

FOREWORD

The World Trade Report 2005 follows the pattern established in previous years and takes up a number of key trade policy issues facing the international trading system for analysis and discussion. The underlying objective of the Report is to contribute to a deeper understanding of trade policy issues facing governments. The core topic in this year's report is standards and international trade. Shorter essays have been prepared on three other topics – the use of quantitative economic analysis in WTO dispute settlement, international trade in air transport services, and offshoring services.

First, however, the Report examines recent trends in international trade. The year 2004 saw impressive growth in trade, against a background of strong output growth. At 9 per cent in real terms export growth was twice as fast in 2004 as in 2003, and the third highest over the last decade. All regions shared in this expansion to a degree, but 2004 was a particularly good year for some commodity-exporting developing countries, including Africa. Other regions that enjoyed strong trade performance were South and Central America, Asia and the Commonwealth of Independent States.

Prospects for trade growth in 2005 are not as promising as in 2004, but at a predicted real rate of 6.5 per cent, trade would still expand faster than the average rate since 1994. Downside risks in the world economy include the dampening effect on economic activity of high oil prices, as well as persistent sluggishness in some economies, and interest rate and exchange rate volatility arising from imbalances in others. I urge governments to address these challenges in a timely and decisive fashion.

Last year was a good year for the WTO. After the disappointing Fifth Ministerial Conference in Cancún in September 2003, Members worked hard in the first half of 2004 to put the Doha negotiations back on track. This they succeeded in doing with the "July package", which embodied a set of clear mandates for bringing the negotiations to successful completion. But much work remains to be done. The present Report is being launched on the eve of a significant milestone in the negotiating process. By the time of the August break in Geneva, we need to see the shape of a set of clear results emerging from the Sixth Ministerial Conference in Hong Kong, China that will set the scene for completing the Doha negotiations in 2006. This is a shared responsibility of the entire WTO membership, requiring constructive engagement and a willingness to act in the collective interest despite sometimes difficult trade-offs.

An interesting debate has taken place over the years about the relationship, at different points in time, between the health of the world economy and progress in building a stronger international trading system. Some have argued, perhaps with certain justification, that governments need to be faced with bad economic news and the threat of worse to come before they can muster the political momentum for difficult decisions on trade – decisions whose benefits may not always be immediate. If bad times are needed for good decisions and good times induce complacency, we surely miss valuable opportunities to make real progress in strengthening the world economy and addressing the core challenges of our time – development and poverty alleviation. Let us not permit today's good economic news to blind us to the pressing need for action to bolster and advance international cooperation in matters of trade policy. Let us mark ten years of the existence of the WTO with decisive action that will set the scene for real progress in the year ahead.

Turning to the specific topics covered in WTR 2005, a stable and mutually supportive relationship between standards regimes and international trade rules is central to the effective functioning of the trading system. The Report thoroughly explores this relationship and seeks to extend our understanding of the issues involved. At its core, the policy challenge is to shape and maintain arrangements that allow governments to pursue multiple objectives in a consistent and effective manner. Standards are essential for addressing market failures such as imperfect information and negative externalities such as environmental degradation. They are also important in facilitating well-functioning markets where technical compatibility (network externalities) is important. But the design and operation of standards must also be such as to avoid the misappropriation or capture of public policy in these areas to construct unwarranted obstacles to competition and trade.

The underlying issues can be complex. Among the questions to be considered are whether standards should be harmonized, whether they should be voluntary or mandatory, how far standard-setting should be a public or a private activity, whether production processes as well as product standards should be the subject of international obligations, and who should be responsible for ensuring that producers and suppliers conform with established standards. Many of these questions do not have straightforward answers. Trade-offs must be made and desirable outcomes are often sensitive to the specificity of circumstances. Not all governments share the same public policy preferences or priorities.

A particular challenge for the WTO is to ensure that everything possible is done to enable developing countries to participate effectively in the trading system. This is as important in the field of standards as anywhere else. Among the challenges here are those which ensure that developing countries possess the requisite infrastructure to meet standards and to shape their own standards regimes, that they are not disadvantaged in the area of conformity assessment and that they can participate effectively in international standard-setting activities. A good deal is being done in these areas, but many developing countries still face formidable challenges.

The first of the three shorter essays, on the use of quantitative economic analysis in WTO dispute settlement, deals with a fascinating issue of increasing importance in the trading system. Broadly, we have seen growing interest in using quantitative analysis to address questions about the trade effects of policy measures and the effects of imports on the markets of domestic products and producers. Resort to arbitration has continued to grow and arbitrators have found it useful to supplement their reasoning and final decisions with quantitative analysis. And parties to a number of disputes have done the same in recent years. This essay explores these various episodes, after taking the reader through a careful explanation of the technical aspects of quantification.

The paper is at pains to point out two important aspects of the use of quantitative analysis in disputes. One is that the techniques used can only produce estimates and not unique, authoritative numbers. The second is that quantification cannot settle disputes, but only assist in their resolution. This is because numbers do not decide points of law – that is the role of legal reasoning. So quantitative analysis is not a panacea, but rather an aid that can become increasingly useful in disputes where complex factual information is of the essence.

The second essay deals with a vital and complex industry – air transport services. Like other network service industries, air transport is both a traded product and a vital producer service for trade in other products. Whether traders enjoy efficient, reliable and well priced air transport services is an important determinant of competitiveness in a whole range of economic activities.

Given the importance of this industry to the economy as a whole, it is gratifying to see the progress made in recent years in improving the quality and reducing the price of air transport services. This has been achieved through a combination of technical advances and deregulation and liberalization, giving rise to more intense competition among suppliers. The air transport industry nevertheless remains a complex one where profitability is a constant challenge and where adequate access will continue to be an issue for smaller and more remote developing countries. Attempts to apply a multilateral approach to rule-making and liberalization have not been successful, and the question remains whether more could be offered at the multilateral level to supplement what has been achieved bilaterally and regionally in recent years.

The third and final essay in this Report deals with offshoring services, an issue that has been the subject of considerable public debate recently. The essay explores the concept of offshoring as a sub-category of outsourcing, considers the economic rationale for this kind of trade, and attempts to estimate its magnitude. This paper provides us with a timely reminder that there is nothing special about offshoring in terms of a trading activity. It is simply one more example of how countries can benefit from specialization. The benefits are shared by both exporting and importing countries, as the paper explains in some detail.

An important finding is that the extent of the effect of offshoring on aggregate employment, output and trade is far more modest than the public debate and recent press coverage of the issue would have us believe. This means that public perceptions of adjustment challenges associated with offshoring have been exaggerated, but it also means we cannot claim as much in terms of gains from trade. The General Agreement on Trade in Services (GATS) offers potential for mutually beneficial liberalization commitments, although certain clarifications and improvements in the Agreement could make the GATS more attractive still as an instrument of liberalization. But we must not fall for the fallacy that we should make a special case of offshoring. Progress in opening this market is no more or less valuable than that which can be achieved in any other market. A broad-based and ambitious approach to the realization of new trading opportunities is the challenge and the promise of the Doha negotiations.



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