

FOREWORD BY THE DIRECTOR-GENERAL

In the last few months trade has contracted more than at any time since the 1930s, reflecting the dramatic global economic downturn provoked in the first instance by the collapse of major financial institutions. Trade growth will be strongly negative this year and we are unlikely to see sustained economic growth until 2010. This adversity is severely testing the policy ingenuity of governments across the globe, and in today's interdependent world, their willingness to make common cause in addressing shared challenges. Effective international cooperation and open markets are as vital today as they have ever been.

Experience tells us that while restrictive trade policies are not necessarily the root cause of episodes of economic downturn – they were not the trigger for the Great Depression – a protectionist response to the pain of contraction is a recipe for deepening and prolonging an economic crisis. A seemingly attractive short-term solution of keeping production and consumption at home soon becomes a millstone around a nation's neck, the more so when trading partners retaliate in kind. I believe this is better understood today than in the past, but it takes decisive and clear-thinking governments to hold the line under pressure. Many governments have affirmed their intention to keep markets open and the WTO's monitoring exercise suggests that by and large authorities are taking these declarations seriously. But significant risks remain, and call for vigilance.

The choice of topic for this year's *World Trade Report* is highly relevant to the challenge of ensuring that the channels of trade remain open in the face of economic adversity. Well-balanced contingency measures, designed primarily to deal with a variety of unanticipated market situations, are fundamental to the effectiveness and stability of trade agreements. The Report explores this proposition from a variety of angles. Through the prism of several policy options defined as "contingency" measures – safeguards, anti-dumping and countervailing measures, the re-negotiation of tariff commitments, the raising of tariffs up to their legal maximum levels (bindings), and the use of export taxes – the Report examines why countries resort to such measures, as well as the implications for the trading system in terms of how they are designed and deployed.

A variety of reasons explain the attractiveness of flexibilities that allow for the modification in one way or another of a pre-existing commitment. Contingency measures may be thought of as a safety valve mechanism, a form of insurance, or an instrument of economic adjustment. They may simply be there to strengthen the rule of law. They may entice governments to open their markets further than they would in the absence of these mechanisms, creating a greater quantum of openness than would otherwise be forthcoming. Or they may simply reflect the reality that we lack perfect foresight and therefore cannot write complete contracts for regulating future behaviour under any conceivable set of circumstances.

Sources of uncertainty about the future may be economic or non-economic in nature. In other words, economic conditions may simply shift in ways that provoke the use of contingency measures. Alternatively, some public policy concern may arise, such as a health or environmental emergency. Another possibility is that a trading partner undertakes a policy change that affects the conditions of competition and evokes a counter-action. Whatever the details of circumstance, it is plainly obvious that good agreements need to be responsive to change in ways that do not require continuing negotiation or automatically spark trade tensions.

The architectural challenge is to shape trade agreements that strike the right balance between flexibility and commitments. If contingency measures are too easy to use, the agreement will lack credibility. If they are too hard to use, the agreement may prove unstable as governments soften their resolve to abide by commitments. We have seen in the past how the GATT/WTO has striven to strike this balance. In the 1980s, for example, voluntary export restraints sprung up in many countries and sectors. These measures lacked legal cover and, in an effort to expunge them from the trade policy arsenal, safeguard provisions were redesigned in the Uruguay Round of negotiations. Similarly today, the delicate debate in the Doha Round of negotiations over the design of anti-dumping provisions or over the special safeguard measure on agriculture is an effort to align views on the question of balance.

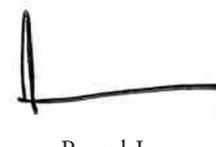
The WTO offers a menu of contingency measures. The Report identifies certain sectoral and national patterns in the use of these measures. More research

is required to understand these choices better and analyze adequately the implications for economies and for international cooperation of the choices made. We do know, however, that while the circumstances at hand sometimes dictate the choice, other considerations may also play a part. Some measures are easier to use than others. Some call for compensatory policy adjustments and others do not. Governments may also be influenced by political economy considerations. Anti-dumping and countervailing measures, for example, are triggered by the charge of unfair trade practices on the part of foreign actors. Safeguards carry no such implication. Similarly, an anti-dumping action targets a firm's behaviour, while countervailing duties respond to government subsidies.

An important point to bear in mind is that while we can comfortably argue that contingency measures and the flexibility they bring are good for sustaining effective agreements, these measures also carry costs that may reduce economic welfare. Flexibility is not costless when it is used, and exercising restraint is beneficial. We would like to think that the existence of contingency policy options deepens international commitment, although this is hard to establish empirically. We would also like to think that the

exercise of flexibility options does not become a habit that erodes the credibility of agreements over time, undermining their value as guarantors of a greater degree of policy certainty.

Finally, we know from experience that resorting to contingency protection is influenced by external circumstances and "atmospherics". In these challenging times, governments have agreed to exercise restraint. I am convinced that such undertakings will be easier to maintain and to sell to public opinion in an environment where governments have demonstrated their ability and willingness to make common cause in trade policy matters. This is yet another reason why I remain convinced of the need to take the necessary decisions to complete the Doha Round sooner rather than later.



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