

FOREWORD

The World Trade Report 2007 is the fifth in a series launched in 2002. This year's Report marks sixty years of multilateralism in trade through the GATT/WTO. On 1 January 1948 the GATT came into being with 23 signatories. Six decades on, at the beginning of next year, we celebrate a WTO with over 150 Members. This is an institution that has changed and grown in fascinating ways, striving to meet the challenges posed by increasingly complex trade relations in a globalizing world. The GATT/WTO has evolved from its comparatively modest focus in the early years on reducing and binding tariffs on manufactured goods to encompass a deeper and wider set of disciplines across a range of policy areas. At the same time, over sixty years the system has brought together a growing number of nations at different levels of development, with varied policy priorities, in a cooperative endeavour to forge an international trade policy regime that promises mutual gain.

When we take a long view, as this Report does, it is plain to see that thanks to the commitment and vision of successive governments and cohorts of negotiators, the GATT/WTO has been one of the most successful examples ever of sustained international economic cooperation. At times when progress is slow and agreement elusive, it is as well to remind ourselves of the success story that underpins our institution, and of the challenge of preserving that tradition of cooperation that has served the world so well.

Nobody claims that the record of the multilateral trading system is beyond reproach, that it has always struck the right balance or that it does not need to adapt to new circumstances. Much can be improved and much remains to be done. I do not believe this is a contentious statement. Indeed, how else would we explain repeated efforts to negotiate improved outcomes, or the willingness of governments to allow the dispute settlement arrangements to yield the kind of results we have witnessed over the years? These are clear indications of a commitment not just to the system, but also to improve the system. A desire to adapt and strengthen the system is a mainstream reaction of any responsible government, and many governments continue to work hard to shape new agreements and make existing ones work better, as they have done throughout the history of the GATT/WTO.

As in previous years, the Report begins with a brief account of recent trade developments, and this year also includes two short essays, one marking the tenth anniversary of the Information Technology Agreement and the other discussing the relationship between global current account imbalances and world trade. Turning to its core topic, the Report starts with a summary account of international trade cooperation before the Second World War. While the second half of the nineteenth century is looked upon as a time when international trade cooperation flourished, the first half of the twentieth century is drawn in much bleaker terms – when economies shrank, cooperative arrangements crumbled, trade policy was erratic and often protectionist, and countries eventually went to war. Lessons learned from that period bolstered the determination of post-war leaders to craft international cooperative arrangements in the economic sphere that would impart stability and predictability upon a foundation of pre-commitment to a set of policies. Implicit in this approach was a recognition that viable institutions are needed to sustain order and continuity.

The Report devotes some space to reviewing what theorists have to say about why governments are motivated to cooperate with one another through an institution like the WTO. The approach is multi-disciplinary and takes up arguments made by economists, political economists, international relations theorists and lawyers. The array of different and sometimes complementary explanations for cooperation is rich. Economists, for example, emphasize the additional economic gains that flow from reciprocal trade liberalization. Political economists think about how electoral politics can help to shape decisions about cooperation and how international commitments can influence the relative strength of competing interests within the domestic economy. International relations theorists seek to explain cooperation in terms of managing power relationships, distributional conflict and shared ideas and beliefs. Legal theorists emphasize the role of “constitutions” such as international trade agreements in defending public interests and constraining government action.

Among the most important insights that a review of the theories of cooperation offers is that motivations for cooperating in the trade field vary enormously among the parties involved. This means that if cooperative efforts are to succeed and bargains are to endure, negotiating packages must contain enough for everyone. Failure of any party to appreciate this imperative will frustrate agreement. Moreover, even successful agreements can prove fragile, they may be incomplete in the sense that negotiating parties could not come to full closure on every detail, and they cannot necessarily foresee future developments that may modify interests among parties over time. For all these reasons, sustaining agreements is an endeavour in need of continuing attention – agreements will not simply take care of themselves.

Having considered why governments might be motivated to cooperate on trade, the Report goes on to discuss some design and content issues involved in building an institution to support trade cooperation. The Report discusses non-discrimination and reciprocity as core features of the GATT/WTO, and notes the two major exemptions from non-discrimination contemplated in the Agreements – regional trade agreements and special and differential treatment. It also considers the negotiating and dispute settlement functions, contingency protection provisions, decision-making, and transparency and surveillance. This discussion is a precursor to the historical analysis of the evolution of the multilateral trading system in policy as opposed to architectural terms.

The longest section of the Report is an exploration of the history of the multilateral trading system, with particular emphasis on a range of policy issues and challenges that have arisen over the years, and many of which are still with us today. Perhaps the most significant achievement of the GATT/WTO has been its contribution to a continuing process of trade liberalization among developed countries in the sphere of manufactured goods. This has been achieved through successive rounds of negotiation, and the story is told in some detail in the Report. The GATT/WTO has been less successful when it comes to agriculture and trade in services, continuing efforts in these domains notwithstanding. Many developing countries have liberalized their trade significantly in recent years, but only a limited amount of this liberalization has been reflected in GATT/WTO commitments.

As far as the trade rules are concerned, the GATT/WTO has made a valuable contribution over the years to greater stability, certainty and fairness in trade. But the rules are not perfect and there is always room for improvement. This is one reason why governments continue to negotiate and to seek out further mutually advantageous accommodation. Like trade liberalization, crafting better rules remains a work in progress.

In recounting the history of sixty years of multilateralism, the Report has focused on a selection of issues that have arisen over the years and played a dominant role in the evolution of the system. These issues include dispute settlement, developing countries in the trading system, regionalism, decision-making, and the formation of the negotiating agenda. The GATT/WTO dispute settlement arrangements have been a very prominent part of the success story of the institution. The system has contributed significantly to the rule of law in trade matters, bringing greater certainty and predictability, and repeatedly demonstrating the commitment of Members to the WTO. The rules and procedures surrounding dispute settlement have been greatly strengthened and streamlined over the years, and Members are still working to improve them further.

A major challenge for the GATT/WTO has been how to incorporate developing countries into the trading system in ways that bring genuine benefits to these countries. The long-standing debate on special and differential treatment for developing countries has several facets, which together encapsulate the essence of what is at stake – the pace of liberalization in developing countries, non-reciprocal preferential access to other markets, and development-friendly trading rules. The question is how to strike an equitable balance between rights and obligations so as to ensure that the trading system contributes to development and growth. The issues have not proven easy. Much work remains to be done here, by all parties. We need deeper and more focused engagement if we are to make the trading system responsive to the aspirations of all its Members.

Regionalism and its relationship to multilateralism has been widely written about and discussed. The Report has carefully reviewed the issues. Many reasons have been put forward to explain the veritable explosion of regional and especially bilateral agreements recently. The complicated reality about regional agreements is that they are neither all good nor all bad. They can be constructive contributions to greater economic opportunity, or they can be characterized by exclusivity, discrimination and distortion. Design and intent are of the essence here. Most policymakers and commentators are inclined to the view that the less discrimination there is in the trading system, the better the prospects for shared gains and stable trade relations. Multilateral approaches to trade are preferable and the real challenge for governments is to reap whatever gains are for the taking in the regional context without undermining the pursuit of multilateral solutions, even though these can be harder to attain. Governments have just taken an important step in the direction of promoting coherence by accepting the new transparency exercise in the WTO that will allow us to understand better what is actually going on in trade policy at the regional and bilateral level. Despite the voluminous literature on regional trading arrangements, a lot of generally available information is still lacking on the policy content of these arrangements

A more process-related challenge that the GATT/WTO has struggled with over the years is decision-making. Consensus has been at the core of decision-making since the beginning, and suggestions that we should move away from this and rely on the voting procedures provided for in the WTO Agreement have never enjoyed significant support among Members. At the same time, consensus does not guarantee meaningful participation by all parties in decision-making. Progress has certainly been made in tackling this question since the establishment of the WTO, but we still need to work on it, including in relation to the way negotiations are structured. Several issues are important here, not least the bottom-up as opposed to the top-down approach to negotiations and the concept of the single undertaking. At the end of the day, what we need is the right balance between negotiating efficiency and inclusiveness. Also relevant to the decision-making process is the question of the contribution and role of non-state actors. The relationship with NGOs has certainly improved from where it was, for example, at the Seattle Ministerial Meeting. Our challenge is to ensure that this relationship continues to evolve in a positive direction.

The Report briefly takes up a thorny issue to which no easy answer exists – that of how the content of the negotiating agenda of the WTO should be established. Many of the sharpest divisions among the GATT/WTO membership over the years have turned on this question. What should be in and what should be out? Additionally, if something is in, there are many more or less far-reaching ways in which the issue in question might be covered by WTO rules. The Report concludes that no satisfactory theory or conceptual framework exists to allow us to make clear determinations on this question. Motivations vary as to why some governments want to include certain negotiating issues and others do not. One factor that should explicitly be taken into account – perhaps more explicitly than in the past – is that there may be distributional consequences among the parties to a negotiation, especially where internal measures involving policy harmonization are concerned. This is not an argument against including an issue, rather it is a recipe for facilitating progress towards deals that are perceived to be in the common interest of the membership. At the end of the day, the decision whether to include an issue will be political in nature, but it would be desirable for political decisions to be taken on the basis of well-founded evidence on the advantages of international cooperation on the issue concerned. The multilateral trading system does not stand alone and cannot be seen apart from other policy areas and international institutions. This reality means that an additional challenge is to ensure coherence among policies and institutions – a lack of such coherence can be costly in inefficiency terms.

The story of sixty years of multilateralism in trade relations under the GATT/WTO has been told in largely historical terms, and even then, it has not been possible to cover all aspects of this history in a Report of this length. But more importantly, it is obvious that we are dealing with living history. The topics that have been subject to the closest focus here in terms of the policy challenges they pose are still with us. Moreover, it is not difficult to think of other issues that we need to take on or focus upon more closely as we go forward. There are many such issues, and at the risk of sounding a little arbitrary in my selection, I will mention just a few. The relationship between environmental challenges such as global warming and trade is one candidate. Trade and energy is another. I believe a further important area where we are only scratching the surface is trade in services. There is a growing realization of the fundamental importance of service industries in almost

all activity in modern economies, yet we remain far behind in our ability to solidify international cooperation in this field. As with services, we have worked a good deal in the field of standards and have well developed agreements on standards. But as globalization proceeds, and as traditional trade barriers continue to tumble, standards and regulation assume greater importance in determining the conditions of competition and marking the interface between public policy and market access. I believe this is an area where more focus will be called for, especially in relation to the thorny issue of regulation and discrimination.

Another issue is closer to home, involving how we do business within the WTO. We need to think more about the monitoring and surveillance functions of the institution – a good part of this task would be aimed at encouraging constructive discussion and engagement on common interests. At present, we lack much information, both policy-related and statistical, in part because governments have not been as diligent as they might in meeting their notification obligations. As an institution we legislate and litigate, and I believe we do this reasonably well. But is there something of a “missing middle” where we should be engaged more in fostering dialogue that can bolster cooperation?

In sum, I hope that this Report will help in reminding us of the rich history and achievements of the GATT/WTO, and that we are further motivated to ensure we do the necessary to preserve and strengthen this institution and ensure its continuing contribution in a changing and uncertain world.



Pascal Lamy

Director-General