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Macroeconomic policy questions: international trade and development

International trade and development

Report of the Secretary-General

Summary

The thirteenth session of the United Nations Conference on Trade and Development, held from 21 to 26 April 2012 in Doha, mobilized an international consensus around the imperative of making globalization development-centred for inclusive and sustainable development, and ensuring that an open, transparent, inclusive, non-discriminatory and rules-based multilateral trading system, along with regional integration and cooperation initiatives, provide an enabling environment towards that objective. The international trading system stands at a crossroads, and growth and trade are slowing down. While the multilateral trading system embodied in the World Trade Organization remains a central pillar of the international trading system, the impasse in the Doha Round of trade negotiations reflects wider tensions between globalization and national development interests, underlining the need to seek new ways to foster multilateral consensus. There is also a need to ascertain how best the multilateral trading system should address trade realities of the twenty-first century, while addressing persistent development challenges.

* A/67/150.

I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 66/185, in which the Secretary-General was requested to submit to the General Assembly at its sixty-seventh session, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), a report on developments in the multilateral trading system.

II. Trends in international trade and development

Economic trends

2. After a marked slowdown in 2011, global economic growth is expected to further decelerate in 2012. Relatively robust global growth rate of 4.1 per cent, registered in 2010, has been followed by tepid growth of 2.7 per cent, in 2011, and an estimated 2.5 per cent in 2012. Only in 2013 is growth forecasted to accelerate to 3.1 per cent.[1] The eurozone is expected to enter recession this year (-0.3 per cent). Economic activity in developing countries, still vibrant, started to decelerate to 5.9 per cent in 2011 and fell further to 5.3 per cent in 2012, as compared with 7.5 per cent in 2010. Notably, growth is forecasted to decelerate in China (from 9.2 per cent in 2011 to 8.3 per cent in 2012) and in India (from 7.1 per cent to 6.7 per cent). The slowdown in these economies has emerged as a new risk for the global economy.

3. The sovereign debt crisis in the eurozone is again threatening global financial stability. As Europe is among the major export destinations and the major sources of financial flows and tourism, including for China, the escalation of the crisis can have significant effects on many developing countries. If the euro breaks apart, gross domestic product (GDP) in Europe could decline by 8.5 per cent and in emerging markets by 4 per cent.[2] A further 4.5 million people may become unemployed in eurozone countries. In addition, continued deleveraging by banks, firms and households are discouraging credit, investment and consumption. It is feared that ongoing fiscal consolidation in developed countries may further deter growth and affect the provision of basic services, including education and health. Several countries are looking to new stimulus measures to boost growth, productivity and employment.

4. Persistent and high unemployment, averaging around 6 per cent globally but as high as 24.1 per cent in Spain and 21.7 per cent in Greece, is hampering demand growth. The youth are increasingly affected and workers are unemployed for prolonged periods of time, which depreciates human capital in the long run. The International Labour Organization (ILO) estimates that, worldwide, there are 75 million young men and women unemployed.[3] While job creation seems to be

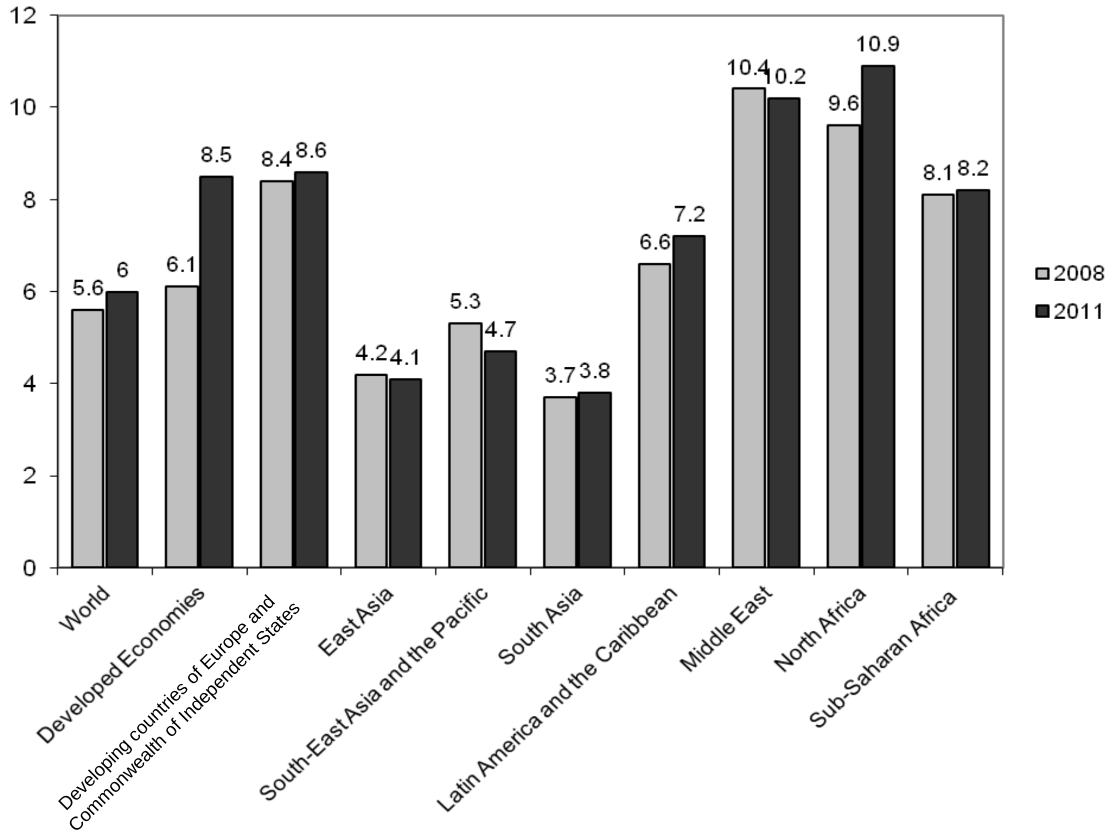
[1] Department of Economic and Social Affairs, "World economic situation and prospects 2012, updates as of mid-2012", available from www.un.org/en/development/desa/policy/wesp/wesp_archive/2012wespupdate.pdf.

[2] World Bank, *Global Economic Prospects 2012: Managing growth in a volatile world*, June 2012.

[3] International Labour Organization (ILO), *Global Employment Trends 2012: preventing a deeper jobs crisis* (Geneva, 2012).

accelerating in many regions, the Middle East and North and sub-Saharan Africa register high unemployment, as shown in figure 1, which has adverse effects for social cohesion. Within the economies of the Middle East and North and sub-Saharan Africa, inequality and polarization remain major challenges as the labour share of income continues to decline, along with high unemployment and a reduction of wages suppression for the middle class and the rise of the informal economy.

Figure 1
Unemployment rate by region, in 2008 and 2011
(Percentage)



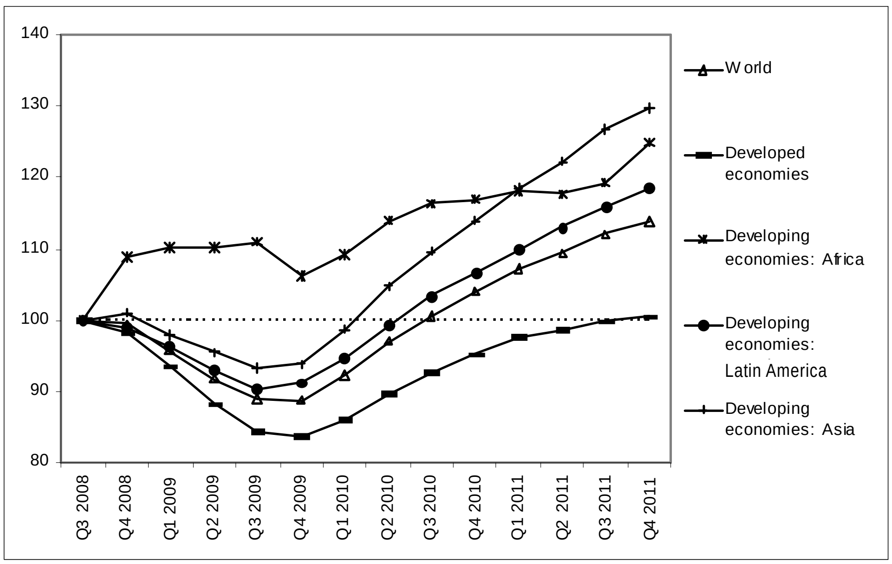
Source: ILO, *Global Employment Trends 2012*.

5. Over the past decade, trade grew consistently faster than GDP, resulting in an increased exports-to-GDP ratio. This reached a record high level of 32 per cent in 2008, globally, and 41 per cent for developing countries. Between 1990 and 2011, the share of developing countries in world merchandise exports increased from 24 per cent to 43 per cent and in world output, from 18 per cent to 34 per cent. Vibrant import demand from developing countries contributed nearly 50 per cent to world import growth over the past decade. South-South exports rebounded at a much faster pace in 2010 (30 per cent), now representing 55 per cent of developing countries' exports, or nearly a quarter of world exports, over 60 per cent of which comprise manufactured goods, mostly accounted for by Asia (90 per cent) and often

supported by foreign direct investment (FDI). The regionalization of trade is significant; intraregional trade in Asia, as a share of total trade, rose from 42 per cent in 1995 to 52 per cent in 2010.

6. The expansion of world trade continued into 2011 in terms of value, while in terms of volume, excluding price effects, deceleration became apparent. In value terms, world merchandise exports increased by 19.3 per cent in 2011 to $18.2 trillion, slightly slower than the rate of 21.8 per cent registered in 2010, which was the fastest annual export growth rate recorded in 30 years.[4] More details on merchandise exports are given in figure 2. The robust growth in Asia and continued high commodities prices more than offset the weaker performance of developed countries and temporary setbacks as a result of natural disasters (e.g., the earthquake and tsunami in Japan, the floods in Thailand) that disrupted global value chains and political instabilities that affected oil exports in Africa. In volume terms, however, the growth of world merchandise exports decelerated to 5.0 per cent in 2011, after a sharp rebound of 13.8 per cent in 2010. A further slowdown to 3.7 per cent is projected for 2012. This indicates that the increase in value of world exports was mostly attributable to high commodity prices.[5]

Figure 2
Quarterly merchandise exports by region (quarter 3 of 2008 = 100)

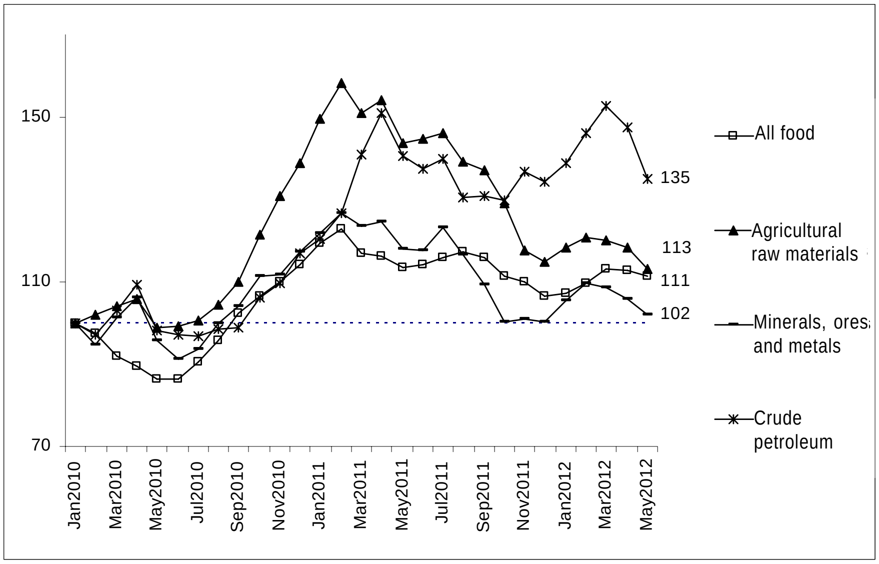


Source: UNCTADStat.

7. While commodity prices have subsided since mid-2011, oil prices remained at a relatively high level, mainly reflecting heightened geopolitical risks, as shown in figure 3. The falling prices for other commodities were attributable to economic slowdowns in major markets. Food prices, including the prices of wheat, maize and soybeans, experienced a lesser decline, owing to relatively tight supply conditions. Concern has recently emerged over possible price increases in wheat, owing to expected bad yields.

[4] UNCTADStat.
[5] World Trade Organization (WTO), press release, 10 May 2012, available from www.wto.org.

Figure 3
Selected commodity prices, January 2010-May 2012 (January 2010 = 100)

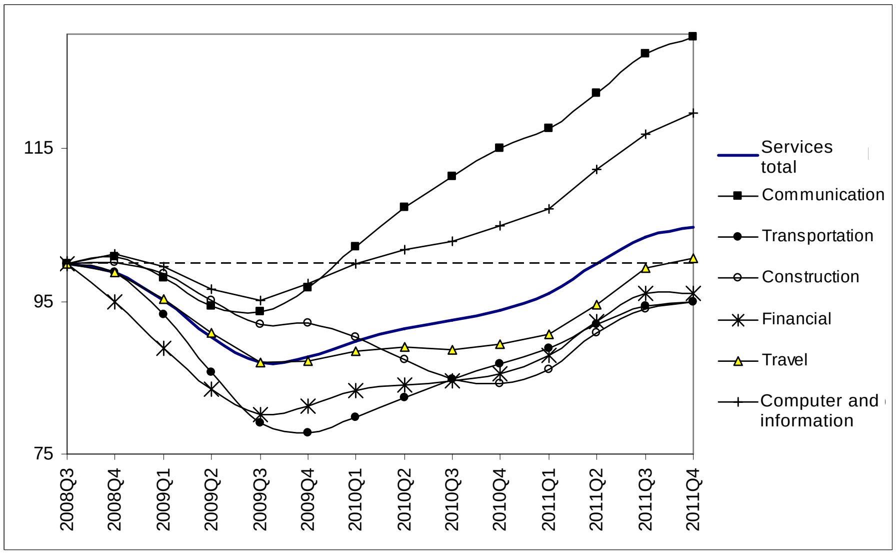


Source: UNCTADStat.

8. Between 1980 and 2010, exports of services outpaced exports of merchandise, and over that period, their share in total world exports of goods and services climbed from 3 per cent to 20 per cent. In 2011, world services exports grew by 10.6 per cent to $4.2 trillion, reaching a value 8 per cent above its pre-crisis peak. For the first time, the share of such exports from developing countries reached 30 per cent. The rapid expansion of high technology services, including communications and computer and information services, has driven a steady growth reflecting technological advances and fragmentation of production processes in global value chains, despite the weak recovery of financial, construction and transportation services, as illustrated in figure 4. International tourism receipts grew by 3.8 per cent to exceed $1 trillion in 2011 and the number of tourist arrivals rose by 4.6 per cent.[6]

[6] World Tourism Organization, *World Tourism Barometer*, vol. 10, May 2012.

Figure 4
Quarterly world exports of services by category (quarter 3 of 2008 = 100)



Source: UNCTAD calculations based on balance of payments statistics from the International Monetary Fund (IMF).

9. The size of services trade would be larger if the data on cross-border services transactions, foreign direct investment in services (which constitutes half of the world services trade) and the temporary movement of natural persons were improved and measured. For example, in 2007, firms in the United States of America sold $1.0 trillion in services to foreigners through their majority-owned foreign affiliates, compared to $478 billion in United States cross-border services exports.[7] Foreign direct investment is increasingly targeted at services that attracted 40 per cent of global FDI inflows in 2011.[8] Global remittances flows, which include transfers associated with the temporary movement of services providers, experienced a 7.7 per cent increase in 2011. Remittance receipts in the least developed countries were 16 per cent above their 2008 level.

10. Global imbalances seem to have stabilized at new lower levels, with aggregate imbalances decreasing from a high of 5.7 per cent to 4 per cent of global GDP in 2011. The current account deficit in the United States fell to $473 billion, or 3.1 per cent of its GDP, from 6.0 per cent in 2006, owing mainly to a fall in spending. China's surplus stood at $201 billion (or 2.8 per cent of its GDP) in 2011, a sharp drop from 10 per cent in 2007. This is attributable to, inter alia, its post-crisis growth strategy emphasizing domestic demand (for investment), weak external demand and the rising real effective exchange rate. A reduction in domestic consumption in deficit countries has not been offset by higher domestic demand growth in surplus countries.

[7] William H. Cooper, *Trade in services: The Doha Development Agenda negotiations and U.S. goals*, Washington, D.C., 2010.

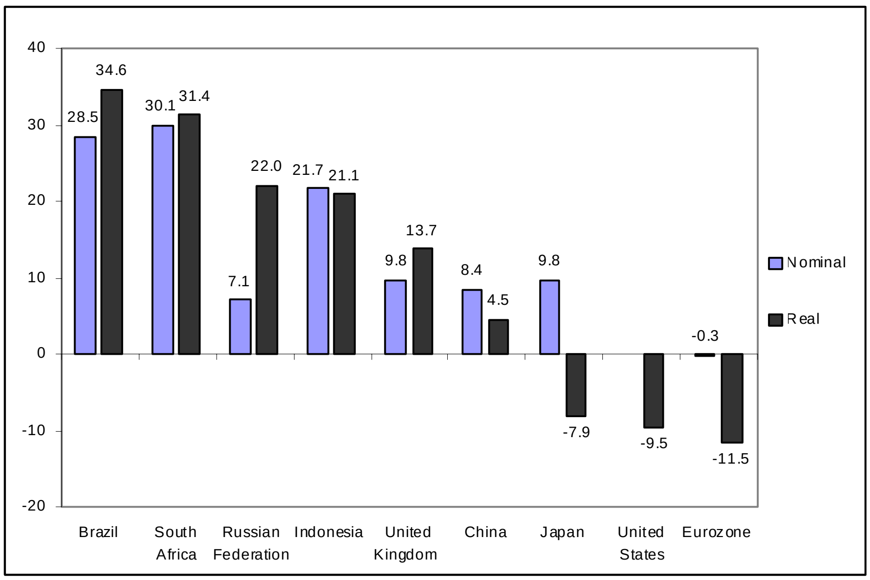
[8] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2012* (United Nations publication, Sales No. E.12.II.D.3).

11. High volatility in currency markets increasingly influences trade, and a perceived misalignment with economic fundamentals has become a source of contention as currency depreciation has an effect equivalent to across-the-board export subsidy and import tariffs, while the opposite is also true, in cases where currency appreciation has the effect of an across-the-board import subsidy and export tariffs. Recently, some currencies exhibited significant fluctuation, as a consequence of uncoordinated monetary policies affecting international capital flows, debt in the eurozone leading to the depreciation of the euro and a shift in some exchange rate regimes, as demonstrated in figure 5. In real terms, major emerging country currencies have seen substantial appreciation of up to 35 per cent since 2010, significantly eroding their export competitiveness and accentuating the risk of de-industrialization, a concern which led some countries, such as Brazil, to take capital control measures.

Figure 5

Change in real and nominal exchange rates (January 2010-March 2012)

(Percentage)



Source: Economist Intelligence Unit and international financial statistics databases of IMF.

12. The economic crisis has led to squeezes on trade finance (e.g., trade credit, insurance/guarantees), which facilitates between 80 and 90 per cent of world trade flows. Most of the transactions in trade finance are short-term, low risk and highly collateralized transactions.[9] The volumes of trade finance are growing slowly, consistent with the slowdown in the growth of world trade. While liquidity had returned to the main shipping routes of bilateral trade, the market remained characterized by a greater selectivity in risk-taking and flight to "quality" customers. Recent regulatory reform, including the measures developed by the Basel Committee on Banking Supervision for the Basel III framework, has accentuated such tendencies. The lower end of the market struggles to obtain affordable finance,

[9] WTO, Expert Group Meeting on Trade Finance, May 2012.

with smaller companies in the poorer countries most affected, including in the Middle East and Africa. Of the 60 poorest countries, two thirds did not benefit regularly from trade finance programme services.

New realities in international trade

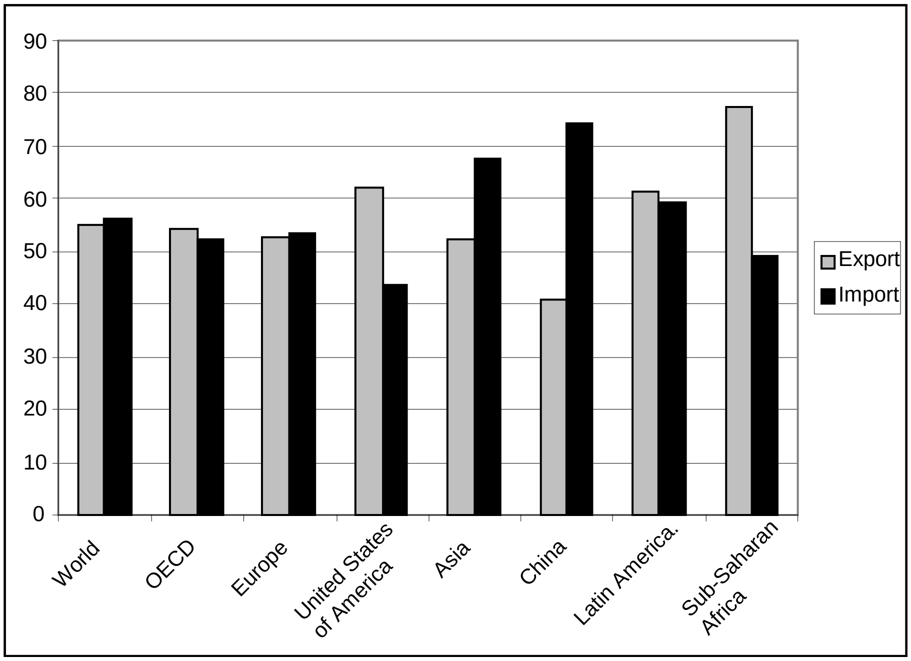
13. Trade remains an important instrument for growth and development. New realities are significantly altering the way trade is conducted and its composition, its impact on growth, jobs and development, and required policy responses. The mitigation of climate change and the transition to a green economy will require significant adjustment in production, trade and consumption, as reaffirmed at the United Nations Conference on Sustainable Development in June 2012. Expected long-term high food and energy prices, currency volatilities and high unemployment will place additional strains on supply capacity. Regulations, particularly for financial and infrastructure services, will be important to prevent market and regulatory failures, highlighting the continued role of States. Reconciling potential tensions between regulation and privatization/liberalization will become a key policy consideration. They require specific policy interventions that increasingly intersect with trade policy and liberalization.

14. The expansion of global value chains is among such realities, increasingly affecting countries' trade, production and employment patterns. The Group of Twenty (G20), at its summit held in June 2012, in Los Cabos, Mexico, recognized the role of global value chains in fostering economic growth, employment and development and emphasized the need to enhance the participation of developing countries. It encouraged WTO, UNCTAD and the Organization for Economic Cooperation and Development (OECD) to accelerate their work on analysing the functioning of global value chains and their relationship with trade and investment flows, development and jobs, as well as on how to measure trade flows, to better understand how it affects countries that are members of the Group of Twenty and those that are not.

15. The fragmentation of production within global value chains allows countries to specialize in trade in different tasks rather than products. Within global value chains, intermediate goods cross borders several times before being assembled to final products, unlike under traditional production models where most inputs are sourced domestically and only final products are exported for consumption abroad.[10] The trade in intermediate goods has grown rapidly to represent 55 per cent of world non-fuel merchandise trade in 2011, as compared to 21 per cent for consumption goods (figure 6). Asia, particularly China, imports more intermediate goods than it exports, and exports more consumption goods than it imports. Intermediate goods constitute 64 per cent of intraregional trade in Asia. This confirms an emerging trade pattern whereby Asia sources parts and components from regional and developed country suppliers, and exports consumption goods to developed countries ("factory Asia"). Global value chains are particularly sensitive to transaction costs and trade measures, as costs incurred at each production stage add up along the global value chains.

[10] Koen De Backer and Sébastien Miroudot, "Mapping global value chains", paper prepared for the Final World Input-Output Database Conference, held in the Netherlands, from 24 to 26 April 2012.

Figure 6
Share of intermediate goods in non-fuel merchandise trade (2011)
(Percentage)



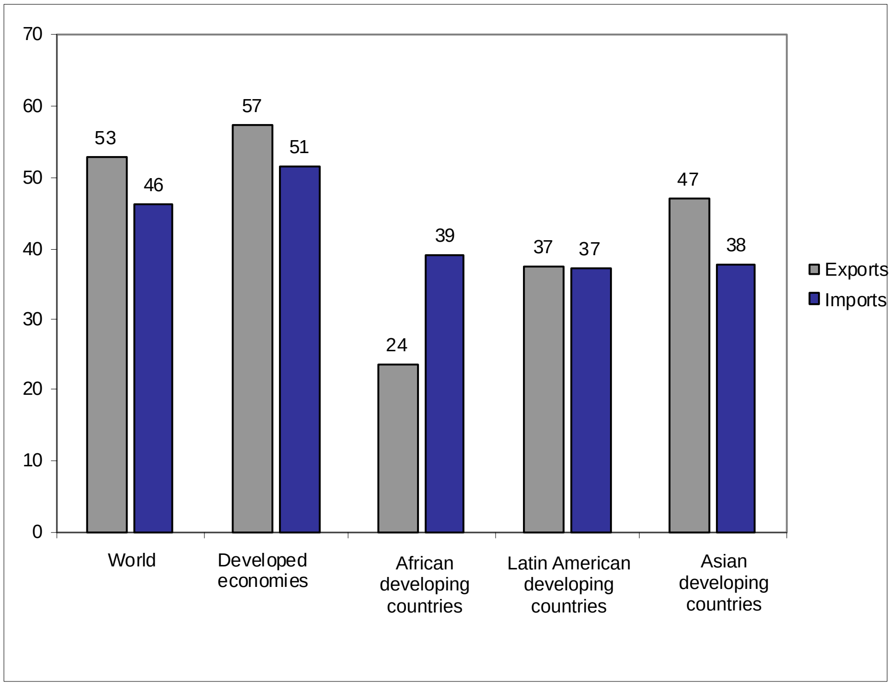
Source: UNCTAD calculation based on the United Nations Commodity Trade Statistics Database.

16. Services also constitute major tasks performed and exchanged in global value chains, as demarcation between manufacturing and services are increasingly blurred (servicification of manufacturing). Other commercial services (e.g., computer and information, financial and other business services) amenable to outsourcing represent 53 per cent of world services exports (figure 7). OECD estimates that intermediate inputs represent 73 per cent of global services trade.[11] This suggests that offshore outsourcing has increased in business and infrastructure services (e.g., computer, transport and communication). For instance, Asia's share in the world exports of computer and information services nearly doubled to 27 per cent between 2000 and 2009. India has become the world's largest exporter after the European Union, occupying over 50 per cent of the global offshore information technology business process outsourcing market.

17. Given the key role of services in trade and development, the private sector and public advocacy to mobilize policy attention to the services sector, including its role in global value chains, is important. The Global Services Forum launched at the thirteenth session of UNCTAD is aimed at deepening the understanding of the sector and enhancing networks, including among national and regional services coalitions and associations, to mobilize international cooperation and partnership, including public-private partnership.

[11] Organization for Economic Cooperation and Development (OECD), "Trade in intermediate goods and services", 2010.

Figure 7
Share of other commercial services in total services by region, 2011
(Percentage)



Source: UNCTADStat.

18. Where a country is placed in the global value chains matters as the amount of value added varies across production stages. In capital- and technology-intensive industry, the lead company generally retains control of research and development, product design and innovation, which generate larger margins, and sources strategic components from a few specialized suppliers. While Apple's iPod, for instance, is assembled in China and exported for $299, China's value addition is only worth $5.[12] Developing countries that specialize in labour intensive, low-skill activities may be locked in low value added activities, including assembly. For countries yet to be integrated into global value chains, an important question is whether they can establish competitive productive capacity and break into major regional value chains. The increased trade in intermediate goods has widened the gap between gross value and value added of products traded. Since traditional trade statistics capture a gross value, imported materials incorporated in the final product are counted several times, which inflates the value of trade. For instance, if measured in value added terms, the trade imbalance between China and the United States in 2004

[12] Jason Dedrick and others, "Who profits from innovation in global value chains? iPhones and windmills", presentation, available from www.usitc.gov.

was between 30 and 40 per cent smaller than if measured by gross value terms[13] and China's positive comparative advantage in machinery and equipment disappears.[14]

19. While recent trade discourse had emphasized a new paradigm focusing on global value chains, deliberations at the thirteenth session of UNCTAD suggested that global value chains are not a panacea, and that long-standing trade issues, including agricultural reform, trade in goods and related industrial policies, should not be forgotten in the pursuit of inclusive development. A major challenge is to formulate integrated national strategies and build industrial capacities to better integrate the economies of developing countries into high value-added and promising activities in global value chains. Services merit particular attention as they create higher value addition and employment. Reducing transaction costs is particularly important given the trade-intensive nature of global value chains, including focusing on non-tariff components of transaction costs.[15]

III. Developments in the multilateral trading system

The state of play

20. The international trading system stands at a crossroads. The decade-long Doha Round of trade negotiations are at a stalemate. Global gains from further liberalization of trade in goods under the Doha Round are estimated by UNCTAD to be $70 billion globally ($48 billion for developing countries). This could be considered as the opportunity cost of the non-conclusion of the Round (earlier studies found global welfare gains of up to $358 billion). Although the amount may appear modest, systemic costs of a failed round will be considerable. Predictability and stability of trade provided by a rules-based multilateral trading system remains a global public good and needs to be upheld. Prolonged negotiations have affected the credibility of the multilateral trading system. A failure to conclude the Doha Round could make any future multilateral negotiations in core areas in WTO difficult. There is concern that this could drive a move towards regional approaches, protectionism and trade disputes, damaging multilateralism.

21. The Doha Round of trade negotiations started in 2001 and was originally to be concluded by the end of 2004. The latest efforts to conclude the Round in 2011 failed, owing mainly to the continued disagreement over the participation of emerging economies in deeper sectoral liberalization in electronics, chemicals and industrial machinery. Many other issues were also outstanding, including special safeguard mechanisms in agriculture and services liberalization, particularly in the areas of interest to developing countries. Systemically, there was concern over a lack of leadership. Different perceptions of the appropriate level of contribution to be made by developed countries and emerging economies has caused major tension. With the growing uncertainties since the crisis, the impasse would also appear to be

[13] Robert C. Johnson and Guillermo Noguera, "Accounting for intermediates: production sharing and trade in value added", *Journal of International Economics*, 2012.

[14] Robert Koopmans and others, "The value-added structure of gross exports and global production network", presentation prepared for the Conference on Latin America and the Caribbean-Asia Economic Linkages, held in Washington, D.C., 31 January 2012.

[15] UNCTAD, "Reflections on the international trading system and inclusive development", special event held during the thirteenth session of the Conference, in Doha, on 24 April 2012 (TD/489).

a natural consequence as countries became more concerned with debt, unemployment and growth than trade liberalization. The level of divergence was such that the outcomes of the Eighth Ministerial Conference of the World Trade Organization, held in December 2011, recognized that it is unlikely that all elements of the Doha Round could be concluded simultaneously in the near future.

22. At the Eighth Ministerial Conference, States adopted a few decisions concerning the least developed countries, such as on accession to WTO and a waiver from WTO to allow non-least developed countries to provide preferential treatment to services and suppliers from the least developed countries. Prior to the Conference, the least developed countries had called for a specific package, including duty-free and quota-free market access and rules of origin, specific outcomes for trade-related aspects of cotton, a services waiver and accession for the least developed countries, which was expected to pave the way for a subsequent larger package. This did not materialize. This raises concern over the prospects for meeting the target of doubling the share of the least developed countries in global exports by 2020 as provided in the Istanbul Plan of Action for the least developed countries. A draft decision was formulated to further strengthen, streamline and operationalize the guidelines on the accession of the least developed countries, agreed in 2002, that set benchmarks for the level of commitments expected from the least developed countries. For instance, acceding least developed countries are now expected to bind all agricultural tariff lines at an average rate of 50 per cent, and 95 per cent of industrial tariff lines at an average rate of 35 per cent. Some consider these guidelines as relatively stringent. On services, they are not required to undertake commitments beyond those committed to by existing members of the least developed countries.

23. The Eighth Ministerial Conference also approved the accession of the Russian Federation, Samoa and Montenegro to WTO, and the conclusion of stand-alone negotiations on the revision of the plurilateral Agreement on Government Procurement of WTO.

Box 1

The Russian Federation's accession to the World Trade Organization

The accession commitments of the Russian Federation exemplify the extent of reform required by WTO accession. Through accession, Russia seeks to achieve a diversified economy, including in manufacturing and services. On average, tariffs would be bound at an average rate of 7.8 per cent, compared to a 2011 average applied tariff of 10 per cent. The concessions are most significant in information technology, civil aircraft, chemicals and capital goods. Russia has made specific commitments on 11 services sectors and on 116 subsectors. On telecommunications, the foreign equity limitation (49 per cent) would be eliminated four years after accession. Foreign insurance companies would be allowed to establish branches nine years after accession, while foreign banks would be allowed to establish subsidiaries. The overall foreign capital participation in the banking system would be limited to 50 per cent. Russia intends to participate in the Agreement on Government Procurement. Producers and distributors of natural gas would operate on the basis of normal commercial considerations, based on recovery of costs and profit. The difference between domestic and international prices of gas would be gradually reduced.

Source: WTO, Report of the Working Party on the Accession of the Russian Federation to WTO (WT/ACC/RUS/70).

24. The revision of the Agreement on Government Procurement agreed at the Eighth Ministerial Conference among the 15 parties to the Agreement updated the disciplines and extended the coverage of government entities whose procurement practices may be relevant to other parties to the Agreement. Government procurement is largely excluded from WTO disciplines as many countries use preferential procurement in favour of domestic industries, small and medium enterprises and societal groups as part of industrial and social policies, including through price preferences and "offsets" to domestic industries. Indeed, government procurement was a major instrument used by many countries during the crisis to support domestic industries. Some countries are concerned that the Agreement may affect value for money and entail onerous administrative processes. Together, the members of the Agreement have added at least 200 additional procuring entities to their schedules. New commitments are estimated to expand market access by between $80 and 100 billion annually. For instance, several parties have expanded coverage to thus far excluded central and provincial government entities, categories (public-private partnership and construction) or reduced some of their thresholds. Almost all parties have included additional services coverage.

25. With heightened economic uncertainties and high unemployment, there are continued signs of protectionist tendencies. At the G20 summit, held in June 2012, States renewed their existing commitment to standstill and rollback measures affecting trade and investment until 2014. WTO reports that the imposition of new trade restrictions in G20 economies continues to add to the stock of restrictions already in place, given that the removal of existing restrictions is slow, as shown in table 1. The trade coverage of the restrictive measures implemented since the beginning of the crisis is now estimated to cover 2.9 per cent of world merchandise trade (3.8 per cent of G20 trade).[16] The main measures are trade remedy actions, tariff increases, import licences and customs controls, affecting such sectors as iron and steel, electrical machinery and equipment, and vehicles. It is notable that the recent restrictive measures are aimed at stimulating growth, rather than addressing the immediate effects of the crisis, through national industrial planning, including through tax concessions, government subsidies, domestic preferences in government procurement and local content requirements to support domestic industry, particularly small and medium enterprises. Reciprocal treatment and "buy national" considerations have also been strengthened.

[16] WTO, "Report on G20 trade measures", May 2012.

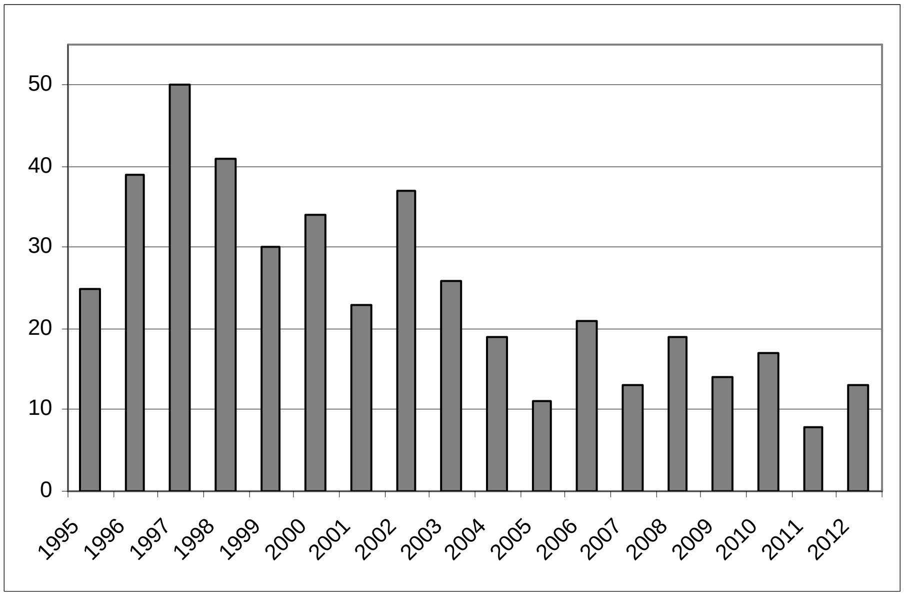
Table 1
Trade restrictive measures, April 2009 to mid-May 2012

Type of measure	*April-August 2009 (5 months)*	*September 2009-February 2010 (6 months)*	*March-mid-May 2010 (3 months)*	*Mid-May-mid-October 2010 (5 months)*	*Mid-October 2010-April 2011 (6 months)*	*May-mid-October 2011 (6 months)*	*Mid-October 2011-mid-May 2012 (7 months)*
Trade remedy	50	52	24	33	53	44	66
Border	21	29	22	14	52	36	39
Export	9	7	5	4	11	19	11
Other	0	7	5	3	6	9	8
Total	**80**	**95**	**56**	**54**	**122**	**108**	**124**
Average per month	16.0	15.8	18.7	10.8	20.3	18.0	17.7

Source: WTO, "Report on G20 trade measures", May 2012.

26. Keeping pace with heightened protectionist sentiments, trade disputes may increase. The dispute settlement mechanism of WTO is recognized among the most effective international adjudication systems, with automatic jurisdiction and strong enforcement. To date, 440 cases have been raised and some 98 WTO members participated. Since 1997, there is a marked downward trend in the number of new cases brought annually to WTO. The first seven months of 2012 have witnessed 13 such cases, already surpassing the number of cases in 2011 (figure 8). The trend does not appear to support the proposition that the stalemate in the Doha Round would trigger cycles of trade litigations and retaliations. It also suggests that post-crisis protectionist tendencies are not translated into formal disputes. WTO members continue to abide by WTO disciplines or at least avoid overt infringements (e.g., using gray-zone measures), which demonstrates the legitimacy and authority enjoyed by the legal system of WTO, while raising concerns over murky forms of protectionism such as technical regulations that inherently favour domestic producers. The continued recourse thereto points to the trust placed in the rule-based system.

Figure 8
Number of new dispute cases before the World Trade Organization, 1995-2012



Source: WTO.

27. Recent disputes follow well-observed patterns. Traditional trade remedies (anti-dumping, countervailing and safeguards) constitute the basis for the majority of cases. However, they increasingly address new frontiers or traditional areas where legal ambiguity remains, notably export restrictions but also climate change and approaches for a green economy, government procurement, services, technical barriers to trade and trade-related investment measures. While some rule-making negotiations have sought to codify existing jurisprudence (e.g., "zeroing" methodology for anti-dumping), there was also interaction between the legislative and judicial functions of WTO as some negotiating issues were also addressed in disputes (e.g., agricultural subsidies on sugar and cotton, and preferences on bananas). According to some observers, the rise in disputes on new issues highlights the need to bridge the increasing gap between old trade rules and new trade realities through rule-making exercises, rather than confrontational disputes and rule-making by panels ("judicial activism"). A soft approach to rule-making could be one of the keys to break the deadlocks. This has been the case with investment and competition policy, issues that were dropped from the multilateral trade negotiations and nevertheless made great advances in recent UNCTAD consensus-building processes.

The way forward

28. The Eighth Ministerial Conference has left uncertainty over the way forward in the Round. Efforts are being made to gradually advance in areas of the Round where progress can be made, while rethinking other areas where greater differences remain. Identifying pragmatic strategies for "grand bargains" remains a critical challenge. There is a view that some issues are more amenable to progress than

others, such as trade facilitation, a review of dispute settlement understanding, duty-free and quota-free market access for the least developed countries, the elimination of agricultural export subsidies or food export controls. For instance, trade facilitation was proposed for harvest as a "down-payment" as simplification, harmonization and cooperation on customs procedures would reduce transaction costs (e.g., a single window for customs). There remains a need to ensure effective and operational special and differential treatment and capacity-building support for developing countries so that the implementation of such an agreement on trade facilitation can be conditioned on the acquisition of capacities and adequate infrastructure.

29. Increased attention is given to plurilateral approaches. Plurilateral discussions have started on services outside WTO while proposals have emerged to expand the coverage and participation of existing plurilateral sectoral initiatives, including the Information Technology Agreement (ITA). The Anti-Counterfeiting Trade Agreement (ACTA) is another example, as described in box 2. Such interest partly stems from the recognition that the broad-based agenda under a single undertaking approach[17] was among key stumbling blocks, and that meaningful trade-offs needed to be struck among major players to avoid free riding. Yet, concern remains that such an approach would run counter to the existing negotiating modalities. Many developing countries continue to stress the primacy of the "most favoured nation" principle and the single undertaking. They are concerned that the areas proposed for plurilaterals are not the ones in which they have an interest, with agriculture being a notable example.

Box 2
The Anti-Counterfeiting Trade Agreement

The Anti-Counterfeiting Trade Agreement (ACTA) was negotiated outside WTO, regional trade agreements and the World Intellectual Property Organization (WIPO) as a way to strengthen rules on the enforcement of intellectual property rights to counter the proliferation of counterfeit and pirated goods, and the services that distribute them. Signatories include Australia, Canada, Japan, Morocco, New Zealand, Singapore, the Republic of Korea, the United States of America, Mexico and the European Union. Standards incorporated go beyond trade-related intellectual property rights (TRIPS) in nature, covering a wide range of subjects, including counterfeited goods, potentially generic medicines and online piracy. Some developing countries have expressed concern that the agreement will generate higher enforcement costs and impede legitimate competition while others are concerned about potential threats to a free and open Internet and civil liberties. There are growing uncertainties over prospects for widespread adoption with the recent rejection of the Agreement by the European Parliament.

Source: Anti-Counterfeiting Trade Agreement, accessible at www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf.

[17] Single undertaking refers to a negotiating modality whereby all negotiating issues are treated as a package.

30. Some 18 countries are engaged in discussions aimed at a plurilateral International Services Agreement. The possible agreement is expected to build upon the achievement of the General Agreement on Trade in Services and capture a substantial part of the liberalization achieved under regional trade agreements on services. The outcomes are expected to be brought into the multilateral system although how this may be done remains uncertain. The agreement is expected to be comprehensive in scope, including substantial sectoral coverage with no a priori exclusion of any sector or mode of supply, and to include market access commitments that correspond as closely as possible to applied levels of market access conditions. Existing analysis suggests an increase in bilateral exports among the participating countries of $78 billion.[18] Whether such gains materialize depends on real economic conditions and the extent to which liberalization goes beyond the status quo. Discussions have explored, inter alia, possible approaches to liberalization (whether to use the "positive list" approach used in the regional trade agreements within the European Union, wherein only sectors explicitly so listed will be subjected to liberalization, or a "negative list" approach used in the regional trade agreements within the United States, wherein all sectors are deemed liberalized unless reservation is explicitly listed) and the expected level of commitments (e.g., standstill, extending best commitments under existing regional trade agreements or further rollback of existing barriers).

31. The relationship between the international service agreement and the multilateral trading system appears to be a key question in terms of whether the results are extended to non-participating WTO members. Non-participating developing countries have questioned its systemic implications for single undertaking, including the link with agricultural and non-agricultural market access negotiations. The agreement may likely be covered as a regional trade agreement in the sense of article V of the General Agreement on Trade in Services, while other options are also possible, namely: a plurilateral agreement similar to the Information Technology Agreement, and a plurilateral agreement similar to the Agreement on Government Procurement. All are plurilateral, in that members are a subset of WTO members but differ in several respects. Under a plurilateral agreement similar to the Information Technology Agreement, market access concessions are negotiated among participating countries but results are extended to all countries according to the "most favoured nation" principle. This approach leads to the concern about free riders if major countries do not participate, thus participation covering a critical mass of trade is important. Commitments under a plurilateral agreement similar to the Agreement on Government Procurement will be limited to participating countries, as under a plurilateral approach such as those followed in regional trade agreements. An agreement similar to the Agreement on Government Procurement would be contained within WTO, while regional trade agreements would remain outside and would be subject to the conditions of article V of the General Agreement on Trade in Services, among which is "substantial sectoral coverage".

32. In the long run, the Doha Round impasse has revealed shortcomings in the negotiating function of the multilateral trading system, and the case for enhancing its relevance and effectiveness, as already recognized at the Seventh Ministerial Conference of the World Trade Organization, held in 2009. Frequently cited

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[18] Gary Clyde Hufbauer and others, *Framework for the international services agreement*, Peterson Institute for International Economics, 2012.

institutional bottlenecks are consensus-based decision-making, diverse membership, lack of leadership, the single undertaking approach, large negotiating agenda, and insufficient transparency and inclusiveness. Existing WTO institutional frameworks are built upon a subtle balance, and reforming one element may impair others. For instance, it is widely recognized that changing consensus may not work as it is an essential guarantee of the member-driven nature of the institution. Some negotiating procedures and modalities could be carefully reviewed for possible reform.

Twenty-first century trade issues

33. The discussion on the way forward and enhancing the relevance and effectiveness of WTO, is linked to the longer-term need to modernize the multilateral trading system to meet the economic realities and challenges of the twenty-first century. Views diverge on what should constitute such twenty-first-century issues, as the choice of subject and treatment thereof has implications for national trade interests, the architecture of WTO and global economic governance. Exploratory discussion has started with the appointment, in April 2012, of a high-level WTO panel on defining the future of trade. Deliberations at the thirteenth session of UNCTAD also contributed to elucidating some of those issues.[19]

Global value chains

34. The rise of global value chains has led to calls for a possible adaptation of trade rules to better address increased trade in parts and components, trade in infrastructure and other services and foreign direct investment. The growing phenomenon of global value chains makes the case for a holistic focus encompassing the trade-investment-services nexus to reduce tariff and non-tariff components of transaction costs throughout the value chain. According to some observers, apart from deep tariff reduction, the following would be required: investment liberalization and enhanced investor protection to promote long-term business relationships; protection of intellectual property rights to support the sharing of technology; freer movement of business-related persons and capital, including profit repatriation; stronger competition policies to deter uncompetitive practices; harmonization, recognition and equivalence in product standards to reduce regulatory divergence; improved customs procedures and trade facilitation to support time-sensitive shipping; and comprehensive services liberalization, particularly of infrastructure and logistics services. Indeed, much of the frustration felt by business communities with the Doha Round seems to stem from the perception that the manner in which these bottlenecks were addressed during the negotiations was too little, too late. The lack of business interest is seen to have led to a lack of strong impetus in the negotiations.

35. There continues to be a need for developing countries to build essential capacities through comprehensive strategies aimed at industrial and technological

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[19] See the following documents of the thirteenth session of UNCTAD: the note on the round table on strengthening cooperation and partnerships for trade and development (including North-South, South-South and triangular cooperation) (TD/453/Rev.1); Reflections on the international trading system and inclusive development (TD/489); and the Chair’s summary of a pre-Conference event on policy dialogue: redefining the role of the Government in tomorrow’s international trade (TD/461).

development and employment creation. Adequate policy and regulatory space needs to be embedded in the international trading system. The rise of global value chains does not diminish the importance of traditional market access to goods and agricultural trade reform.

Exchange rate

36. Interest has been expressed in addressing the perceived currency undervaluation as a trade issue in WTO, as it may nullify or impair existing market access commitments. Recently, the surge in capital inflows led to the appreciation of some currencies, often overriding tariffs applied on manufactured products, and to the deterioration of manufacturing trade balance in some countries (e.g., Brazil), as seen in table 2.

Table 2
Real effective exchange rate changes, effectively applied tariffs and manufacturing trade balance
(Percentage)

	Change in exchange rate (January 2009 versus March 2012)	*Effectively applied tariff*	*Change in manufacturing trade balance*[a] *(2008-2010)*
Brazil	34.6	9.8	-13.9
South Africa	31.4	5.7	-1.0
Russian Federation	22.0	3.9	-4.0
Indonesia	21.1	2.9	1.4
China	4.5	6.1	-4.4
Japan	-7.9	1.7	-1.7
United States of America	-9.5	2.0	-3.8
Eurozone	-11.5	2.4	-0.1

Source: International financial statistics of the International Monetary Fund, Economist Intelligence Unit databases and UNCTADStat.
[a] Change in balance as a share of exports and imports in manufactures.

37. While article XV, paragraph 4 of the General Agreement On Tariffs And Trade (GATT) provides that “contracting parties shall not, by exchange action, frustrate the intent of the provisions of this Agreement”, currency matters are deemed to be referred to the International Monetary Fund (IMF). While article IV, section 1, subparagraph (iii) of the Articles of Agreement of the International Monetary Fund provides that members must “avoid manipulating exchange rates or the international monetary system to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members”, it is generally considered that the provision lacks effective enforcement. Furthermore, current WTO jurisprudence does not seem to consider currency undervaluation as an export subsidy. Hence, the proposal has been to redress such legal mismatch and provide some remedies, such as allowing for the imposition of countervailing measures or enhancing coordination between WTO and IMF.

Climate change and transition to a green economy

38. Border tax adjustment and policies to promote transition to green economy have emerged as a new source of trade frictions. Despite the slow progress of the United Nations Framework Convention on Climate Change, various national and regional greenhouse gas control programmes have already been implemented, which often feature border tax adjustment. Under such schemes, local producers are subject to tighter environmental requirements, including an obligation to hold greenhouse gas emission permits. Applying the same schemes to imported products and services to offset competitive differentials has caused concern on the part of exporters, as explained in box 3. Other policies to promote green economy have also proved to be controversial. For instance, governments may seek to build local industrial capacities in strategic green energy such as renewable energy through subsidies, trade-related investment measures and government procurement. Market access negotiations on environmental goods and services under the Doha Round have encountered difficulty in identifying those goods and services that are “environmental”. Clarifying the interaction between trade and environmental policies, and ensuring coherence between multilateral trade and environmental disciplines, have been proposed as means to avoid trade disputes.

Box 3
Trade disputes arising from trade-environment nexus

The European Union Emissions Trading System, launched in 2005, is one of the European Union’s main policy instruments for reducing its greenhouse gas emissions. The European Union has decided that from January 2012 onward, emissions from aircraft flying to and from EU airports will be included in the scheme, despite the absence of agreement on a global measure to reduce aviation emissions. This unilateral decision by the European Union has proved to be controversial, with a group of airlines from the United States of America pursuing a case at the European Court of Justice. The United States and China have mutually challenged their respective renewable energy support policies. China challenges United States Government support for six renewable energy programmes relating to wind, solar and hydro-energy technology products as inconsistent with WTO subsidies rules. The United States has imposed 22 countervailing measures against Chinese imports, including on solar panels, on account of alleged unfair government support, against which China has launched a case before WTO.

Source: International Centre for Trade and Sustainable Development, *Bridges Weekly*, various issues.

Food security

39. Pressure on food supplies and prices is likely to remain in the long run as some of the underlining factors that triggered the 2007-2008 food crisis are structural in nature. In recognition of the fact, the Secretary-General launched a zero hunger challenge at the United Nations Conference on Sustainable Development. Trade is instrumental for enhancing food security by bridging the gap between food-

abundant and food-scarce regions. In many developing countries, past trade liberalization has sharpened specialization in cash crops and led to increased imports of subsidized agricultural products at the expense of local food production, so that many have turned into net food importers, particularly in Africa. Greater attention has thus been given to enhancing sustainable local food production, and food security has become a key policy issue to be addressed in designing the level and speed of trade liberalization. The case has been made that under certain conditions (e.g., when markets do not function properly due to physical barriers), promoting local production through policy interventions (e.g., subsidies for seeds and fertilizers, and agricultural-related supportive institutions) makes economic sense.

40. Some trade policy interventions during the food crisis have underscored the trade-food security nexus, especially export restrictions. As each country sought to preserve domestic supply by restricting exports, the cumulative effect of such policies was an increase in world prices. For instance, export restrictions were found to be responsible for 20 per cent of the increase in the price of rice in the 2008 crisis. Proponents for addressing food security stress that there are few disciplines under WTO rules on the use of export taxes and restrictions. Article XI of the General Agreement on Tariffs and Trade prohibits quantitative restrictions on exports, but its paragraph 2 (a) permits temporary restrictions to prevent critical shortages of food.

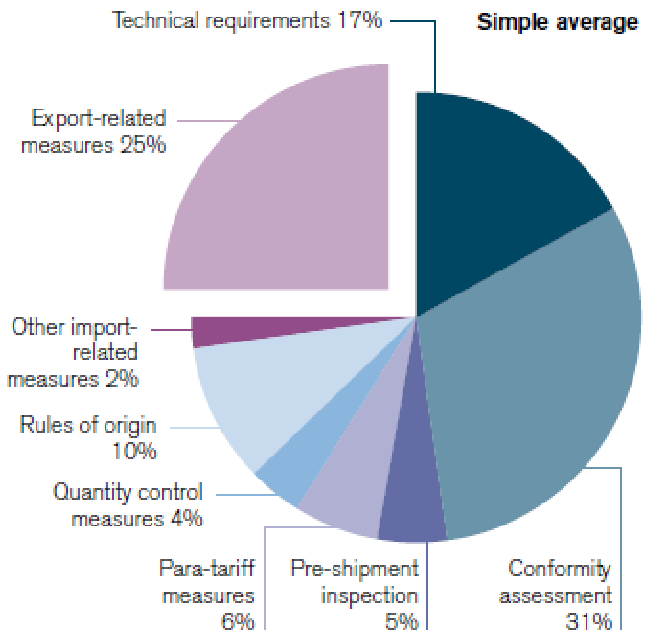
Energy security and access to raw materials

41. Expected high prices point to the continued relevance of energy security. During price hikes in 2008, oil and mineral importers attempted to mitigate the effect on consumers through subsidization while exporters applied some export restriction measures, which had the cumulative effect of placing further upward pressure on world prices. Export restrictions and taxes on energy and raw materials have long been used to promote diversification, value addition and downstream processing. Attention has increasingly been given to negative externalities. For raw materials used as industrial inputs, export restriction may be considered as subsidies to downstream industries, and some countries now allow for levying countervailing duties on such exports. WTO accession has extensively dealt with dual pricing in oil and gas-producing countries. Disputes arose concerning export taxes, quotas and procedures (e.g., licences and minimum fees) over rare earths. Access to raw materials has become an important trade policy objective, including under regional trade arrangements, for countries relying on imported raw materials.

Non-tariff measures

42. As tariffs have declined, the incidence of non-tariff measures has increased, which adversely affects the exports from developing countries' exports (e.g., sanitary and phytosanitary standards, technical barriers to trade, conformity assessment, certification, pre-shipment inspection and import licensing). On average, the impact of non-tariff measures to market access restrictiveness is twice as important as that of tariffs.

Figure 9
Burdensome non-tariff measures by type of measure, 2010



Source: WTO, *World Trade Report 2012*.

43. The total market access restrictiveness is significantly higher for some developing countries owing to the concentration of their exports, particularly low-income countries, on agricultural products which tend to attract more non-tariff measures. While harmonization, mutual recognition and equivalence of sanitary and phytosanitary standards and technical barriers to trade can facilitate trade, it represents a major challenge for developing countries. Many non-tariff measures are not protectionist in intent. Measures incorporating sanitary and phytosanitary standards and technical barriers to trade, in particular, are often motivated by other important policy objectives such as protecting human health, safety and the environment. Yet they may affect trading partners differently. Such measures cannot thus simply be reduced in the same manner as tariffs. Yet, they may implicitly favour domestic producers and production methods over foreign producers, as illustrated in box 4. Minimizing potential trade distortive effects requires the pursuit of regulatory harmonization and mutual recognition/equivalence coupled with capacity-building for low-income countries. Furthermore, the proliferation of private and voluntary standards, though in pursuit of legitimate objectives, increasingly strains the ability of developing countries to effectively enter the markets.

Box 4

Experience in regional harmonization of standards: case of organic agriculture

For 10 years, UNCTAD has joined forces with the Food and Agriculture Organization of the United Nations (FAO) and the International Federation of Organic Agriculture Movements to examine technical barriers to trade in the organic agriculture sector and supported the development of such regional standards, including the East African organic products standard, the Pacific organic standard and the Asia regional organic standard, and progress towards a harmonized regulation for Central America and the Dominican Republic. The lessons learned and tools developed could be useful in facilitating trade in many other sectors.

Source: UNCTAD.

IV. Developments in regional and preferential arrangements

44. The increased focus on plurilateral approaches and new trade issues has also been exemplified in the continued interest of countries in forming, expanding and deepening regional trade agreements, with 319 such agreements notified to WTO by January 2012, which are estimated to cover nominally over 50 per cent of world trade (or 17 per cent if only preferential duty-free trade is counted). Eighty per cent of services trade is estimated to take place among regional partners. The expansion of global trade has been accompanied by an increasing regional concentration. The high share of intraregional trade in North America (40 per cent), Europe (63 per cent) and Asia (52 per cent) is in contrast with relatively low proportions of intraregional trade in Africa and Latin America (12 per cent and 20 per cent, respectively).

45. Regional trade agreements of the twenty-first century increasingly differ from more traditional versions of such agreements that focused on preferential tariffs and "shallow" integration. Research finds that recent regional trade agreements are not as preferential as they might appear, as only 17 per cent of world trade is eligible for preferences while 25 per cent already apply the most favoured nation principle for duty-free, and less than 2 per cent are eligible for preferential margins greater than 10 per cent.[20] A global weighted average "most favoured nation" tariff of 3 per cent leaves little room for preferential treatment although for smaller countries, trade preferences can be significant. Whereas some believe that regional trade agreements lead to trade diversion, others find that many such agreements create trade, with limited trade diversion. This is because "deep integration" regulatory measures tend to apply to all countries, as discrimination is not possible, and relatively liberal rules of origin allow firms from third countries to benefit from services and investment liberalization. Deep integration under regional trade agreements that could lead to fragmented regulatory systems may be seen as a major challenge to the centrality of WTO.

[20] WTO, *World Trade Report 2011*.

46. Driven often by the desire to support a trading environment that is duty-free and free of non-tariff barriers to trade, to facilitate global value chains, recent regional trade agreements have become deeper and more comprehensive, going beyond WTO to cover behind-the-border regulatory measures, including investment, competition policy, capital movement, intellectual property rights and government procurement. Large-scale and high standard regional trade agreements are emerging, such as a trans-Pacific partnership agreement, which might turn into a Free Trade Area of Asia-Pacific across the members of the Asia-Pacific Economic Cooperation (APEC), a transatlantic agreement between the European Union and the United States proposed for 2014, and a tripartite free trade area among China, the Republic of Korea and Japan, as outlined in box 5. Such expansion of preferential trade networks among untraditional partners implies that major trading nations, the trade relations among which were governed by WTO disciplines based on the most favoured nation principle, are increasingly connected by preferential trade ties. This poses another challenge to the multilateral trading system.

Box 5

Trans-Pacific partnership agreement

A trans-Pacific partnership agreement is being negotiated among Brunei Darussalam, Chile, New Zealand, Singapore, Australia, Malaysia, Peru, the United States of America and Viet Nam, with the objective of completion by the end of 2012, and with the possible participation of Japan, Canada and Mexico. The agreement will create a regional market with a combined GDP of $27 trillion, and reduce the existing “spaghetti bowl” of some 47 pre-existing bilateral free trade areas. Comprehensive in scope, its expected 26 chapters would cover goods, services, investment, intellectual property rights, labour and environment, and achieve a higher level of regulatory harmonization, promoting small and medium enterprises, innovative products and services, including digital technologies, and disciplining State-owned enterprises so that they operate on the basis of commercial considerations, and are not favoured by regulations. The agreement would set cutting-edge disciplines, including building upon APEC principles, such as the one prohibiting local presence requirements for companies engaged in cross-border services trade. The agreement is aimed at strengthening (a) regulatory coherence to eliminate non-tariff barriers to trade and make regulatory systems more compatible and transparent; (b) competitiveness and connectivity, including through supply chain management, trade facilitation and border procedures; and (c) small and medium enterprises, given their importance for business and job creation. It is expected to set a new template for trade and investment cooperation. The agreement has the potential to catalyse the formation of a pan-Pacific free trade area of Asia-Pacific, supported also by ongoing integration processes surrounding the Association of Southeast Asian Nations plus China, Japan and the Republic of Korea (ASEAN+3) and ASEAN plus countries including also India, Australia and New Zealand (in ASEAN+6) frameworks. The agreement is projected to yield annual global income gains of $295 billion, and offers a pathway to a free trade area of Asia-Pacific with remarkable potential gains of $1.9 trillion.

Source: Peter A. Petri and Michael G. Plummer, *The trans-Pacific partnership and Asia-Pacific integration: policy implications*, Peterson Institute for International Economics, 2012.

47. Traditional trade and development challenges continue to confront the least developed countries and sub-Saharan African countries engaged in regional trade agreement negotiations. Negotiations between the African, Caribbean and Pacific Group of States and the European Union for comprehensive regional economic partnership agreements that started in 2002 continue for all regions within the African, Caribbean and Pacific Group of States, while the economic partnership agreement with 15 Caribbean countries is in the implementation stage. The European Union expects this process to be completed by 2014. The prolonged negotiations seem to point to the need for a careful rethink of approaches required to realize an economic partnership agreement that is supportive of sustainable development and regional integration. The least developed countries and sub-Saharan Africa, which tend to have insufficient productive capacities and lack good connections with major production clusters, are likely to face a greater risk of being excluded in the wave of new regional trade agreements motivated by achieving competitiveness through global value chains, and therefore risk being unable to benefit from increased regional trade.

48. Developing countries are increasingly exploring South-South regional integration to promote economies of scale, diversification and resilience. To overcome fragmentation of markets, the Heads of State gathered at the meeting of the African Union decided, in February 2012, to boost intra-African trade by fast-tracking the establishment of a pan-African continental free trade area by 2023. The tripartite initiative among the Southern African Development Community, the Common Market for Eastern and Southern Africa and the East African Community demonstrates commitment to bringing coherence to overlapping African regional trade arrangements. Thus far, the integration process has focused mainly on tariffs, but developmental integration, combining trade liberalization with regulatory and development cooperation, could bring substantial gains. UNCTAD supports the implementation of the action plan for boosting intra-African trade approved at the meeting of the African Union and will work to enhance coordination of a United Nations inter-agency cluster on trade and productive capacity in support of the plan.

49. The successful conclusion of the São Paulo Round of negotiations under the Global System of Trade Preferences among Developing Countries, in 2010, provided a historic opportunity for expansion of South-South trade. At the thirteenth session of UNCTAD, participants in the Global System reaffirmed the importance of the System as a viable South-South platform and the need to ensure an expeditious entering into force of the results of the São Paulo Round, to expand participation to other countries, and to complete the mandated review of rules of origin.[21] Three

[21] Joint communiqué of the high-level meeting of the Global System of Trade Preferences among Developing Countries, held in Doha, on 23 April 2012 (GSTP/CP/SSQ/1).

countries (India, Malaysia and Cuba) have completed ratification and two (Morocco and Republic of Korea) are in the advanced stages of ratification. Four ratifications are required for the system to enter into force.

50. In the long run, the expansion, proliferation and deepening of regional trade agreements points to the need for ensuring coherence and organic linkages between multilateralism and regional processes to ensure an optimal mixture of both arrangements. There is a need for strong multilateral oversight and effective disciplines, including by setting minimum standards for deeper provisions in regional trade agreements. By inducing liberalization that covers a substantial share of world trade, large regional trade agreements could decrease incentives for multilateralism. Some argue that greater focus given to regulatory barriers under such agreements points to the case for multilateral harmonization of regionally fragmented regulatory regimes. From a development perspective, new-generation regional trade agreements increasingly define countries' ability to frame their integration in trade. It is important that they are allowed to design an adequate scope and speed of market opening under regional trade agreements with primacy to development objectives, and that multilateral rules requiring such agreements to liberalize substantially all the trade allow for such flexibilities. The deep commitments increasingly required under regional trade agreements and the growing sentiments towards protectionism, if not well managed, could lead to a waning interest in trade opening, even under such agreements.

Conclusion

51. Trade remains an engine of growth and development. The recent slowdown in major growth poles in the developing world, the eurozone crisis, persistent unemployment and rising inequality and polarization are clouding the short-term trade prospects. Longer-term challenges also arise as the realities of the twenty-first century are altering the way trade is conducted, and pressing global challenges and non-trade concerns require development-focused coherent and integrated responses, including trade policy. While global value chains offer opportunities, they are not a panacea, and long-standing trade issues should not be forgotten in the pursuit for inclusive development. An adaptation of the international trading system to changing realities is needed, at a time when the multilateral trading system faces an important challenge of identifying the way forward in the Doha Round of trade negotiations and enhancing its relevance and effectiveness. The trade and development implications of addressing twenty-first-century issues under the international trading system need careful assessment. Persistent development challenges point to the continued necessity of supporting developing countries' efforts to build productive capacities and employment. There is a need to ensure that regional approaches complement multilateralism and that together, they provide an enabling environment for inclusive and sustainable development.