

Chapter One

OVERVIEW

Introduction

The year 2002 has been a very active one for the World Trade Organization. Intensive and substantial negotiations under the Doha Development Agenda, launched in November 2001, began in earnest. The WTO Secretariat has been supporting these negotiations, alongside its regular work in undertaking trade policies reviews, dispute settlement activities, accessions, and outreach to parliamentarians and civil society. The Secretariat has taken on a much more central role in providing technical assistance and capacity-building activities to its Members and ensuring policy coherence with other international agencies. Preparations also got underway for the WTO's Fifth Ministerial Conference which will be held in Cancún, Mexico in September 2003.

On 1 September 2002, Dr. Supachai Panitchpakdi succeeded Mr. Mike Moore as Director-General of the WTO. Dr. Supachai emphasised both to Members and the Secretariat his commitment to reaching a successful conclusion to the Doha Development Agenda by the mandated deadline of 1 January 2005. He also outlined four pillars which would be core priorities during his tenure: further strengthening the WTO's legal framework; developing a long-term strategy for technical assistance and capacity building; promoting greater coherence in international economic policy-making between the WTO and other international agencies; and strengthening the WTO as an institution, and as a Secretariat.

Trade developments

The year 2002 saw a recovery in international merchandise trade which grew by 2.5% in volume terms, compared with the contraction of one per cent in 2001. The expansion extended to commercial services trade which grew by 5% in value terms. These marked a welcome departure from the deceleration of global output growth and the contraction of capital and trade flows in 2001.

The rebound in international trade occurred despite some difficult circumstances. Nascent global economic recovery was not sustained. It was weighed down in the middle of the year by the erosion of business confidence as a result of a wave of corporate and accounting scandals and by rising geopolitical tensions in the latter part of the year. Capital flows, and in particular foreign direct investments, which were such a vital part of the integration of markets in the last decade, continued to shrink dramatically. The US dollar weakened against other major currencies, and there was greater uncertainty in exchange rates, possibly increasing the costs of international transactions. The lingering fears of terrorism and higher fuel prices limited growth in international travel and transportation services. The aftermath of 11 September continued to reverberate with some countries taking added precautions on the movement of goods and persons across international borders. While such precaution is an understandable response to mitigate risks from terrorism, it can nevertheless exact a cost on trade because of the consequent delays in consignments.

The multilateral trading system provided a supporting environment to the global trade recovery. This was made possible by the adherence by Members to the rules-based system, commencement of WTO negotiations, the continuing accession of new Members, and the effective resolution of trade disputes. Despite the more difficult economic circumstances, there has been no pronounced move by countries to resort to protectionist measures. A major concern, however, is the continuing proliferation of regional trade arrangements.

Trade performance was uneven with significant differences across regions largely reflecting the pattern of economic growth. Trade expansion was strong in Asia buoyed by China's continuing strength. Trade grew in double digits in the transition economies, who continued to benefit from market reforms and continuing FDI inflows. North America's imports recovered in line with strong domestic demand although exports decreased in 2002. Trade remained subdued in the other major developed economies – Western Europe and Japan. Prices of crude oil, gold and agricultural commodities rose in 2002 providing an important lift to commodity exporting developing countries, including many in Africa. Trade growth in Africa was at about the same pace as the global average, which under current circumstances, was an important and welcome achievement. Economic and political turmoil in some of the big economies in Latin America contributed to a sharp contraction in trade and capital flows to the region.

The outlook for this year is for continuing challenges not only to the global economy but to many of the international institutions that underpin it. Chief among these are restoring stability, rebuilding business confidence, balancing the need to reduce the risks of terrorism with the objective of facilitating trade, making progress in international trade negotiations and managing the inevitable tensions in economic and trade relations among nations in an increasingly interdependent world.

The Doha Development Agenda

It is against this backdrop that Members embarked upon the first full year of negotiations under the Doha Development Agenda. The work programme, agreed by Ministers at Doha, is one of the most ambitious yet attempted.

The need to reach a balanced final agreement to the Doha Development Agenda has become vastly more urgent given the current atmosphere of political and economic uncertainty. Progress under the Doha Development Agenda will signal a global commitment to reinvigorate a slowing world economy, and, importantly, will underscore the primacy of international cooperation as the basis for finding solutions to the world's common concerns. Ambitious liberalization of tariffs and non-tariff barriers has the potential to underpin faster economic growth, which, in turn, could significantly increase the living standards of people around the world. Recent estimates by the IMF and World Bank, for example, indicate that the elimination of barriers to merchandise trade, alone, both in industrialized and developing countries could result in welfare gains ranging from US\$250 billion to US\$620 billion annually. It is widely recognized that trade is one of the surest ways in which to support developing country efforts to grow their way out of poverty. A stronger and more open multilateral trading system can make a broader contribution to international peace and stability through the forging of ever closer and mutually beneficial ties between nations, and cementing these ties through legally-binding commitments.

Procedural arrangements for the Doha Development Agenda negotiations were quickly established in early 2002. The Director-General, in *ex officio* capacity, was appointed Chairman of the Trade Negotiations Committee, and the eight bodies under the TNC with their respective Chairpersons were set up. Members were able to move swiftly into an intensive phase of substantial work in all areas of the Doha Work Programme.

A key focus of work in 2002 was on three areas of particular interest to many developing countries. These were issues where Ministers had set early target deadlines for agreement: First of all, to review, by July the special and differential treatment provisions with a view to making these more precise, effective and operational. Second, to find a solution, by the end of December, to the problems countries with little or no manufacturing capacity of essential medicines may face in making use of compulsory licensing under the TRIPS Agreement. Finally, to find a solution, again by the end of December, to specific concerns of developing countries in connection with the implementation of WTO Agreements. It was disappointing that Members were unable to reach full agreement in each of these three areas by the deadlines set. Members' efforts to forge consensus in these three areas have, however, generated a better understanding of the issues at stake, and succeeded in some cases in considerably narrowing the gaps between different national positions. Work continues in 2003.

The various market access negotiations – services, agriculture and manufactured goods – were also very active in 2002. Since the services negotiations began in January 2000, over 50 Members have submitted negotiating proposals, and there has been an unprecedented level of participation by developing countries. This is, perhaps, a reflection of the growing importance of services in domestic economies and globally. Services now account for over 60% of world GDP, and it is the fastest growing segment of world trade. In Doha, Ministers decided on the dates of 30 June 2002 and 31 March 2003, respectively, for the submission of requests and offers. The submission of requests has taken the negotiations to a different level of intensity and specificity, with Members discussing their issues of interest in specific sectors through bilateral consultations. It is expected that the submission of offers will carry the negotiations to an even more intensive phase.

In agriculture, Members have been working towards establishing modalities for specific commitments. In December 2002, the Chairman of the Committee on Agriculture, Special Session put forward an overview paper identifying the main proposals of Members and the issues that need to be resolved. The first draft of modalities was issued on 17 February 2003 and a revision of that draft on 18 March. Unfortunately, the deadline for establishing modalities was missed by end March. Although considerable progress has been made on a number of issues, in key areas the gaps in positions among Members could not yet be

bridged. There are those seeking ambitious reform in terms of better market access, substantial reductions in trade-distorting domestic supports and the rapid phasing out of all forms of export subsidies. Others stress that the balance between trade liberalization and non-trade concerns requires a gradual process of reform. Bringing these positions closer together is one of the most important and difficult challenges facing Members.

In non-agricultural goods, Members agreed to the target of end December 2002 for submission of proposals on modalities as well as a target date of 31 May 2003 for agreement on modalities both for tariffs and non-tariff measures. Over 30 proposals have been put on the table in these two areas. As part of this process over 20 Members notified, by the end of March 2003, the non-tariff barriers they face in other markets. While eight successive rounds of trade negotiations under the GATT, over the last half-century, have succeeded in significantly reducing tariffs there is still ample scope for further liberalization. Tariff peaks, high tariffs and tariff escalation still prevail in many markets. Some developed country markets, where the average tariff levels are very low, are characterized by tariff peaks and escalation in labour-intensive manufactures, such as fish and fish products, leather and leather products and textiles. In the textiles and clothing sector, market access will be significantly enhanced with the elimination of quantitative restrictions on 31 December 2004 in accordance with the Agreement on Textiles and Clothing (ATC). The negotiations also offer the opportunity for developing countries to reduce their relatively high tariffs and increase the scope of bindings – bringing greater predictability and transparency to their trading regimes. More than 35% of developing country exports of manufactured goods are destined for other developing country markets, yet most developing countries still maintain relatively high tariffs, so this round brings an opportunity to open up their markets to stimulate greater south-south trade.

The Rules negotiations have moved with satisfactory progress from a first meeting in March 2002, through four substantive meetings in 2002, and two up to March 2003. Particularly in the anti-dumping area, numerous issues have been identified for negotiation, ranging from discrete technical questions to broader questions including special and differential treatment for developing countries. In the areas of subsidies and countervailing measures, including fish subsidies, work in identifying issues has been less intense, and participants will have to make progress in this respect if these areas are not to lag behind anti-dumping, where recent submissions included more specific proposals. Overall, the group has made significant progress in identifying the range of issues to be discussed, and will soon be ready to shift from issue identification to a subsequent phase of the negotiations.

The group has made substantive progress in the area of regional trade agreements (RTAs). Earlier discussions on controversial issues in the Committee on Regional Trade Agreements (CRTA) facilitated the issue-identification phase of the negotiations, which is now virtually completed. Participants have distinguished, as a working hypothesis, those issues that were more "procedural" in nature from those that had a higher "systemic" or "legal" content. Procedural issues, and in particular transparency of RTAs, have been identified as priorities for the negotiations, and since October 2002, the group has addressed RTAs transparency in open-ended informal meetings.

In environment, while progress has been made on all aspects of the negotiating mandate, the main focus has been on the relationship between existing WTO rules and specific trade obligations set out in MEAs. During 2002, some key procedural issues were resolved, notably with regard to the organization of the work. Since then, the CTE Special Session has engaged in a more analytical phase of its work, based on the examination of specific trade obligations contained in relevant MEAs. This exercise is important in order to assess whether such obligations have in fact raised, or may raise, difficulties in terms of their compatibility with WTO rules. This exercise should also contribute to enhancing the mutual supportiveness between trade and environment. In this respect, it is worth noting that the CTE Special Session has agreed to invite, on an ad hoc basis, a number of MEAs and UNEP to take part in its work.

At Doha, Ministers mandated the Committee on Trade and Environment and the Committee on Trade and Development to monitor sustainable development in all on-going negotiations. To this end, the CTE has commenced a process which involves sector-by-sector Secretariat briefings on the environmental aspects of the negotiations.

A negotiation covering so many issues and involving so many Members will always be difficult, and it is to be expected that progress in the early stages will be slow, as Members define their interests and reach an understanding of the issues at stake and the positions of other Members. A concerted effort must now be made to identify positive linkages and trade-offs between and within sectors and move all areas of the negotiations forward together to reach a balanced overall outcome by 1 January 2005.

Preparations for the Fifth Ministerial Conference

The WTO's Fifth Ministerial Conference to be held in Cancún, Mexico from 10 to 14 September 2003 will be an important milestone in the DDA negotiating process. It will be an occasion for Ministers to take stock of progress in the negotiations, provide any necessary political guidance and take decisions as necessary. Ministers will need to consider the reports of working groups; take decisions, by explicit consensus, on modalities of negotiations on the Singapore issues; find a balance between the respective market access negotiations and also provide interpretative solutions on issues where necessary. Ministers will also need to set the roadmap to conclude the round within the remaining fifteen and a half months.

Given the demanding programme Ministers will be facing at Cancún, it is imperative that in preparing for the meeting, as much substantive progress is made before in Geneva as possible. The number and scope of subjects for Ministerial action must be manageable or there is a real risk of overload.

The logistics for the Conference are handled by a Secretariat Task Force which has been set up for this purpose. The Cancún Convention Centre will have all the facilities required to hold a Ministerial Conference. The WTO Secretariat and the Mexican Organising Committee are working in close contact in the run up to the Conference.

WTO regular activity

Dispute settlement

The important work of the WTO in settling trade disputes between Members continued during 2002. Between January 2002 and end March 2003 the DSB received 44 formal requests for consultations. It established panels to deal with 15 new cases, received Notices of Appeal in 8 cases, and adopted panel and/or Appellate Body reports in 13 cases. This brings the total number of complaints initiated under the DSU, since its inception in 1995, up to 286. This has led to the composition of panels in 85 cases. The Appellate Body has issued a total of 54 reports. One of the main successes in the operation of the WTO dispute settlement mechanism has been that in every single case where a panel or an Appellate Body recommendation has been adopted to date by the DSB, Members have either already complied with such recommendations or have expressed their intention to comply. At the same time, recent delays in compliance in some cases, due to the domestic constraints of some Members, bear watching.

As part of the Doha Work Programme, Members have also been undertaking a review of the Dispute Settlement Understanding – to be completed by May 2003. Generally, Members have expressed overall satisfaction with the structure and operation of the system, although many Members have identified specific areas in the system where they believe improvements could be possible. While several proposals to refine and fine-tune parts of the Dispute Settlement Understanding have been put on the table in the negotiations, the fundamental features of the system adopted under the Uruguay Round, such as the Appellate Body, the rule of negative consensus and recourse to arbitration in various phases of the process are not the subject of proposals for change.

Technical assistance and capacity building

In the context of the Doha Development Agenda, the WTO has taken on an unprecedented level of commitment in providing technical assistance and capacity building to developing countries. This is in recognition of the considerable expertise all countries need in order to exercise their WTO rights and obligations, to reap the benefits of membership in the multilateral trading system, and to fully participate in the negotiations – defining their interests and understanding the implications of proposals by other players.

In 2002, this commitment was swiftly followed-up by financial pledges by Members, far exceeding initial expectations, to a trust fund for technical assistance. This enabled the WTO to undertake 481 activities over the course of the year, the largest number of technical assistance activities yet, and to increase the number of regular three month Trade Policy Courses held in Geneva. A new initiative to replicate these highly successful courses regionally was also undertaken – in Kenya for English-speaking African countries and in Morocco for French-speaking African countries. The aim of these courses was not only to provide intensive training in all aspects of the WTO, but also to develop local capacity for

training and analysis by involving regional teachers and academics. It is intended to extend these courses to other regions in the future.

In the context of the Doha Development Agenda, regular technical assistance activities are also being undertaken jointly between the WTO and other agencies. Important progress in 2002 was also made on two key initiatives: the Integrated Framework for Least-Developed Countries (IF), and the Joint Integrated Technical Assistance Programme to Selected Least Developed and other African Countries (JITAP). The IF is a joint initiative between the IMF, ITC, UNCTAD, World Bank, UNDP and WTO focused since its restructuring in 2001 on mainstreaming trade policies into national development plans and assisting in the coordinated delivery of trade-related technical assistance. The JITAP is run by the WTO, UNCTAD and ITC. Inter-agency cooperation in technical assistance and capacity building must be continued and strengthened beyond the conclusion of the Doha Development Agenda. Assistance is needed to help developing countries implement the final agreement reached and address supply side constraints in developing countries so they are able to better benefit from market access achieved. This will involve action that goes beyond the mandate and competence of the WTO.

To help donors and participants have an overall picture of technical assistance activities being provided, the OECD and WTO Secretariats established in November 2002, a database which gives details of trade-related technical assistance and capacity-building activities of the various bilateral, regional and multilateral donors. This should help to increase coordination of activities and avoid costly overlap.

Coherence in international economic policy-making

The WTO's cooperation with the IMF and World Bank is based on the Marrakesh "Declaration on the Contribution of the WTO to Achieving Coherence in Global Economic Policy-Making" and on the WTO's formal cooperation agreements with the IMF and the World Bank. This framework provides an opportunity to leverage the collective resources of the three institutions in areas where their activities converge, in particular in assisting developing and least-developed countries to take greater advantage of their involvement in international trade and their participation in the multilateral trading system.

In late 2002, the Director-General met separately with the Managing Director of the IMF and the President of the World Bank. Discussions involved the support of the Bank and the Fund for the Working Group on Trade, Debt and Finance and intensified efforts with respect to trade-related capacity building.

Regular staff contacts aim to ensure the consistency of IMF policy advice with WTO rules and staff attend each other's meetings in an observer capacity. In the course of the year, WTO staff organized a number of Geneva-based seminars for WTO Members with participation by staff from both the Bank and the Fund. The IMF's Committee on liaison with the WTO met twice in 2002.

Cooperation at staff level extends to many areas of the WTO, including surveillance activities and especially technical assistance. The World Bank has set up a Trade Department to integrate trade-related research and operations in support on mainstreaming trade through the PRSPs and the Integrated Framework. The Bank contributed resources to the new WTO Regional Trade Policy Courses in Africa and provided initial financing for a new Standards and Trade Development Facility, aimed at SPS-related capacity building.

Strengthening the WTO as an institution

The WTO continues to become a more universal and visible organization. With the accessions of Chinese Taipei in 2002 and those of Armenia and the Former Yugoslav Republic of Macedonia in 2003, the total Membership of the WTO now stands at 145. A further 26 countries are negotiating accession, and a number of these are least-developed countries, whose accession to the WTO should be facilitated by guidelines agreed by Members, in December 2002. The acceleration and speedy conclusion, where possible, of the on-going LDC accessions is one of the main priorities for the WTO Secretariat's accession dossier.

With the Doha Development Agenda negotiations under way, the pressures on the system to function smoothly internally and to be more open and transparent to the outside world have grown considerably. Two decisions were taken by Members in December 2002, which should remove a source of contention between them. These were decisions on a more predictable and transparent process for the appointment of future Directors-General and the appointment of Chairpersons to WTO Councils and Committees. Members have also been discussing how the functioning of WTO processes might be improved, particularly the preparation and organization of Ministerial Conferences. With the start of negotiations, efforts have been made to avoid meetings being scheduled in parallel, to allow small

delegations to participate in all the discussions. Efforts have also continued to be made to help governments without a permanent representation in Geneva to follow the negotiations. The "Geneva Weeks" provide these countries with the possibility to come to the WTO for week-long intensive briefings and presentations, as well as the possibility to attend several WTO meetings. Two "Geneva Weeks" were organized in 2002.

The WTO continued to perform its surveillance of Members' trade policies and practices. Between January 2002 and end of March 2003, 18 Trade Policies Reviews were conducted. This exercise is highly appreciated and valued by Members as one of the main elements providing transparency to trade regimes and in bringing greater understanding of, and hence providing improved adherence to, the rules and principles that underpin the multilateral trading system. Increasingly, also, the exercise becomes an important element in technical cooperation and capacity building for developing countries.

The WTO continued in 2002 to improve outreach to stakeholders, parliamentarians, civil society, the private sector and the media. In April 2002, the WTO hosted a public symposium on the Doha Development Agenda, attended by over 800 people. Another public symposium is being planned for June 2003. In May 2002, Members took the decision to accelerate the derestriction of WTO documents. The time-period for derestriction has been reduced to an average of 6 to 12 weeks from the previous 8 to 9 months. The WTO has also been working closely with international and regional organizations to foster and enhance parliamentary understanding and involvement in the multilateral trading system. A range of activities are being planned in 2003 to support parliamentary engagement, including activities in the African, Asian and Latin American regions.

