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International trade and development

Report of the Secretary-General

Summary

A strong and sustained global recovery is indispensable for employment creation, poverty alleviation and sustainable development, which enhances the prospects for achieving the Millennium Development Goals. A resurgence in trade has contributed to the recovery. Emerging developing countries are driving the recovery, reflecting the multipolarity of the global economy and emerging economic powers. Increasingly, countries pursue integrated growth strategies, adapted to their specific needs, for structural transformation and building diversified productive capabilities. Post-crisis growth needs to strike a balance between external and domestic sources of growth and address climate change. The multilateral trading system is a global public good. It faces challenges of redressing asymmetries and imbalances affecting the developing countries. The interdependence of economies requires coherence in addressing the development dimension at all levels of global economic governance. The United Nations plays a critical role in that regard.

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I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 64/188, in which the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), was requested to submit to the General Assembly at its sixty-fifth session a report on developments in the multilateral trading system, including with regard to the implementation of the World Intellectual Property Organization (WIPO) Development Agenda.

II. Economic and trade trends

A. Fragile economic recovery

2. The global economy is recovering from the deep and widespread downturn. The pace of recovery is faster than expected globally, though uneven and fragile. After contracting by 1.9 per cent in 2009, world gross domestic product (GDP) is projected to increase by 3.7 per cent in 2010.[1] With a growth rate reaching 6.9 per cent in 2010, developing countries will largely outpace developed countries growing at 2.4 per cent. Europe, in particular the transition economies, and countries in Central Asia that are directly affected by the financial crisis, and commodity-dependent economies, face weaker growth. Developing countries in sub-Saharan Africa and Latin America and the Caribbean were also affected by reduced levels of trade, foreign direct investment, remittances and tourism.

3. Developing countries with strong domestic demand, particularly emerging economies in Asia, drive the return to growth. Demand growth is boosted by the upturn in inventory cycles. Fiscal stimulus, globally estimated at $2.6 trillion, was important in fostering recovery. At present an exit from expansionary counter-cyclical policies is under way, which means that the sustainability of recovery increasingly depends on private demand and structural factors. Unfortunately, high and persistent unemployment continues to hinder private demand growth. Moreover, the root causes of the crisis are yet to be effectively addressed, such as financial regulatory weaknesses, inequalities within and among countries, global imbalances and the incoherence of global governance.

4. A weak recovery will compromise efforts towards meeting the Millennium Development Goals. The combined effects of food, energy, financial and economic crises had severe social and economic impacts. It is estimated that 53 million more people will remain in extreme poverty by 2015 owing to the crisis.[2] Sub-Saharan Africa is unlikely to meet the Millennium Development Goal poverty target despite progress since 1990. The Millennium Development Goal target on hunger appears unlikely to be met with an estimated one billion hungry people worldwide. Addressing root causes, including by redirecting resources to agriculture investment, prioritizing food security in economic policymaking, and implementing the Group of Eight pledge of $20 billion for agricultural development is urgently needed. The Group of Twenty (G-20) Summit, to be held in Seoul in November 2010, will deliberate on a development agenda, including action plans with

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[1] UNCTAD, *Trade and Development Report 2010* (forthcoming).

[2] World Bank/IMF, *Global Monitoring Report 2010: The MDGs after the Crisis* (Washington, D.C., 2010).

measures to promote economic growth and resilience in developing countries, which would contribute to addressing issues of concern to developing countries.

5. After falling by an unprecedented 12.2 per cent in volume terms and 23 per cent in value terms in 2009 (reaching $12 trillion from $16 trillion), world trade volume is projected by the World Trade Organization (WTO) to expand by 9.5 per cent in 2010. While trade finance markets improved since 2009, accessing credit remains difficult for small countries, small banks and small and medium-sized enterprises, particularly in Africa and the least developed countries. Facilitating access to trade financing, including through South-South initiatives, is ongoing. Foreign direct investment inflows to developing countries and transition economies remain weak. Such inflows declined by 27 per cent to $478 billion in 2009.[3] Total net official development assistance (ODA) from members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) would reach $126 billion in 2010.[4] However, at 0.31 per cent of donors' combined gross national income, current ODA falls short of the Monterrey target of 0.7 per cent by 2015.

6. Exceptionally high levels of unemployment can undermine the recovery's sustainability, resulting in reduced household income and increased inequality. The global unemployment rate for 2009 climbed to 6.6 per cent, or 212 million,[5] with the largest jumps in developed countries where unemployment rate stands at 8.4 per cent especially in the United States of America (9.5 per cent) and the euro area (10 per cent), but also in some developing countries such as South Africa (25.2 per cent) and India (10 per cent). Owing to excess capacity, many firms will delay recruiting workers to improve productivity. Consequently, unemployment in 2010 is projected to decline marginally to 6.5 per cent with continued downward wage pressure. Policies addressing the trade-industrial-employment-development nexus became important.

7. Many countries face higher debt levels owing to, inter alia, cumulated fiscal deficits and counter-cyclical fiscal spending. In developed countries, average debt levels would reach 110 per cent of GDP by 2015,[6] affecting the timing of crisis-exit strategies. The recent euro zone debt crisis further accelerated the move by countries with high debt levels towards fiscal consolidation, which risks slowing down incipient growth and turning into double-dipped recession with deflation. In countries, recovering fast including Brazil, China and India, monetary tightening has been implemented owing to concerns over economic overheating. For most countries, the fragility of the recovery necessitates the continuation of expansionary strategies.

8. The sustainability of recovery also hinges on global rebalancing. As trade regains momentum, current account imbalances reduced in 2009 are growing again. Shifting from external to domestic demand is important for surplus countries. For deficit countries, increasing savings and reducing debt-sustained consumption is needed together with export expansion. The net effect of rebalancing could be deflationary, as the reduced United States private consumption, representing 16 per

[3] UNCTAD, *World Investment Report 2010: Investing in a low-carbon economy* (United Nations publication, Sales No. E.10.II.D.2).

[4] OECD, 14 April 2010.

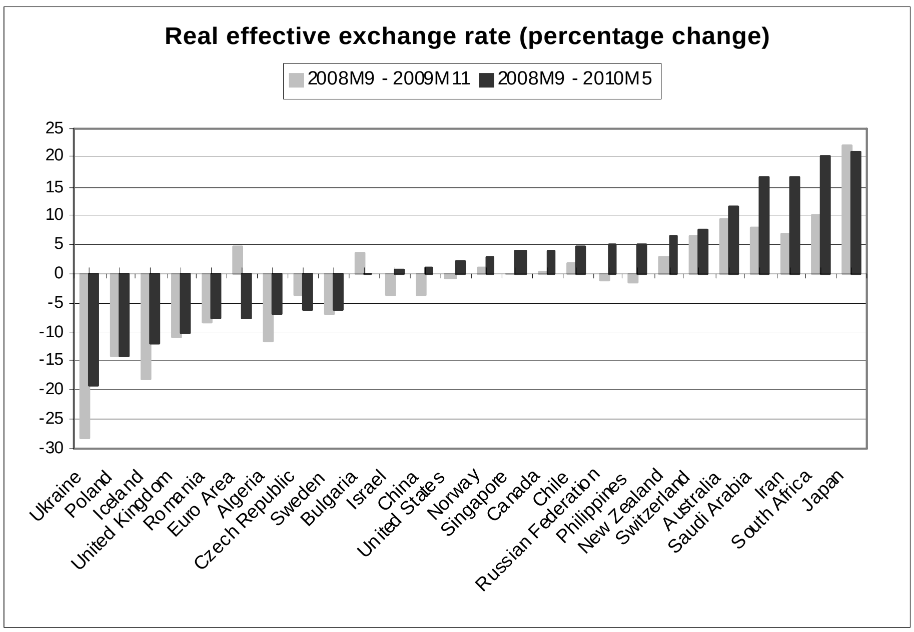
[5] International Labour Office, *Global Employment Trends: January 2010* (Geneva, ILO, 2010).

[6] IMF, *World Economic Outlook, April 2010: Rebalancing Growth* (Washington, D.C., 2010).

cent of world output, is unlikely to be fully offset by an increase in Chinese consumption. Global rebalancing necessitates contributions from other surplus countries (e.g., Germany, Japan) and those with increasing per capita income.

9. Exchange-rate adjustment plays a vital role in global rebalancing. Appreciation of currency in surplus countries will contribute to increasing imports by strengthening their purchasing power while depreciation of deficit countries' currency will enhance export competitiveness by reducing dollar-denominated value of export products. As the effects of currency depreciation are similar to that of an export subsidy or import tax, there were fears that some countries were softening the effect of the crisis by resorting to competitive devaluation. So far, the impact has been limited.

Box 1
Euro zone crisis and global rebalancing



Source: IMF International Financial Statistics.
Note: Consumer price index based real effective exchange rate index.

Real effective exchange rate movements of major currencies between September 2008 and April 2010 suggest that the euro zone debt crisis in November 2009 reversed the valuation of the euro towards depreciation against major currencies — roughly by 17.6 per cent vis-à-vis the United States dollar and 4.1 per cent in real terms. For others, exchange rates continued to move generally in expected directions, as deficit countries' currencies depreciated while those of surplus countries appreciated, granting export competitive advantages to the former. China and the United States, despite large external imbalances, saw almost no change in the real value of their currencies, having limited impact on global rebalancing.

10. Strengthened and coordinated financial regulations are important in addressing flaws in financial regulatory systems that contributed to the crisis. The G-20, at the Pittsburgh Summit in 2009 agreed to enhance macroprudential regulation and system-wide oversight. This involves higher and better quality capital and liquidity requirements, mitigating pro-cyclicality, and stronger requirements on systemically important institutions. The “Basel III” banking capital requirement, a major step in financial regulation and supervision reform, will be implemented by 2012. This could reduce growth potential in the short run. The World Bank estimates that tighter financial regulations and increased sovereign borrowing could reduce the growth rates of developing countries by between 0.2-0.7 per cent for a period of five to seven years. There could be a case for separate provisions of bank regulation, applicable to the needs of developing countries. The United States financial reform bill adopted in July 2010 addressing regulatory oversight, derivatives and troubled “too-big-to-fail” banks, could accelerate the move towards stronger regulations in financial centres and a robust international regulatory framework.

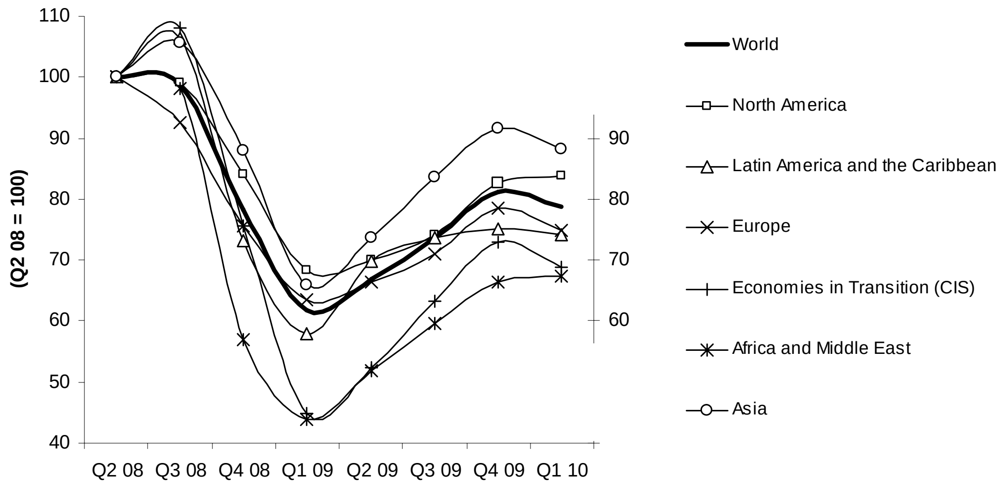
11. The economic crisis resulted in an increase in unemployment that also adversely affected migrant workers. The contribution of migration to development[7] is important to sending countries as it provides a channel for income flows associated with remittances, investment and technology transfer. It also benefits receiving countries by helping to fill labour shortages at all skill levels and thereby contributes to increased economic activity and tax revenue. Harnessing the development benefit of migration and minimizing its possible downsides (e.g., brain drain) should receive attention in the recovery.

B. Merchandise trade

12. The contraction of world merchandise trade between end 2008 and early 2009 was sudden, deep, generalized and synchronous across regions (figure I). The magnitude of the decline far exceeded that in output and was the largest in the post-war period. By the first quarter of 2010, world exports recovered to 81 per cent of their pre-crisis values. The recovery was most pronounced in Asia and North America. For Africa and the Middle East, transition economies and Latin America and the Caribbean, export contraction was more pronounced. For most regions, export levels fell during the first quarter of 2010.

[7] Note by the UNCTAD secretariat on the contribution of migrants to development: trade, investment and development linkages (UNCTAD/DITC/TNCD/2009/2).

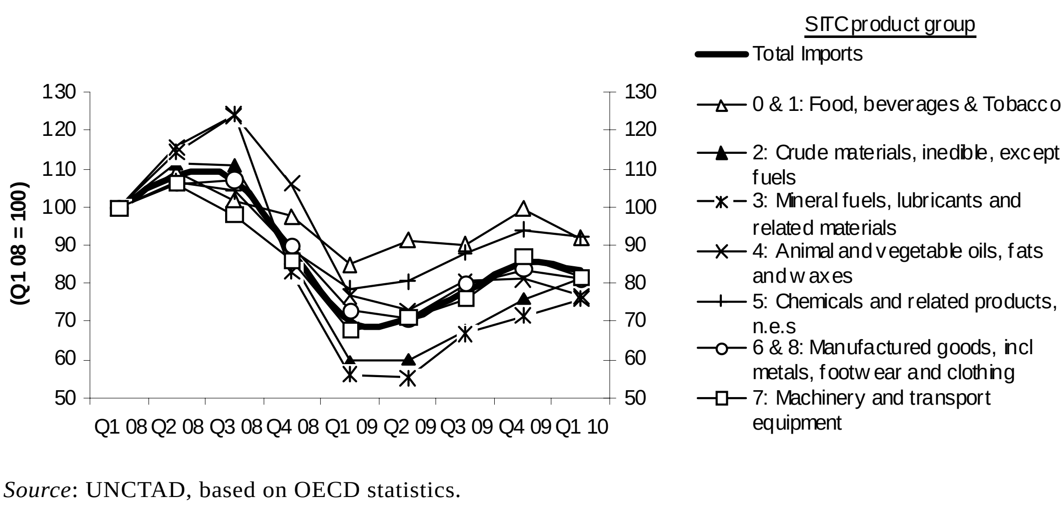
Figure I
Evolution of merchandise exports by region 2008-2010



Source: UNCTAD, based on World Trade Organization statistics, 2010.

13. Contributing to the decline in world trade was an abrupt and sharp reduction in the demand for consumer and capital goods owing to uncertainty in the availability of commercial and consumer credit. The demand shock was magnified and transmitted rapidly through global supply chains. Since manufactures constitute 70 per cent of world merchandise trade but only a small proportion of GDP, trade decreased more than output. Reduced production of manufactures led to lower demand for energy and raw materials. Other factors contributing to falling trade volumes include sharp swings in commodity prices and a shortage of trade financing.

Figure II
Indexed value of Organization for Economic Cooperation and Development country imports by Standard International Trade Classification product group



Source: UNCTAD, based on OECD statistics.

14. Imports in all product groups returned to an upward trend in step with a return to positive growth and higher import demand, although none of the product groups' import levels reached the pre-crisis levels. The import value of machinery and transport equipment registered dynamic recovery. The value of commodities recovered the least, retarding the trade recovery of commodity exporters.

Box 2

Global supply chains and international trade

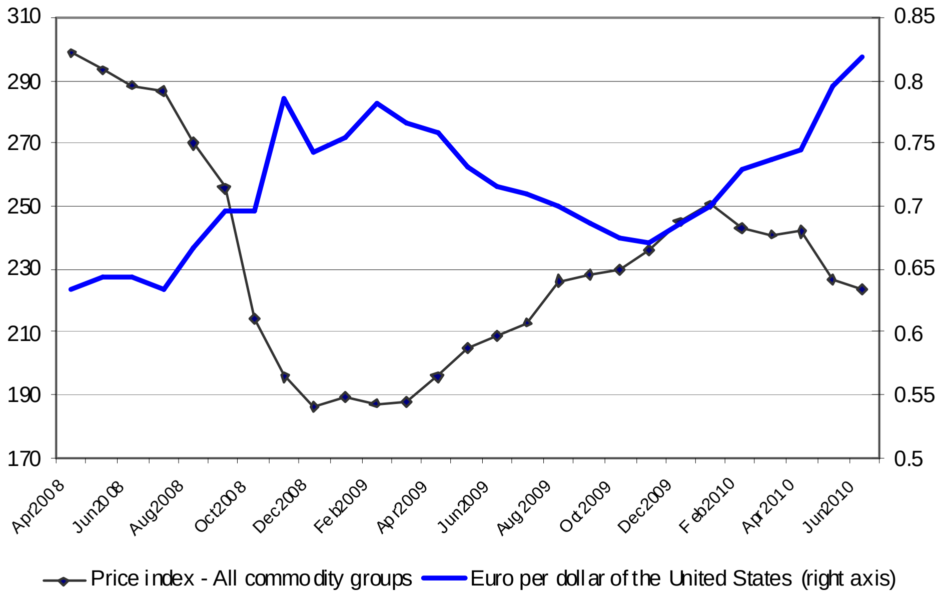
The bulk of international trade is in intermediate goods and services following increased fragmentation of production as firms outsource production. UNCTAD estimates that intermediate products represent 48 per cent of world non-fuel merchandise trade in 2008. This is attributable to the integration of East and South-East Asia in the global supply chains since the 1990s. Intermediate goods trade accounts for 57 per cent of intra-Asian trade, implying also that higher regional growth contributes to growth in other regions. Trade in intermediate/producer services, including outsourcing and offshoring, is also growing rapidly. They represent 73 per cent of OECD countries' total services trade while emerging economies such as India are increasing their share in business services.[a] A joint study by UNCTAD, the Commonwealth Secretariat and the India Centre for WTO Studies, examining existing trade flows indicates that countries in South Asia have the import demand for inputs relevant for establishing supply chains in the textiles and clothing sector which is met mainly from sources outside the region. The region has the supply capacity for exports and in many cases there exist lower cost suppliers in the region. This indicates that at the national level each country can identify supply chains and lower its import costs from the region, including through the South Asia Free Trade Agreement. The integration into global supply chains has allowed countries to capture greater gains from trade and specialization. It has also made them more interdependent and vulnerable to external shocks as demonstrated by the sharp contraction in trade, especially in Asia during the crisis.

[a] OECD, "Trade in intermediate goods and services" (TAD/TC/WP(2009)1/FINAL).

15. Developing countries' trade performance is closely associated with commodity price movements, which witnessed large volatility, hampering economic growth. The volatility owes, inter alia, to supply and demand, financialization of markets and speculation. Prices recovered during the second quarter of 2009, with the largest rise in mineral fuels and metals, particularly crude petroleum, which is indispensable for industrial production. Those were also the commodities that experienced the largest price loss. Price recovery was driven by growing demand from emerging economies, in particular China, and commodity stockpiling. The overall price volatility of commodities is positively related to the United States dollar valuation. There is a need to bring stability in commodities prices, including

through revitalization of international commodity agreements and dealing with commodity price speculation.[8]

Figure III
Evolution of commodities prices and exchange rates



Source: UNCTAD.

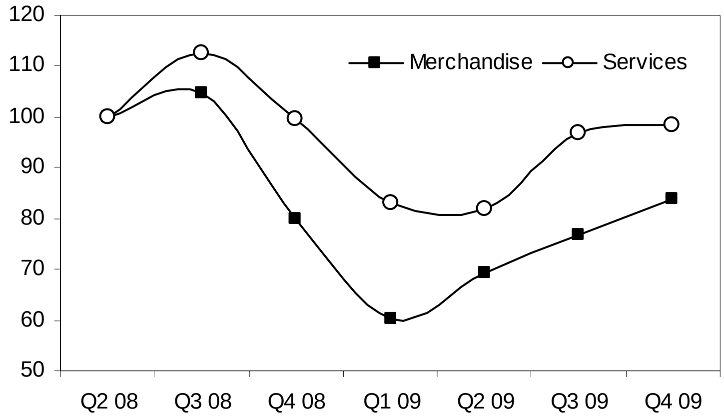
C. Services trade

16. In contrast to merchandise trade, fluctuations in services exports since late 2008 exhibited less synchronicity across countries and lower magnitudes of decline (13 per cent). The lower volatility of total services exports to income shocks highlighted the relative "resilience" of total services trade to the crisis. Hence diversification into the services sector is conducive to building domestic economic resilience to external shocks and reducing excessive commodity dependences, and it can be particularly important for least developed countries and small, structurally weak and vulnerable States. Specialization matters with regard to growing, resilient and employment-generating services sectors.

17. The aggregate services exports of 42 developing countries and transition economies confirm smaller variation in cross-border services exports than in merchandise exports.

[8] UNCTAD, *Trade and Development Report 2010* (to be issued); and Note by the UNCTAD secretariat on the evolution of the international trading system and of international trade from a development perspective: the impact of the crisis-mitigation measures and prospects for recovery (TD/B/57/3).

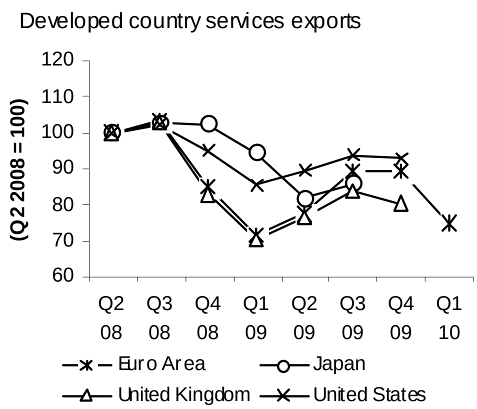
Figure IV
Services and merchandise exports for 42 developing countries and transition economies

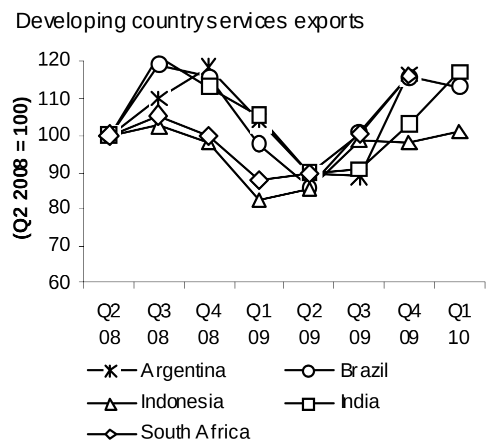


Source: UNCTAD, based on the IMF Balance of Payments Database.

18. Important intercountry and intersector variations exist (see figure V). Services exports of some countries exhibited less synchronicity, and developing countries performance showed larger variability than that of developed countries. On aggregate, some developing countries have recovered to a level above their pre-crisis levels while others experienced a weak recovery.

Figure V
Services exports of selected countries



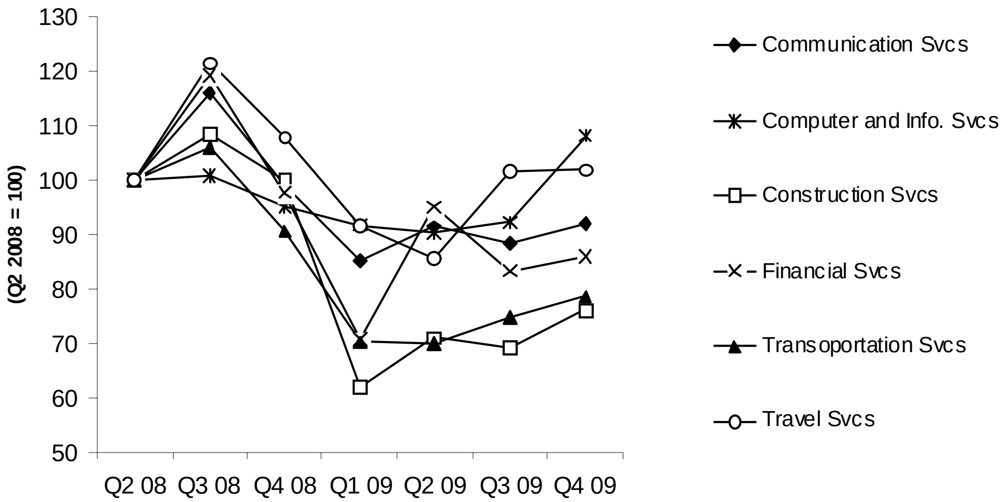


Source: IMF Balance of Payments Database.

19. For a sample of 14 developing countries and transition economies, the effect of the crisis on services exports differs across services categories with some sectors (e.g., transportation, tourism, construction, financial) more strongly affected than others (e.g., telecommunications) (see figure VI). Transportation services are directly related with merchandise trade, 80 per cent of which are shipped by sea or air. The Baltic Dry Index, tracking shipping demand, declined by 90 per cent in 2008 before regaining a level 40 per cent below the 2008 peak by June 2009.

International tourist arrivals remained relatively resilient, falling by 4 per cent in 2009 and increasing by 7 per cent in the first four months of 2010, with tourism receipts forecasted to grow by 4 per cent in 2010.

Figure VI
Services exports by category for 14 developing countries and transition economies[a]



Source: IMF Balance of Payments Database.
[a] Include Brazil, India, the Russian Federation and South Africa.

20. Remittance inflows to developing countries remained resilient and important as a source of external financing even during the crisis. As economic conditions improve in receiving countries, remittance flows to developing countries would increase by 6.2 per cent in 2010, after decreasing by 6 per cent, to $316 billion, in 2009. The contraction affects most regions except South Asia, reflecting a varying degree of the exposure of workers to job losses in host countries. For many least developed countries and sub-Saharan Africa, remittances form over 10 per cent of their GDP. The development of the financial services sector in migrant sending countries (e.g., banking facilities) can help recipient households to consider channelling remittances into productive and local income-earning activities by providing options for saving and investment, as well as reducing the costs of transfer.

III. Post-crisis growth strategies

21. The prevailing orthodox growth models encapsulated in the Washington Consensus, favouring reduced government, privatization, deregulation, liberalization and stabilization, have proved unsuccessful in triggering broad-based sustained development. The unsatisfactory results contrast with the rapid growth of East and South Asian countries relying on unorthodox, pragmatic policies with strong Government intervention, accompanied by calibrated opening to trade and investment.

22. The crisis challenged the prevailing growth models for: (a) liberalization of financial services and capital account without adequate domestic regulations and institutions, showing the inability of markets to self-regulate, and the merit of careful capital account management and financial services regulations in supporting real economy; (b) rapid trade liberalization, locking-in policies and dismantling of States' role whereas proactive Government intervention and policy space, combined with a sensible pacing, sequencing and extent of liberalization, were common to countries withstanding the crisis; (c) excessive reliance on exports, often in limited commodities, sustained by leveraged consumption particularly in the United States, and hence the value of diversified production and balanced domestic and external sources of growth; and (d) excessive focus on competitiveness relying on labour flexibilities and lax environmental policies, whereas job creation and cleaner development is prerequisite for social and environmental sustainability.

23. Global attention has refocused on sustainable growth and pro-poor development imperatives neglected in the Washington Consensus, with the recognition that there is no one-size-fits-all approach to development. New growth strategies need to be calibrated and sequenced to countries' conditions.[9] Strategies should aim at realizing structural transformation combining export- and demand-led growth with diversified production capabilities, increased value-addition and technology-content, competitiveness, job creation and poverty alleviation and mitigating climate change.[10] A major export drive by large countries could increase unsustainable competition for markets. Balancing growth sources externally and domestically will reduce possible tensions among countries competing for markets. South-South and regional integration is an integral aspect of such strategies.

24. Governments play a catalytic role in sustaining structural transformation by formulating integrated and comprehensive development policies and strategies, encompassing industrial, trade, services, agricultural investment and technology policies, to upgrade existing local productive capabilities, including through learning from experiences, regional integration and coordination among all stakeholders. Countries' productive structures are determined by the local availability of specific inputs with more capabilities required for sophisticated products. Specialization in certain sectors is more likely to trigger growth than others (e.g., services, creative industries, organic agriculture, agro-processing, energy-efficiency products). Government intervention can play a role in shifting productive resources from sectors where the country has a natural comparative advantage to others where new, dynamic comparative advantages can be exploited.

25. Several countries have embarked on such new integrated and more interventionist strategies for economy recovery and growth, by providing stimulus, building infrastructures, promoting small and medium-sized enterprises, providing credits through States or development banks and building human capital. For instance, the United States Government's 2010 Trade Policy Agenda launched Government-wide export promotion strategies. Its National Export Initiative seeks to double exports in five years to support 2 million jobs, including enhanced trade financing and support measures for small and medium-sized enterprises. A proposed

[9] UNCTAD, *Trade and Development Report, 2009* (United Nations publication, Sales No. E.09.II.D.16); and Dani Rodrik, *Journal of Economic Perspectives*.

[10] Note by the UNCTAD secretariat on successful trade and development strategies for mitigating the impact of the global economic and financial crisis (TD/B/C.I/7 and Corr.1).

legislation aims to support United States manufactures by reducing tariffs on inputs. This strategy seeks to balance United States reliance on domestic consumption for growth and employment with stimulus of increased exports. China's fiscal stimulus aims, inter alia, at redirecting its growth towards domestic demand, by expanding infrastructure investment, spending and technology for public services, innovation and industrial restructuring, as well as income tax cuts and consumption subsidies, including for automobiles and electrical appliances. In 2009, domestic consumption increased GDP by 4.6 percentage points. South Africa, through its National Industrial Policy Framework, promotes growth, industrial upgrading, export diversification and employment creation, especially in agroprocessing, labour-intensive and environmental sectors, through a combination of government procurement, tariffs, industrial financing and sectoral support through public banks, strategic trade policy and African regional integration.

26. Trade continues to play a key role in growth. It is not open trade per se, but the structural transformation of an economy and the quality of trade that matters for development. A narrow focus on trade liberalization and locking-in policies can have long-lasting socio-economic consequences as highlighted in the disappointing growth performance of sub-Saharan Africa and Latin America and the Caribbean that underwent the structural adjustment programmes of the international financial institutions in the 1980s, and by Haiti, where deep liberalization under the IMF-led structural adjustment programmes had major adverse effects on local production and food security,[11] with the result that today, 70 per cent of Haiti's rice is imported.

27. Developing countries need to diversify their export basket towards higher value-added products in dynamic sectors of trade such as certain horticulture, electronic and electrical products, textiles and services, and regain use of industrial development policy. The following deserve attention in the formulation of growth strategies: (a) calibrated reform of tariffs and subsidies policies without undermining industrial development; (b) calibrated reform of services policies and regulations, ensuring that progressive liberalization does not undermine development efforts for services supply; (c) comprehensive sustainable agriculture development policies, with extensive development assistance; (d) ensure development and access to technology, including through calibrated intellectual property protection, technology innovation and human capital-building. International support is needed on enhancing structural transformation, particularly in least developed countries, sub-Saharan Africa and structurally weak and vulnerable economies.

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[11] *UNCTAD Policy Briefs*, No. 13, "Rebuilding Haiti: a new approach to international cooperation" (March 2010); and No. 15, "Hungry for change: building new paths to food security in LDCs" (June 2010).

Box 3
Industrial development policies

As countries pursue growth strategies, some policy instruments are particularly relevant but are constrained by international disciplines under WTO and regional trade agreements. Subsidies, including those linked to local content requirements, assisted in the development of textiles, aircraft, transport, energy and automobile sectors in the past. Subsidies conditional on local content requirements are currently prohibited under the WTO rules. To expand policy flexibilities for industrial development purposes, developing countries have sought to make certain types of subsidies “non-actionable” (permissible) under WTO rules such as those for regional development, research and development, product diversification and environmental sustainability. Historically, local content requirements were also used to extract greater benefits from foreign direct investment in strategic sectors, including automotives, to promote localization of value-added production. Some developed countries had imposed a local content requirement of 75 to 90 per cent on car makers. WTO currently prohibits trade-related investment measures conditional on local content requirements. Government procurement has served as important industrial policy tool. Various “buy national” laws (i.e., local content requirements) were implemented in connection with government procurement to promote local industries and small and medium-sized enterprises. Such policies contributed to the development of aircraft industries (Boeing, Airbus and Embraer). Under WTO, government procurement is regulated by a plurilateral agreement. Since many developing countries are not parties, they preserve the flexibility to use local content requirements in their procurement policy. Given that local content requirements are prohibited for subsidies and trade-related investment measures, government procurement is the only instrument available for developing countries to use local content requirements.

IV. Developments in the international trading system

28. The international trading system is multi-layered, including the multilateral trading system, regional trade agreements and other arrangements, leading to increasing fragmentation The multilateral trading system, as embodied in WTO, has made an important contribution to a predictable, rules-based trading environment. Challenges affecting its credibility and viability (as discussed below) have emerged, including the proliferation of regional trade agreements that are eroding the multilateral non-discrimination principle, making it an exceptional treatment. Various crisis response measures have pointed to the merit and limit of the WTO system. The multilateral trading system is also facing a development deficit. The inability of the system to conclude the Doha Development Round, the longest of all General Agreement on Tariffs and Trade (GATT)/WTO negotiations, and deliver on a substantive development dimension has underlined a systemic need to improve the

WTO function as a negotiating forum. These challenges need to be addressed so that the system may be strengthened with a view to providing equitable gains for all.

A. Trade-related policy developments

29. With the crisis, protectionist sentiments became widespread as manifested, for example, in “buy/lend/invest/hire” local conditions attached to government procurement and State aid. It was felt important to counter such sentiments to keep markets open. This motivated G20 members to pledge to resist protectionism and refrain from raising restrictive trade and investment measures until 2013. WTO and other institutions such as UNCTAD and OECD engaged in enhanced monitoring and surveillance of national trade and investment measures. Owing to these measures and WTO disciplines, the intensification of protectionism of the type and extent feared has not happened. Continued vigilance is required, as protectionism could resurface as imports increase and unemployment persists in the recovery, and there is a risk of an accumulation of protectionist measures.

30. Countries adopted both trade facilitating measures and trade restrictive measures; however, trade restrictive measures predominated “by a factor of 3 to 2”.[12] The most common such measures are trade remedy investigations, increases in import tariffs, bans and licences. The countries most frequently affected by trade remedies were China, the European Union countries and the Republic of Korea. The products most frequently affected by trade restrictive measures are base metal (mainly iron and steel), machinery and equipment, glass and glassware, organic chemicals and plastics and textile and apparels, products that are subject to protection already and are relatively labour-intensive. Countries resorted more frequently to non-tariff measures than tariff measures. Measures taken by developed countries are largely bail-out measures and State aid. The increased recourse to non-tariff measures may be attributable to limited tariff flexibilities and increased trade connection via the global supply chains.

31. WTO estimates that trade restrictive measures introduced between October 2008 and May 2010 covered at most 1.4 per cent of world merchandise imports. Trade restrictive measures implemented since 2008 had little impact on aggregate world trade. Trade restrictive measures reduced the global exports by only 0.25 per cent[13] On average, a trade restrictive measure reduced affected trade by 2.5 per cent. The effect of individual trade restrictive measures on particular countries and products could be important.

32. Other trade restrictive measures have also attracted the attention of developing countries. Concerns exist the standards on that sanitary and phytosanitary measures and technical barriers to trade are used to restrict trade. Growing demand and scarcity of supply have made access to and use of natural resources a salient issue, with calls for the removal of export duties and quotas on such products, but they have been used by exporting countries to promote food security, terms of trade motivations, diversified production, downstream processing, and to generate revenue. With regard to services, the changes in visa regulations introduced in

[12] WTO/UNCTAD/OECD, “Report on G20 trade and investment measures (November 2009 to mid-May 2010)”, June 2010.

[13] IMF estimate.

several countries have impacted, inter alia, the movement of information technology workers and contractual workers. Developing countries are concerned over green protectionism such as border tax adjustments to offset competitiveness differentials across countries with different regulatory regimes regarding carbon tax and greenhouse gas emissions trading.

B. Functioning of the multilateral trading system

33. The crisis underlined the need for rethinking the modus operandi of the multilateral trading system. Indeed, the Seventh WTO Ministerial Conference reviewed, inter alia, the operation and functioning of the multilateral trading system. Some elements proposed include revitalizing regular committees to improve monitoring of measures; improving oversight of regional trade agreements; and adopting an omnibus legal instrument to cover least developed countries' preferences. Some countries proposed to establish a deliberative process to review and improve the functioning, efficiency and transparency of WTO. Earlier in 2004, an independent panel set up by the WTO Director-General examined the functioning of WTO and came up with recommendations[14] including on negotiating processes; decision-making structures, variable geometry and the General Agreement on Trade in Services (GATS) scheduling approach; transparency; the erosion of non-discrimination; and contractual right for funding technical assistance for least developed countries. The panel and subsequent discussions since then have highlighted a number of ideas and proposals.

34. It was noted, for instance, that a bold course correction is warranted regarding the reciprocity-focused market opening based on mercantilist logic. Such logic relies on export interests for negotiations and inherently understates the development interests of import-competing industries. Shifting towards an alternative development logic, based on the public good and the cooperative approach, and paying greater attention to collective interest and legitimate economic, societal and sustainability concerns, is needed. This would imply integrating effectively in WTO, development objectives provided in the WTO Agreement and Millennium Development Goals — e.g., higher standards of living, full employment, higher real income and positive efforts for developing countries — and the need for developing countries to use policy space. Increased involvement of parliaments can be encouraged to addressing the interests of their societies.

35. Some are of the view that the prolonged negotiations demonstrated less-than-optimal performance of WTO as a negotiating forum. Reconciling efficiency and equity in negotiations is fundamental. Various proposals have addressed altering consensus rule, such as by adopting a (weighted) voting system, depending on the types of decision, and "critical mass" approach, a practice whereby countries refrain from blocking consensus when a majority of members support agreement. Changing this could erode the legitimacy of the system, especially for weaker members. The consensus rule needs to be preserved, and any reform should address institutional arrangements to support the emergence of consensus.

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[14] World Trade Organization, "The Future of the WTO: addressing institutional challenges in the new millennium", 2004.

36. Another suggestion is to seek agreement among a subset of members through plurilateral, critical-mass and “variable geometry” approaches. The major thrust is to allow “willing” countries to proceed with deeper liberalization. This may lead to a two-tier system of membership and imbalance in benefits, marginalizing weaker developing countries, and undermine the multilateral non-discrimination principle. Another proposal seeks to improve the methods for a broad-based agenda under a single undertaking. While single undertaking was conceived to facilitate intersectoral trade-offs, this has not materialized on issues of vital interest (e.g., agriculture and services), especially when an imbalance exists across sectors and issues. The impact of a single undertaking is yet to be fully understood. Continued recourse to broad-based negotiations has led to expanding the frontier of the multilateral trading system, and a consequent reduction in policy space. Inclusion of new issues such as Singapore issues may continue to be avoided unless substantial developmental benefits are demonstrated.

37. Limiting the scope of negotiations to selected core market access and rules-making has also been suggested. A key question would be whether the confined scope of the agenda could sufficiently cover the divergent interest of all members to establish meaningful reciprocity and balanced trade-offs.

38. Once the negotiations are concluded, according to some, attention should be given to stabilizing the system with sufficient time allocated for the implementation, review and build-up of capacities, particularly in developing countries to ensure that the expected benefits are realized. Efforts could also be devoted to strengthening regular policy monitoring and information-sharing and transparency processes, addressing meaningfully specific trade concerns and scaled-up binding technical assistance. The implementation of the agreements, addressing effectively members’ difficulties, and the realization of development benefits and trade opportunities need to be ensured before launching negotiations. This implies that consideration should be given to linking capacity-building and funding support for the implementation of the agreements, as taken in trade-facilitation negotiations.

39. Another point with wide support highlights that attaining the universality of WTO membership is essential. The accession process has often led to deeper commitments by acceding countries than for original WTO members and reduced policy flexibilities that are important in implementing development strategies (e.g., in agriculture). This has led to a multitiered membership, subject to different levels of obligations. Since acceding countries are in a weaker bargaining position, improving the accession process is necessary, particularly for least developed countries, so that resulting commitments are consistent with their development levels. The effective implementation of the guidelines on the accession of least developed countries (2002) is critical.

40. Given the interdependence of economies, coherence with different segments of global governance is also generally viewed as vital. WTO has pursued coherence with the Bretton Woods institutions with which it shares similar institutional objectives, norms and mandates and based on a ministerial declaration by members.[15] The United Nations and its bodies, including UNCTAD, have an important role in global cooperation in trade, finance, investment, agriculture,

[15] Rorden Wilkinson, “The problematic of trade and development beyond the Doha Round,” *Journal of International Trade and Diplomacy*, vol. 3, No. 1 (spring, 2009).

technology, climate change and sustainable development. UNCTAD serves as an important forum for policy dialogue and the clarification of key trade and development issues that could eventually be subjected to WTO negotiations. Greater coherence between WTO and the United Nations is pivotal in rebalancing the multilateral trading system in favour of development.

C. Doha Development Round

41. Launched in November 2001 and originally planned for conclusion by 1 January 2005, the Doha Development Round continues. Negotiations have focused on agriculture and non-agricultural market access, while progress in the Doha Development Round has been conditional upon agriculture. The Doha Development Round mandate placed the needs and interests of developing countries at its heart and prioritized development issues (e.g., special and differential treatment and implementation difficulties to be resolved by 2002). The weak development dimension in the WTO Agreements and implementation difficulties constrain developing countries from securing an equitable share in the growth in international trade. Further, imbalances and asymmetries arising from uniform rules as applied to countries with different levels of development and capacities inhibit the latter's ability to benefit from trade opportunities. The Seventh Session of the WTO Ministerial Conference reaffirmed Members' resolve to conclude the Doha Development Round in 2010.

42. Major barriers to the negotiations remain the lack of engagement and leadership to move from entrenched positions by recognizing the asymmetrical capacities and needs of developing countries. Negotiations have hinged on the question as to whether to proceed on the basis of modalities for agriculture and non-agricultural market access. Developing countries have been concerned over an erosion of the Doha Development Round towards a singular focus on market access, as more ambitious industrial market opening is sought in larger developing countries. Repeated attempts to divert attention from the original Doha mandate by setting new approaches and targets have been a matter of concern to developing countries, such as a quantitative benchmark or formula for the liberalization in services and skipping negotiations on the modalities for agriculture and non-agricultural market access.

43. The crises have overtaken global policy attention and highlighted what may be perceived as the relatively limited contribution of the Doha Development Round and the expected modest gains to pressing global needs. Recent estimates suggest a global welfare gain of $94 billion, with only $22 billion accruing to low- and middle-income countries.[16] The results of such modelling need to be interpreted with caution as they do not fully capture real economy factors, can create unrealistic expectations and may prejudge the negotiations.

44. Debate emerged on possible options for concluding the Doha Development Round including full-fledged agreement; a "Doha-light" package; and early harvest of a limited package, primarily for least developed countries. Further prolongation risks further loss of interest in the Doha Development Round, leaving a greater role

[16] David Laborde and others, mimeo, 22 January 2010; UNCTAD, "Coping with trade reforms: a developing-country perspective on the WTO Industrial Trade Negotiation", 2005.

in global economic governance for other forums such as the G20, regional and bilateral arrangements and increased trade litigation. There is a need to conduct negotiations on the basis of the existing Doha Development Round and progress made so far, with full transparency, inclusiveness and upholding the primacy of multilateral process as well as the centrality of development outcomes. Increasing substantially aid for trade with effective delivery can help developing countries to build trade-related infrastructures and competitive supply capacities, including at the sectoral level. Aid for trade remains concentrated, with the top 10 recipients accounting for 45 per cent of total aid for trade commitments while least developed countries received 25 per cent.

Agriculture and food security

45. Agriculture is central to the economies of developing countries and the Doha Development Round. The rural population ranges between 21-71 per cent in developing countries and agriculture is a major source of employment (55 per cent in developing countries and 74 per cent in least developed countries, as compared to 4 per cent in developed countries). The majority of developing countries are net-agricultural importers (54 per cent) and some of the net-agricultural exporters are food importers since they export cash crops such as coffee and are food insecure.[17] Despite their natural comparative advantage in agriculture, many developing countries had suffered from low productivity resulting from agricultural underinvestment,[3] premature de-agrarianization and liberalization. Agricultural labour productivity in least developed countries was 46 per cent of that in other developing countries and below 1 per cent of that in developed countries. International financial institutions' structural adjustment plans had reduced public intervention in the sector (extension services, marketing boards and stabilization fund). Trade liberalization and reduced investment has generated a biased specialization in a few export cash crops. Import surges and price depression and volatility have become more frequent since the 1990s. The food crisis adversely affected food security, hunger and poverty. To reverse this trend, enhanced investment in sustainable agriculture is needed to improve productivity, competitiveness and a reliable supply of crops.

46. Despite its expected global gains, further liberalization could lead to greater vulnerability, particularly for net-food importers.[18] Measures to protect food security for developing countries are among the major outstanding issues in agriculture negotiations. Special products, allowing for shielding certain products from reduction commitments, and a special safeguard mechanism, allowing for temporarily raising tariffs to counter import surges or price suppression, can play a balancing role. Agricultural subsidies by developed countries suppress market prices with short-term positive effects for net-food importers but discourage production in the long term. Addressing cotton expeditiously, ambitiously and specifically is a key deliverable as it can have a major impact on development of cotton-producing least developed countries.[19] Without such treatment, agriculture negotiations would lead

[17] *The Least Developed Countries Report, 2008: Growth, Poverty and the Terms of Development Partnership* (United Nations publication, Sales No. E.08.II.D.20); and ibid., *2009: The State and Development Governance* (United Nations publication, Sales No. E.09.II.D.9.

[18] Kym Anderson and Will Martin, editors, *Agricultural Trade Reform and the Doha Development Agenda* (Washington, D.C., World Bank, 2005).

[19] UNCTAD Multi-stakeholder meeting on cotton, Geneva, 2 December 2008.

to very small changes in subsidies — the new ceiling level for the major trade-distorting support in the United States, for example, would be at $1.5 billion as compared to $0.14 billion if cotton is dealt with more ambitiously. Preference-dependent developing countries such as the African, Caribbean and Pacific (ACP) States are concerned over preference erosion.

Non-agricultural market access and productive capabilities

47. Over 90 per cent of world merchandise trade consists of non-agricultural products, and two thirds consists of manufactures. As developing countries seek to build productive capabilities, abrupt market openings that could cause deindustrialization are key concerns. Translating development imperatives into operational parameters of the principle of "less than full reciprocity" is essential. The issue arose as developing countries would make higher average cuts in bound tariffs than would developed countries under the non-agricultural market access tariff-cutting formula. This is because developing countries' average bound rates are higher than that of developed countries, and the tariff-cutting formula will reduce higher tariffs to a larger extent. Developing countries are also confronted with deeper liberalization, requested by developed countries, in sectors such as chemicals and electronics.

48. As tariffs become lower, the relative incidence of non-tariff barriers increased. Expansion of trade in global supply chain has increased the incidence of non-tariff barriers as producers encounter different regulations throughout the value chains. An UNCTAD survey confirms the prevalence of sanitary and phytosanitary technical barriers to trade measures.[20] Negotiations have addressed reducing and harmonizing sector-specific technical barriers to trade-related non-tariff barriers on electronics, chemicals, automotives and textiles and clothing, and establishing a mechanism that would facilitate the resolution of practical problems posed by non-tariff barriers. As developing countries are net importers in these sectors, the proposed elimination and harmonization of non-tariff barriers would imply upward regulatory harmonization, increasing adjustment costs for them. Proposals to address certain non-tariff barriers have been a cause for concern for developing countries, such as export taxes and "remanufactured" goods. Developing countries have used export taxes to promote value-added activities and increase revenue.

Progressive liberalization of services

49. Services constitute 50 per cent of GDP and 35 per cent of employment in developing countries. Infrastructure services — financial, transport, telecommunications, water and energy — are fundamental for development,[21] including in providing universal access to essential services for attaining the Millennium Development Goals on water, energy, health and education.

50. The General Agreement on Trade in Services requires simultaneous opening of the capital account for countries that have undertaken commitments under Modes 1 (cross-border supply of services) and 3 (commercial presence) for financial services. The ability of countries to deploy capital controls related to capital inflows would be restricted. The financial crisis led countries to take a cautious approach to the

[20] UNCTAD/DITC/TAB/2009/3.

[21] Background note prepared for the second session of the Multi-year Expert Meeting on Services, Development and Trade: the Regulatory and Institutional Dimension (TD/B/C.I/MEM.3/5).

liberalization and regulation of financial services, and capital account management, for example, in opening cross-border financial services and in allowing foreign financial firms to offer new financial products. Unless justified by the prudential carve-out, some mitigation measures and proposed regulatory, for example, reform to restrict derivatives trading for a bank's own account, could have bearings on market-access commitments, including those undertaken under the Understanding on Commitments in Financial Services, which requires countries to permit the provision of new financial products and "stand still" on certain non-discriminatory measures.

51. In negotiations, substantial improvements in areas of export-interest to developing countries have been limited. While liberalization of Mode 4 (movement of natural persons) would generate large welfare gains — estimated at $156 billion — from opening the OECD labour market[22] by 3 per cent, Mode 4 remains restricted owing to concern over implications for labour markets. Many countries allow for entries of high-skill categories such as intracorporate transferees while developing countries have sought for an opening for contractual services suppliers and other lower-skill categories. Other areas of export-interest to developing countries are tourism and outsourcing. Outsourcing, contracting-out of business services provided through Mode 1 (cross-border supply), could bring trade opportunities and positive externalities such as foreign direct investment, human capital and knowledge transfer. WTO members are negotiating a most-favoured-nation waiver allowing grant of preferential market access for least developed countries' services.

Box 4

Migration, remittances and poverty

UNCTAD estimates suggest that remittances significantly reduce poverty in recipient countries, particularly for countries where remittances make up 5 per cent or more of GDP. On an average, for the given level of GDP, a 10 per cent rise in remittances leads to a reduction of 3.9 per cent in poverty and a reduction of around 3-3.5 per cent in the poverty gap in developing countries. To harness gains from migration, effective partnerships must be established between migrant-sending, transit and migrant-receiving countries. Coherence of policies at the national and international levels is important.

52. Many developing countries have an important interest in tourism.[23] The sector contributes to economic diversification and job creation through linkages with the rest of the economy. The worldwide contribution of tourism to GDP exceeds 5 per cent.[24] Tourism is the main source of foreign exchange for one third of

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[22] Alan Winters and others, *Negotiating the Liberalization of the Temporary Movement of Natural Persons*, Commonwealth Secretariat, March 2002. See also, United Nations University/World Institute for Development Economic Research, *Efficiency Gains from the Elimination of Global Restrictions on Labour Mobility*, 2003.

[23] Note by the UNCTAD secretariat on the contribution to tourism and development (TD/B/C.I/8).

[24] World Tourism Organization, 2010.

developing countries and one half of least developed countries, accounting for 40 per cent of GDP. It contributed to graduation from the least developed countries status of Cape Verde and Maldives. Many WTO members seek liberal commitments addressing remaining sectoral and modal barriers such as in Modes 3 (commercial presence) and 4 and anti-competitive practices.

53. The financial crisis underscored the importance of regulatory autonomy in the financial services sector in responding to changing environment. Negotiations on multilateral disciplines on domestic regulations on qualification, licensing procedures and technical standards aim to ensure that such regulations do not become a disguised barrier to trade. Developing countries are concerned that stronger disciplines, such as “objectivity criteria”; the “necessity test” and burdensome transparency requirements could restrain their regulatory autonomy and increase administrative costs.

54. The General Agreement on Trade in Services recognizes the role of subsidies in relation to the development programmes while they are often used in infrastructural services, including access to essential services. Preserving adequate flexibilities in services subsidies for developmental purposes is important.

Early harvest package for least developed countries

55. Least developed countries are the poorest, weakest and most marginalized in the multilateral trading system. Addressing the trade and development needs of least developed countries is essential in realizing an equitable and development-oriented multilateral trading system. This would be an important contribution of the World Trade Organization to the Fourth United Nations Conference on the Least Developed Countries, to be held in Turkey in 2011. An early harvest package for least developed countries merits attention. Least developed countries have identified as priorities the following: duty-free, quota-free market access; cotton; services waiver; and measures to facilitate accession to WTO on fair and equitable terms.

56. Visible progress was made in expanding duty-free, quota-free access for least developed countries since 2000. The WTO Hong Kong Ministerial Conference decision’s target for covering at least 97 per cent of tariff lines for duty-free, quota-free market access to least developed countries was achieved in all but one of the developed countries. It is important to realize the target and move towards 100 per cent coverage in all the developed countries. This is expected to create an additional export gain of $2 billion, and $5 billion if major middle-income countries offer duty-free, quota-free access.[25] Such initiatives were taken by China, India and recently, by Brazil. In the United States, there is debate on extending duty-free, quota-free benefits for all products from all least developed countries.[26] Limited progress has been made on instituting simplified and transparent rules of origin.

[25] Antoine Bouët and others, “The costs and benefits of duty-free, quota-free market access for poor countries: who and what matters”, Center for Global Development Working Paper 206, March 2010.

[26] HR.4101: New Partnership for Trade Development Act of 2009.

Box 5
Key duty-free, quota-free issues

Product coverage and simplified rules of origin are two major issues. In the United States, there is significant scope for improvement by extending product coverage for Asian least developed countries. UNCTAD estimates that extending duty-free, quota-free access to 100 per cent of products would increase the value of preferences for Bangladesh from $1.4 million to $555 million. This would imply preference erosion for sub-Saharan Africa benefiting from African Growth and Opportunities Act preferences. Extending the product coverage to 100 per cent will increase Bangladesh's export value by $847 million, or 23 per cent of its initial export level, but Kenya, Lesotho, Madagascar, Mauritius and Swaziland will see a decrease in exports of between $3 million and $6 million. On the rules of origin, the European Union is considering reforming its preferential rules of origin. The utilization of Everything but Arms preferences by 41 least developed countries eligible only for Everything but Arms was 81 per cent and lower than the level registered by nine ACP least developed countries that export using the economic partnership agreement rules of origin (98 per cent). The lower utilization rate of Asian least developed countries is attributable to their apparel exports, which face relatively stringent rules of origin in the European Union, which requires the assembly of apparels from yarn, and not from fabric.

D. Regional trade agreements

57. The proliferation of regional trade agreements accelerates as countries seek to secure better market access and associated benefits such as technology transfer and foreign direct investment. Some 462 regional trade agreements were notified to WTO, covering over a half of world trade. Such agreements are eroding the multilateral non-discriminating principle and jeopardizing the multilateral trading system. The scope of the regional trade agreements, especially North-South trade agreements, became deeper and broader, with WTO-plus commitments. North-South regional trade agreements tend to focus on major trading nations or on converting non-reciprocal arrangements into WTO-compatible reciprocal ones. The extended scope and depth increases the costs of adjustment, and limits policy flexibility.[27]

58. The ACP-European Union negotiations for economic partnership agreements since 2002 represent the largest North-South regional trade agreements effort. By mid-2010, only one full economic partnership agreement (the Caribbean) and seven interim agreements were concluded, involving 36 ACP countries. The negotiations centred on the key issues of establishing a development-oriented partnership while complying with the World Trade Organization rule on liberalizing substantially all trade; whether to incorporate trade-related issues (e.g., competition); and ensuring

[27] H. Horn, P. Mavroidis, A. Sapir, "Beyond the WTO? An anatomy of EU and US preferential trade agreements", June 2009.

that economic partnership agreements contribute to ACP regional integration processes. ACP countries generally made liberalization commitments for 80 per cent of trade over 15 years. Some technical issues were contentious relating to developmental policy instruments, including infant industry, export taxes and third-party most favoured nation, which can impact South-South trade. Economic partnership agreements may lead to increased ACP exports of certain agricultural products, including meat, grapes, rice and citrus. However, a boost of ACP supply is unlikely as improvements in the rules of origin were limited, implying that ACP countries could not process raw food material from third countries.[28]

59. Despite an improved transparency mechanism for regional trade agreements in the World Trade Organization, the lack of a clear understanding on the key parameters of GATT article XXIV, and enforcement thereof, limit the ability of WTO to discipline regional trade agreements. The rules negotiations on regional trade agreements deserve greater attention in view of the challenges to the multilateral trading system posed by proliferating, incoherent agreements. A moratorium on forming new regional trade agreements until the Doha Development Round is concluded has been suggested. Developing countries need to conduct audits of the trade and development benefits of regional trade agreements before starting further negotiations.

60. South-South trade represents 50 per cent of the merchandise exports of developing countries. Asia accounts for 63 per cent of total South-South trade, and a third of traded products are high-skill manufacturing goods. In 2008, the proportion of intraregional trade agreement trade was the highest (25 per cent) in the Association of Southeast Asian Nations among such groupings, while African groupings generally recorded lower levels. South-South integration is yet to exploit its full potential. In Africa, there is a need for greater harmonization of groupings, achieving depth and effectiveness in individual schemes and expanding cooperation with developing countries from other regions.[29] Regional cooperative and institutional mechanisms addressing, for example, infrastructure (transportation networks, trade facilitation), regulatory and institutional capacity-building are even more important. The North-South Corridor programme in East Africa is a prime example. Aid for trade to promote South-South trade needs to be scaled up. Interregionally, a significant boost would arise from the third round of negotiations on the global system of trade preferences, to be concluded in 2010. In December 2009, 22 participants in the negotiations agreed on modalities composed of a linear cut of 20 per cent on applied duties for at least 70 per cent of dutiable tariff lines.

E. Intellectual property, trade and development

61. Protection of intellectual property, inter alia, encourages invention and innovation by creating incentives for investment and research and development. Low levels of protection of intellectual property historically enabled technological transfer and diffusion, allowing countries to develop through imitation,

[28] *Economic Partnership Agreements: Comprehensive Analysis of the Agricultural Provisions* (UNCTAD/DITC/TNCD/2009/3).

[29] UNCTAD, *Economic Development in Africa Report 2010: South-South Cooperation: Africa and the New Forms of Development Partnership* (United Nations publication, Sales No. E.10.II.D.13).

reengineering and adaptation. This was the case with the publishing industry in the United States, the chemical industry in Switzerland and the generic pharmaceutical industries in India. Technology, innovation and intellectual property protection policies and standards adapted to local needs are central to industrial development strategies.

62. Multilateral disciplines on intellectual property as embodied in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) have enhanced the protection of intellectual property such as patents. The TRIPS Agreement has been criticized as reflecting more heavily the interests of intellectual property rights holders, who tend to reside in developed countries, than that of technology users. For example, developing countries disbursed $80 billion in 2008 for royalties and licences. This also indicates that the current intellectual property system has fallen short of meeting the TRIPS Agreement objectives of promoting technological innovation, and the transfer and dissemination of technology to the mutual advantage of users and producers in a manner conducive to social and economic welfare (articles 7 and 8).

63. The limitations imposed on measures addressing public health, in particular access to essential drugs, are yet another concern. The TRIPS Agreement was amended in 2005 to allow for compulsory licensing for countries without a pharmaceutical manufacturing capacity. Its effective implementation remains a concern as illustrated in a recent case on the European Union’s detention of generic drugs in transit initiated by India and Brazil (2010). Simplifying those mechanisms needs to be encouraged.

64. Concerns have also arisen regarding facilitated access to clean technologies to further efforts on climate mitigation and adaptation. A proposed technology mechanism and compulsory licences for clean technologies could be explored to ensure access to clean technologies.

TRIPS and related issues

65. TRIPS have created incentives for the use of genetic resources and traditional knowledge in patents without fulfilling the obligations under the Convention on Biological Diversity, including prior informed consent and benefit-sharing. Such imbalances caused concern over “biopiracy”, “misappropriation” and illegal transboundary movement. Examples include turmeric, the neem tree and ayahuasca. They have undermined the capacity of developing countries to raise resources to implement the biodiversity conservation commitments under the Convention on Biological Diversity and Millennium Development Goal 7 and reap benefits from their use. In WTO in 2008, over 110 countries proposed to amend the TRIPS Agreement to incorporate a requirement for patent applicants to disclose origin, legal source, and mutually agreed terms regarding any genetic resources or traditional knowledge used in the invention. The proposal was made in conjunction with proposals to set a multilateral register on geographical indications for wine and spirits and expand the higher level of protection to other products. There are parallel negotiations for a new protocol to the Convention on Biological Diversity on an International Regime Access and Benefit-sharing for genetic resources and associated traditional knowledge to clarify relations between providers and users and incorporate disclosure and verification mechanisms. The identification of options on those mechanisms contributes to the goals of the Convention on

Biological Diversity and Millennium Development Goal 7. In 2009, WIPO Members launched negotiations on an instrument on effective protection of genetic resources, traditional knowledge and folklore.

66. Some countries seek to establish a plurilateral agreement on enforcement rules, namely the “Anti-Counterfeiting Trade Agreement”, being negotiated currently outside WTO or WIPO to address the increased global trade in counterfeit goods, which have an estimated value of $250 billion. The proposed standards are broad in scope, encompassing counterfeit goods, potential generic medicines and online piracy, and extend TRIPS enforcement rules on counterfeit goods to other categories of intellectual property (e.g., patents) and means of delivery (e.g., digital). Developing countries have expressed concern, including in WTO, that the Anti-Counterfeiting Trade Agreement could create barriers to trade by expanding judicial and customs actions in favour of title holders, imposing ex-officio customs controls and creating incentives for intellectual property litigation. The development impact of the Agreement needs careful assessment.

WIPO Development Agenda

67. The WIPO Development Agenda emerged in 2004 out of concerns that the intellectual property standards in WIPO were built on a paradigm which considers intellectual property as a goal in itself and not an instrument for social and economic development. The agenda aimed at ensuring that development considerations form an integral part of the mandate of WIPO, including enhanced public interest flexibilities to facilitate access to essential products, especially pharmaceuticals and educational material. While the original proposal envisaged substantive reform in all aspects of intellectual property standards, in 2007 WIPO member States formally adopted 45 recommendations centred on technical assistance, norm-setting, flexibilities and public interest, technology transfer and access to knowledge, assessments and evaluation and institutional matters. In 2009, WIPO adopted a thematic project approach to respond to recommendations through technical assistance and research that has been considered insufficient by developing countries.

68. Developing countries are concerned over the tendency to privilege the interests of title holders in WIPO norm-setting. In response to the thematic approach of WIPO, developing countries have proposed for broad principles to guide the negotiations on norm-setting. Such principles would include: assessing costs and benefits for the developing countries, users and the effects on the public domain; taking into account levels of development in substantive obligations; providing preferences to instruments with lesser trade-restrictive effects such as compensation instead of exclusivity, and an effective mechanism for the transfer of technology.

V. Conclusion

69. Strong and sustained recovery is indispensable to place the economies onto an inclusive development path and achieve the Millennium Development Goals. Governments play a catalytic role in formulating proactive, comprehensive and calibrated longer-term development strategies for structural reform to build diversified productive capabilities, create jobs and strengthen environmental sustainability. Balancing the external and domestic sources of growth is necessary

for global rebalancing. The international trading system should support such efforts by providing adequate policy space. The asymmetries and imbalances within the multilateral trading system need to be corrected anchoring it in development logic. The interdependence of the global economy and the increased fragmentation of the international trading system imply that serious coherence in development policymaking is needed at the bilateral, regional and multilateral levels, as well as between trade, monetary and financial systems.