus packages then the protectionist version would be better than nothing and in such situation one can only hope for legal countermeasures. However, the fundamental problem of massive French subsidies for the automobile sector will adversely affect other European carmakers by sharply discounting their prices while Renault, Peugeot and Citroën will be able to gain market share at the direct expense of other companies.

The article finally states that from an overall European standpoint, such protectionist actions are economic zero-sum games as the measures adopted cost a lot of money and are ineffective across Europe. The root cause of the protectionism emerging in Europe is not because of President Sarkozy but it is the work of people who, in a monetary union, make policies without considering their neighbours.

Huge Problems but Subdued Expectations

by C.R.L. Narasimhan, *The Hindu*, 17 November 2008.

THE article is divided into three parts. The introductory part of the article mentions about the G-20 countries meeting held in November in Washington and says that the meeting of 20 rich countries is the recognition of the fact that many more countries besides the group of seven countries (G-7) need to be involved in discussions on the global economy. It mentions that although the crisis had originated in the US housing sector and has affected the western economies, but the role of the developing economies like India, China and other developing countries is important for the solution of the crisis and without involving them mitigation of the crisis is not possible in the near future.

Mentioning about India's stand the article mentions that India is favouring the greater inclusivity in the global financial system in order to improve the global oversight over the financial sector. The article also mentions that financial conglomerates operating in many countries have resorted to "regulatory arbitrage," among other sharp practices. Therefore proposal for a "college of supervisors" was gaining ground on the eve of the summit of G-20 countries. Describing about the greater inclusivity the article points out that India, China and others should have a greater say in the working of institutions such as the International Monetary Fund and says that after the economic crisis the roles of the IMF and the World Bank will also come under scrutiny.

The second part of the article mentions about the growth prospects of the developing countries after the economic crisis has spread like a contagion. It says that countries like China and India will grow at a slower pace and will continue to be at the top of the global growth table. Due to the interconnectedness of the financial market, the contagion from the West has impacted India as well and has resulted in the precipitous decline in stock markets and freezing of the credit markets. Mentioning about the requirement to avoid protectionism the article states that prolonged recession in the developed countries will result in a surge of the latent protectionism. The current global crisis and the protectionist measure adopted by developed countries will have adverse consequences on India's top exchange earning IT and BPO companies and can create a situation where any remaining chance of reviving the Doha Round of trade talks will vanish.

Final section of the article discusses about the engagement of global conference in fixing major economies and rewriting the rules for the financial sector that has spun out of control and says that expectations from the political transition in the US and meeting of more representative body of nations will pave the way for more elaborate discussions. It further states that multilateralism advocated in international trade should form part of the global economic order. The updates release by the IMF related to the World Economic

Outlook reveals that most of the economies will suffer from the slower growth rate in 2008 and 2009 and suggests that policies to stimulate growth will help in cushioning the slowdown.

Does Protectionism Add to Exporters Woes?

by Biswajit Dhar/A. Sakthivel, *The Economic Times*, 3 February 2009.

THE article presents two different views by two authors on the different aspects of the protectionism. The first view in the article mentions that analysts have reminded the policymakers about the ill effects of adopting measures to protect their domestic industries after they noticed the contagious effect of the downturn of the US economy on the growth prospects of global trade. The article mentions about the 1930 recession and states that the Smoot-Hawley Act passed by the US Congress during those grim days raised the country's import tariffs to record levels and prompted a series of retaliatory tariff hikes around the world.

The view in the article also points out that the countries bound by multilateral commitments to desist from increase in import tariffs have found imaginative ways of protecting their domestic industries and jobs of local people. The economic stimulus package passed by the US House of Representatives and "Buy American" provisions act as a fodder for the protectionist sentiments reminiscent of the Smoot-Hawley Act, which has been defended on the name of creating jobs at home and not overseas. The article also mentions that the major trading partners of the US including Canada and EU have raised their voices against supporting measures that discriminate against imports and have hinted for the retaliatory actions if measures prohibiting the sale or purchase of European goods on American territory are adopted. While the US is protecting its automobile industry, the EU has proposed that export subsidies would be provided to its dairy industry to maintain its presence in the global marketplace. The view in the article also points out that the recent dispute brought by the US against the grants, loans, and other incentives offered by enterprises in China targets 107

measures taken by China to support its industry and agriculture.

The first view in the article concludes with the suggestion that in order to avoid the situation of trade protectionism of 1930s, all major economies, in particular the G-20 countries have to agree to a standstill on measures, otherwise fanning protectionist sentiments, could lead to a deepening of the present crisis.

The second opinion in the article mentions that current crisis will prompt developed countries to focus on non-tariff measures to restrict imports in order to propel their domestic manufacturing or agriculture sector and says that such moves will give a jolt to the recovery process and will delay the same. It describes that developing countries are facing excess of non-tariff barriers (NTBs) in the form of product standards and regulations and they will face some new kind of NTBs on the issues related to climatic change and its impact on environment. The US and EU are likely to place more emphasis on human rights,

product safety, the environment and IPRs in their dealing with trading partners, which will adversely affect India's exports and will increase the cost of compliance.

The opinion in the article also mentions about different stringent standards, which developing countries like India will suffer are, like introduction of mandatory labelling of garments in all languages spoken in EU, conformity to inflammability standards for garments, compulsory testing of textiles, leather and pentachlorophenol and registration procedures for pharmaceuticals. Pointing out about the different measures set by the developed countries that will hit the exports from developing the article suggests that Indian manufacturing process should ensure that the resultant products do not harm to human or plant life or health. It also suggests the countries like India for careful examination of laws, regulations of the importing nations, adoption of multilateral trade negotiation and bilateral trade talks in order to sustain in the atmosphere of new stringent measures.

(Contd. from p. 17)

Unfair Terms

It said PTAs between the developed and developing countries enshrine highly unequal and unfair arrangements for the latter, in exchange for limited and illusory gains in market access. This is illustrated in the case of agricultural market access.

A case study of South Asia shows that for products where its countries are dominant exporters, tariff liberalization is unlikely to translate into increased market access because for most of these products the tariff rates are already quite low in their major export markets. In several cases, barriers to market access stem not from high tariff rates but from numerous non-tariff measures (NTMs) such as food standards and quality requirements, which are costly to comply with and difficult to implement for lack of funds and capacities in these countries.

Even in the case of the impact of the tariff reduction formula of the WTO, simulations using the G-20 formula suggest that though the applied

rates would not be affected in most cases, the tariff overhang enjoyed by the South Asian countries would vanish, causing negative fallout for food and livelihood security in the region.

A sensible suggestion proposed in one of the papers in the Yearbook on the textiles and clothing (T&C) sector in South Asia on how to cope with post-quota challenges pertains to the fact that this market is rapidly morphing into a buyers' market due to the emergence of large-scale retailers which tend to centralize their sourcing strategy to cut costs and gain bargaining strength *vis-à-vis* their suppliers. Hence, countries of the South Asian Free Trade Area (SAFTA) should jointly promote market diversification, build competitiveness at the regional level, promote investment and facilitate technological upgradation. For this, removal of tariff barriers on the export of raw materials must be *sine qua non* and all countries in the region should exclude these products from their negative lists prepared under SAFTA.

(The Hindu Business Line, 19 December 2006)



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