



FOREWORD BY THE DIRECTOR-GENERAL

This year's *World Trade Report* explores the role of trade in a world characterized over the last several decades by increasing dependence among nations. This inter-dependency – what we all call globalization today – is a multi-layered and complex phenomenon involving intensive political, social and economic interaction nationally and internationally. Few would contest the benefits that globalization has brought in terms of greater prosperity for hundreds of millions, as well as greater stability among nations. But many individuals in different societies across the world have shared little or not at all in the benefits of globalization. The challenges facing national governments in managing globalization are formidable, and success in spreading prosperity more widely requires a strong common purpose.

Misgivings about the consequences of globalization have grown over the years. Increased anxiety about disruption, displacement and exclusion has become more apparent, not least from public opinion surveys. These misgivings have dominated political debate, especially when elections are imminent. Wherever such concerns are encountered, it is obvious that a failure to address them in a constructive manner will reduce the opportunities for governments to pursue policies that permit societies to benefit from globalization. Such neglect will also provoke intensified claims of injustice and unfairness that challenge the fundamental legitimacy of openness in international economic policy. We must ask ourselves what may be done in the framework of international cooperation, including through the WTO, to mitigate the negative side-effects from positive change, and to what extent governments have a responsibility to manage change domestically.

This Report examines how trade fits into today's panorama of globalization. It revisits long-standing theories about the sources of gains from trade and examines new insights, but also highlights what we do not know enough about. It considers evidence of the gains that have been realized and by whom. We have known since the days of Ricardo that the gains from trade are not evenly distributed – some win and others lose. Interpreting and explaining sometimes complex and dense theories is not always easy. But I believe the effort is worthwhile, allowing analysis and evidence to take the upper hand over prejudice and populist opportunism. And this

applies to all sides of the debate on trade and its place in an increasingly globalized world.

A thorough review of the evidence could not be more timely. Some of the most renowned economists have recently engaged in a vigorous debate on whether off-shoring to developing countries diminishes the gains from trade in the industrialized world. Perhaps one of the factors that has increased reservations about the attractions of globalization is precisely that it increases uncertainty in the job market. Off-shoring will often occur with little warning in any sector and may affect professional groups that had previously believed their jobs were safe. The fragmentation of production processes implied by off-shoring offers opportunities for industrial development and diversification. At the same time, governments have a range of measures at their disposal to reduce the negative effects on disadvantaged groups and some are more adept at using them than others. More work is needed here. Countries missing out on international production opportunities risk being marginalized from globalization – indeed, this is a vivid example of how globalization can leave countries and societies behind. But the good news is that much of what can be done to avoid this outcome is in the hands of responsible government.

In terms of sharing the benefits of trade and globalization, the Report reviews what we know about how trade may have an impact on inequality and poverty. Trade can affect income distribution in a variety of ways. Much evidence suggests that technological change rather than trade is the main cause of any negative impact on the distribution of income. But this conclusion has been questioned on the grounds that trade and technology flows cannot easily be separated.

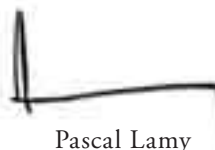
Trade affects the poor in different ways. It is extremely difficult to determine precisely how changes in trade policy have an effect on poverty, but the overall view is that opening to trade has a positive effect, even though some households are likely to be negatively affected. In the context of relatively open trade policies, the massive global challenge of pulling people out of poverty raises issues that go far beyond a country's trade regime. Mounting evidence suggests that factors such as the quality of infrastructure, education, the

effectiveness of technological development, the ability of domestic markets to function properly and the quality of the institutional framework are crucial for successful growth and development. These relationships were examined in detail in the *World Trade Report 2004*.

As noted above, we need to ask what scope exists in the WTO for addressing the policy implications of global economic integration. Clearly international initiatives play a role, but these are no substitute for action taken by individual governments. In many instances, domestic policies determine more than anything else a government's capacity to benefit from international cooperation. This does not suggest that we can be satisfied with current arrangements for international cooperation, and the Report highlights a few areas for possible improvement.

Much of what is immediately obvious in the WTO context concerns the on-going negotiations under the Doha Development Agenda. By bringing these negotiations to a close, we can contribute in several ways to lower trade costs and to improve the

rules governing multilateral trade, thus increasing opportunities to gain from global integration. The trade negotiations involving manufactured goods, agriculture and services could make a significant difference. The work on trade facilitation also has the potential to yield high returns. The Aid For Trade initiative offers an unprecedented opportunity for clarifying needs and coordinating action to ease trade-related supply constraints in developing countries. More generally, a balanced outcome and successful closure of the Doha Round will signal the commitment of governments to preserve harmonious trade relations and to strengthen the trading system for the benefit of a more certain trading environment and a healthier world economy.

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Pascal Lamy
Director-General