FOCUS
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From Marrakesh to Singapore: *the last Ministerial gathering of the old GATT in 1994 and the first under the WTO in 1996 are milestones in the progression of a rules-based multilateral trading system. Trade Ministers last met in Asia in 1973 when the GATT's Tokyo Round was launched. (Photos: Morocco's Information Ministry and Mr. Steven Lee of the Singapore StraitsTimes)*

First WTO Ministerial opens in Singapore

The World Trade Organization will hold its first Ministerial Conference on 9-13 December in Singapore. Trade Ministers from 128 member governments will consider reports and recommendations from some 30 WTO bodies, and issue a Declaration that will shape the work programme of the organization during the next two years, until the next Conference in 1998.

"The Ministerial Conference will be an event of political importance and it should send a strong political message, one which emphasizes the opportunities in the new global economy while not ignoring the challenges," the WTO Director-General, Mr. Renato Ruggiero, said in a report on the state of world trade, which he will be presenting to the Conference (*see page 4*). "It should be a message of ambition and confidence for the multilateral system as it approaches its 50th anniversary in 1998," he added.

Mr. Ruggiero will also be reporting to the Ministers on informal meetings he had been chairing in Geneva, of heads of delegation (ambassadorial level), which had been discussing preparations for Singapore. At the close of his consultations on 29 November, general agreement on a draft Ministerial Declaration was reached on most issues but a few remained outstanding. □

Renato Ruggiero urges Singapore emphasis on the opportunities in the new global economy. (Photo by Tania Tang/WTO)

Panels established on US' "Helms-Burton" and India's patent treatment

The Dispute Settlement Body (DSB), on 20 November, established two panels: one at the request of the European Communities to examine the United States' Cuban Liberty and Democratic Solidarity ("Helms-Burton") Act; and the other requested by the United States in respect of India's patent protection for pharmaceutical and agricultural chemical products. Japan announced it would be informing the DSB of its intentions on the implementation of the DSB recommendations on Japan's alcoholic-beverages tax regime.

"Helms-Burton"

The EC reiterated a request made at the previous DSB meeting (see *WTO FOCUS No. 13*) for a panel to examine its complaint against the US' "Helms-Burton" Act, adding that it had not seen any changes in the US position.

The United States said that the Act was designed to promote democracy in Cuba, a goal that it believed the EC and other governments shared. It added that certain measures included in the formal EC panel request had been in force for some years, and had been justified by the United States under GATT 1947 as measures taken in pursuit of US security interests. It expressed surprise and concern that the EC had brought to the DSB their differences over Cuba. The United States reiterated that its dispute with the EC was not fundamentally a trade matter, and thus should not be brought to a WTO panel for decision. It said the WTO panel process would not lead to a resolution of the dispute, instead it would pose serious risks for the new organization. The United States urged the EC to explore other avenues in resolving the matter.

The DSB established a panel, as required by the WTO Dispute Settlement Understanding when the panel request is presented for the second time.

Canada and Mexico indicated their interest to participate as third parties in the panel proceedings.

Cuba maintained that it had never threatened the security of the United States, which, it said, was not the case with respect to US actions against Cuba.

US to implement gasoline reports

The United States and Venezuela, at the DSB meeting on 3 December, said they have agreed on the reasonable period of time for the implementation of the DSB recommendations on US standards for reformulated and conventional gasoline. The US said it would provide a status report in January 1997. The other complainant in this dispute—Brazil—noted the US action but expressed concern over the length of the implementation period.

The EC expressed concern over Indonesia's refusal to allow it to join in consultations requested by Japan and the United States on Indonesia's national car policy.

The DSB adopted rules of conduct for persons involved in the settling of disputes, including panelists and members of the WTO Secretariat. □

The DSB Chairman, Ambassador Celso Lafer of Brazil: a busy year for settling trade disputes. (Photo by Tania Tang/WTO)

Patent protection

The United States said that after failure of bilateral consultations, it was now requesting the establishment of a panel to examine its complaint against what it viewed as India's violation of the TRIPS Agreement by failing to provide in its law for the filing of applications for patents and for exclusive marketing rights in respect of such products.

India said it had done its best to respond to the US concerns during the consultations, and expressed disappointment with the US decision to proceed with the panel request. It said it would not stand in the way of a DSB decision establishing a panel.

The dispute between the United States and India concerns the transitional patent arrangements (Articles 70.8 and 70.9) of the TRIPS Agreement. Developing countries which do not at present provide product protection in an area of technology have up to 10 years to introduce such protection. However, in the case of pharmaceutical and agricultural chemical products, they must accept the filing of patent applications from the beginning of the transition period, though the patent need not be granted until the end of this period. If authorization for the marketing of the relevant pharmaceutical or agricultural chemical is obtained during the transition period, the developing country must, subject to certain conditions, provide an exclusive marketing right for the product for five years, or until a product patent is granted (or refused), whichever is shorter.

Japan to implement DSB recommendations

Japan announced its intention to meet its WTO obligations with respect to the implementation of the recommendations of the DSB with respect to its taxes on alcoholic beverages (see *WTO FOCUS No. 14*). As the process of tax reform for 1997 had just begun, it said it was not yet in a position to provide details of implementation. Japan said it would be consulting with the EC, Canada and the United States on the "reasonable period of time" in which the recommendations must be complied with, as required by the WTO Dispute Settlement Understanding. □

Costa Rica appeals panel report

Costa Rica has appealed the panel report on United States' restrictions on imports of cotton and man-made fibre underwear. In its Notice of Appeal filed on 11 November, it asked the Appellate Body to review the panel's legal reasoning regarding the date of application by United States of the import restrictions. The panel report was circulated to WTO members on 8 November.

The dispute concerned a restriction imposed by the United States, in June 1995, on imports of Costa Rican cotton and man-made fibre underwear for a period of 12 months starting from March 1995. At the same time, the United States notified the restrictions, which it justified under the special safeguard provisions of the WTO Agreement on Textiles and Clothing (ATC), to the Textiles Monitoring Body (TMB).

Under the ATC, a member may take safeguard action if it can demonstrate that "a particular product is being imported into its territory in such increased quantities as to cause serious damage, or actual threat thereof, to the domestic industry producing like and/or directly competitive products..." The TMB found that the U.S. did not demonstrate the existence of serious damage but it could not reach consensus on the existence of actual threat of serious damage.

In further consultations recommended by the TMB, the two parties failed to reach a mutually agreed solution. Costa Rica brought its complaint to the DSB, which established a panel in March 1996 to examine the dispute.

In analysing the question of "serious damage", the panel observed that US imports of the Costa Rican products had increased 22% in 1994. However, it noted that following the US imposition of the restraint on Costa Rica the United States increased import quotas of five other exporting countries by a total of 478%. In the panel's view, the United States could not expand imports of the products from other countries and attribute the serious damage to another country. Thus, it found that the United States had failed to comply with ATC provisions by imposing a restriction on the Costa Rican products without making an adequate attribution of serious damage to such imports.

The panel also noted that at least 94% of Costa Rican underwear exports to the United States were made from fabric cut in the United States. It concluded that in implementing the restrictions, the United State did not make allowance for re-imports, as provided for in the ATC.

Overview of panels in the WTO

(As of 22 November 1996)

Complainants	Subject of complaint
Appellate reports adopted	
Venezuela, Brazil	United States - Standards for reformulated and conventional gasoline
EC, Canada, US	Japan - Taxes on alcoholic beverages
Panel report appealed	
Costa Rica	United States - Restrictions on imports of cotton and man-made fibre underwear
Panel reports issued	
Philippines	Brazil - Measures affecting desiccated coconut
Active panels	
India	United States - Measures affecting imports of woven wool shirts and blouses
Ecuador, Guatemala, Honduras, Mexico, US	European Communities - Regime for the importation, sale and distribution of bananas
United States	EC - Measures affecting meat and meat products (hormones)
Canada	EC - Measures affecting livestock and meat (hormones)
United States	Canada - Certain measures concerning periodicals
United States	Japan - Measures affecting consumer photographic film & paper
EC	United States - The Cuban Liberty and Democratic Solidarity Act
United States	India - Patent protection for pharmaceutical and agricultural chemical products
Establishment of panels requested	
United States	EC- Duties on imports of grains
United States	Pakistan - Patent protection for pharmaceutical and agricultural chemical products
Canada	Brazil - Export financing programme for aircraft

Before the panel, Costa Rica argued that the retroactive application of the restraint—from the date of the original US request for consultation in March 1995 instead of from the date of the imposition of restraint in June 1995—violated the ATC. The United States maintained this was an established MFA practice and was not prohibited by the ATC. The panel noted that the ATC is silent on this issue but found that the United States had violated its obligations under GATT 1994 on publication or trade regulations, and consequently under the ATC.

The panel concluded that the United States was in violation of its ATC obligations and recommended that it bring the measure into compliance with the ATC. It further suggested that the United States bring the measure into compliance by immediately withdrawing the measure. □

TMB issues recommendations on HK-Brazil dispute

The Textiles Monitoring Body (TMB), on 9-11 September and 4-6 November, examined the provisional imposition by Brazil in June 1996, of restraint measures on imports of categories 618 (woven artificial filament fabrics) and 838 (men's and boys' shirts, knitted or crocheted, of other textile materials) from Hong Kong. Brazil had introduced the measures under the special safeguard provision of the WTO Agreement on Textiles and Clothing.

The TMB came to the following conclusions:

» On category 618, Brazil was justified in invoking the safeguard provision as it had demonstrated that its domestic industry was experiencing serious damage and that such damage could be attributed in part to imports from Hong Kong. However, the TMB recommended that Brazil's measure be rescinded at the latest by the end of 1997 in view of indications that the Brazilian industry concerned had been already undertaking important restructuring and adjustment.

» On category 838, Brazil had not demonstrated that the domestic industry concerned had experienced serious damage and recommended that Brazil rescind the measure. □

Renato Ruggiero

The state of world trade, trade policy and the WTO

The WTO Director-General, Mr. Renato Ruggiero will present at the opening day of the Ministerial Conference in Singapore, on 9 December, his annual overview on developments in international trade and the trading system:

I. Recent trends in world trade

1995: Growth Continues

With strong growth in both merchandise and services trade in 1995, the value of total cross-border trade in goods and services exceeded $6,000 billion for the first time.

Last year was a good year for world trade, as the detailed analysis in Chapter Two makes clear. True, the 8 per cent increase in the *volume* of world merchandise trade in 1995 represented a moderate slowdown from the unusually large 10 per cent gain in 1994. But it exceeded the average growth of trade over the past five years (6 per cent) and tied with 1988 for the second highest growth in the volume of trade in the past 10 years. Moreover, the 5 percentage point excess of trade growth over merchandise output growth (8 per cent versus 3 per cent) was the second largest in a decade, indicating that globalization is continuing at a rapid pace. In contrast, the last time output grew by 3 per cent—in 1986—trade grew by only 4¼ per cent.

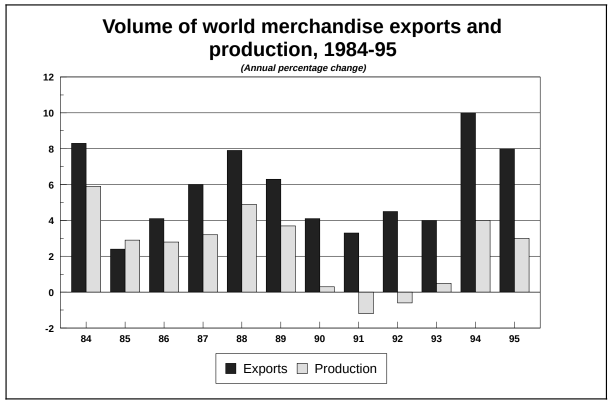
In *value* terms, world merchandise trade increased 19 per cent, and world trade in commercial services 13 per cent, in 1995.

Growth in merchandise trade in 1995 varied across regions, with the transition economies experiencing the strongest rates of growth: their exports and imports increased respectively by 26 and 23 per cent. Even for Africa and the Middle East, which registered below-average growth rates in 1995, the surge in trade was strong enough to exceed their performance during the first half of the 1990s. For instance, benefiting from an increase in commodity prices, the value of Africa's exports grew by 12 per cent, compared to 3 per cent in the previous year and negative growth in the three preceding years. In Africa, countries with export growth exceeding 20 per cent included Angola, Central African Republic, Kenya, Tanzania and Togo.

Countries that achieved comparatively high trade growth in 1995 covered a wide geographical area. For instance, among the top 50 merchandise exporters, the value of merchandise exports increased by 30 per cent or more for Argentina, Chile, Finland, Mexico, Poland, Republic of Korea, Sweden, and the Philippines. Similarly, among the top 50 merchandise importers, the value of merchandise imports increased by 30 per cent or more for Brazil, Chile, Czech Republic, Malaysia, Poland, Republic of Korea, South Africa, Thailand, Turkey, and Venezuela.

Prospects: after a comparative slowdown in 1996, trade growth to speed up again in 1997

At the beginning of 1996, modest slowing of trade growth was widely anticipated for the year as a whole. Based on the limited data now available for the first half of the year, it appears the slowdown may be somewhat sharper than predicted. But the volume of merchandise trade for 1996 as a whole is expected to increase by about 5 per cent. If that projection proves accurate, trade growth this year will match the expansion in 1990 and exceed the growth of trade in four of the past 10 years.



The slowdown in the rate of expansion of world trade appears to be largely the result of reduced consumer demand in Western Europe and North America. Related to this is the less rapid expansion of trade in Asian developing countries—though with merchandise export volumes expected to increase by 9 per cent, and import volumes by 10 per cent, these countries are expected to continue to expand their trade at a rate well above world average.

In fact, it is not so much a question of a sharp slowdown in global trade growth, as a return to more typical trade growth following two exceptional years. With output projected to grow this year at about the same 3 per cent as last year, a 5 per cent expansion of trade would also bring the excess of trade growth over output growth back to a level more typical of the postwar average.

This report forms the first chapter of the **WTO Annual Report 1996**, *which incorporates in one publication the former* International Trade, WTO Activities, *and the Director-General's Annual Report to the Trade Policy Review Body entitled "Overview of Developments in International Trade and the Trading System". It is available from the WTO Secretariat (two-volume set, SwF75.-).*

The recent comparative slowdown in trade and economic growth of several Asian countries also reflects the result of domestic policies designed to achieve better macroeconomic stability and prevent emergence of inflationary pressures. This can be seen as a consolidation of gains made during the last 10 years when the volume of world trade grew by 80 per cent, and as providing a basis for stronger growth in future years. Moreover, in 1997, world merchandise trade growth is expected to accelerate as economic activity picks up in Western Europe.

The sustained high growth trend in developing countries'

Leading exporters and importers in world merchandise trade, 1995 (Billion dollars and percentage)

Exporter	Value	Share	An. chnge	Importer	Value	Share	An.chnge
1. United States	583.9	11.6	14	1. United States	771.3	14.9	12
2. Germany	508.5	10.1	19	2. Germany	443.2	8.6	16
3. Japan	443.1	8.8	12	3. Japan	336.0	6.5	22
4. France	286.2	5.7	22	4. France	274.5	5.3	20
5. United Kingdom	242.1	4.8	18	5. United Kingdom	265.3	5.1	17
6. Italy	231.2	4.6	22	6. Italy	204.0	3.9	22
7. Netherlands	195.3	3.9	24	7. Hong Kong retained imports(a)	196.1 52.1	3.8 1.0	18 21
8. Canada	192.2	3.8	16	8. Netherlands	175.9	3.4	25
9. Hong Kong domestic exports re-exports	173.9 29.9 143.9	3.5 0.6 2.9	15 4 17	9. Canada	168.4	3.3	9
10. Belgium-Luxembourg	168.3	3.3	23	10. Belgium-Luxembourg	154.2	3.0	21
11. China	148.8	3.0	23	11. Korea, Rep. of	135.1	2.6	32
12. Korea, Rep. of	125.1	2.5	30	12. China	132.1	2.6	14
13. Singapore domestic exports re-exports	118.3 69.6 48.7	2.3 1.4 1.0	22 19 27	13. Singapore retained imports(a)	124.5 75.8	2.4 1.5	21 18
14. Chinese Taipei	111.7	1.0	20	14. Spain	114.8	2.2	25
15. Spain	91.6	1.8	25	15. Chinese Taipei	103.6	2.0	21
16. Switzerland	81.6	1.6	16	16. Switzerland	80.2	1.6	18
17. Sweden	79.9	1.6	30	17. Malaysia	77.8	1.5	30
18. Mexico(b)	79.7	1.6	31	18. Mexico(b)	72.9	1.4	-10
19. Malaysia	74.0	1.5	26	19. Thailand(c)	70.9	1.4	30
20. Russian Federation(c,d)	64.8	1.3	26	20. Austria(c)	67.3	1.3	22
21. Austria(c)	58.1	1.2	28	21. Sweden	64.4	1.2	25
22. Thailand(c)	56.5	1.1	25	22. Australia	61.3	1.2	15
23. Australia	53.1	1.1	12	23. Brazil	53.8	1.0	49
24. Denmark	48.8	1.0	17	24. Denmark	43.5	0.8	21
25. Saudi Arabia(c)	48.2	1.0	13	25. Indonesia	40.9	0.8	28
26. Brazil	46.5	0.9	7	26. Russian Federation (c,d,e)	40.4	0.8	12
27. Indonesia	45.4	0.9	13	27. Turkey	35.7	0.7	53
28. Ireland	43.6	0.9	28	28. India	34.4	0.7	28
29. Norway	41.7	0.8	20	29. Norway	32.7	0.6	20
30. Finland	40.0	0.8	36	30. Portugal	32.6	0.6	21
31. India	30.5	0.6	22	31. Ireland	32.4	0.6	26
32. South Africa	27.7	0.6	9	32. South Africa	30.6	0.6	31
33. Portugal	22.8	0.5	27	33. Poland(c)	30.0	0.6	32
34. Poland(c)	22.5	0.4	30	34. Israel	29.6	0.6	17
35. United Arab Emirates(c)	21.7	0.4	14	35. Finland	28.9	0.6	25
36. Turkey	21.6	0.4	19	36. Philippines(c)	28.2	0.5	25
37. Argentina	21.0	0.4	34	37. Saudi Arabia	27.2	0.5	19
38. Israel	19.0	0.4	13	38. Greece(c)	25.5	0.5	19
39. Venezuela	18.5	0.4	18	39. United Arab Emirates(c)	22.8	0.4	11
40. Philippines	17.5	0.3	32	40. Czech Republic(c)	20.9	0.4	40
41. Czech Republic	17.0	0.3	20	41. Argentina	20.1	0.4	-7
42. Chile	16.0	0.3	38	42. Chile	15.9	0.3	35
43. Iran(c)	16.0	0.3	10	43. Hungary	15.7	0.3	8
44. New Zealand	13.7	0.3	13	44. New Zealand	14.0	0.3	17
45. Kuwait	13.0	0.3	12	45. Colombia	13.9	0.3	17
46. Hungary(c)	13.0	0.3	22	46. Venezuela	12.0	0.2	34
47. Greece(c)	11.2	0.2	19	47. Egypt(c)	11.7	0.2	15
48. Nigeria(c)	10.3	0.2	10	48. Pakistan	11.5	0.2	29
49. Algeria(c)	9.8	0.2	19	49. Iran(c)	11.1	0.2	-1
50. Colombia	9.8	0.2	16	50. Algeria(c)	10.4	0.2	3
Total of above(f)	4834.8	96.1	-	Total of above(f)	4819.8	93.2	-
World(f)	5033.0	100.0	19	World(f)	5170.0	100.0	19

(a)Retained imports are defined as imports less re-exports. (b)Includes shipments through processing zones (maquiladoras). (c)Secretariat estimates. (d)Excludes trade with the Baltic States and the CIS. (e)Imports are valued f.o.b. (f)Includes significant re-exports or imports for re-export.

trade is largely explained by the implementation of domestic policies conducive to growth, and by the liberalization commitments they have undertaken in the context of the multilateral trading system. For developing countries, excluding oil exporters, the average ratio of trade to GDP has risen from 10 per cent in 1970 to nearly 30 per cent in 1995; the latter proportion is about 10 percentage points higher than the corresponding ratio for developed countries. In 1996, the growth rate of developing countries' output is expected to remain at around 6 per cent, compared to 2 per cent for industrialized countries, despite an expected lower rate of increase in import demand in industrialized countries as a group. It is estimated that by the middle of the next decade, developing countries will generate a slightly larger share of total world output than industrialized countries.

The rapidly expanding intra-developing country trade flows now constitute a significant growth stimulus not only among developing countries but for the global economy as a whole. For example, the intra-regional exports of developing Asian economies at $287 billion in 1995 are catching up with their combined exports of $314 billion to North America and Western Europe. During 1990 to 1995, North American exports to developing Asian economies grew by 13½ per cent per annum, compared to 7½ per cent for exports to the rest of the world. Exports from Western Europe and Japan to developing Asia grew even faster at 15 to 16½ per cent per annum, respectively, about three times the growth in their exports to all other regions. The total share of developing Asian economies in world trade is now about the same as that of North America, exceeds that of the European Community (excluding intra-EC trade), and is approximately double that of Japan. This share is expected to increase further in coming years and serve as a major source of growth for the global economy.

II. Trends in trade policies

It is no exaggeration to say that the last 10 years have seen a revolution in trade policies. When the Uruguay Round began in 1986, the world was a very different place. As detailed in Chapter Three, substantially reduced average tariff levels on industrial products applied by developed countries were offset by the widespread use of quantitative restrictions. Agriculture in these countries was increasingly protected from international competition by a variety of trade-distorting devices.

In many developing countries, import-substitution policies were still the norm, resulting in high tariffs as well as quantitative restrictions. As a result, these countries were marginal players in the international trading system.

Central and Eastern European countries were operating centrally-planned economies and their participation in international trade was dictated not by the market but by bureaucratic decisions.

The multilateral trading system was fragmented because membership of several key GATT agreements — and indeed of the General Agreement itself — was not universal. Trade in services was largely outside the scope of multilateral disciplines. Intellectual property rights, while governed by international standard-setting conventions, were not subject to any treaty for enforcement of these standards. This provided a fertile ground for the rise of unilateralism and bilateralism in trade relations. The dispute settlement machinery of GATT had become less effective because of the opportunities that existed for blockages. Confidence in GATT and in multilateralism was at a low ebb.

Cargo heading to port: the last ten years have seen a revolution in trade policies. (ILO Photo)

The extent and speed of the changes since then are striking. Developed countries have not only reduced further their tariffs on industrial products, but have also eliminated or undertaken to phase out quantitative restrictions on these products. They have begun the process of reforming the agriculture sector, reducing market-access restrictions, trimming trade-distorting domestic and export subsidies, and converting a variety of non-tariff measures into tariffs.

Developing countries have generally abandoned import-substitution policies and made significant progress in lowering trade barriers. During the Uruguay Round they made commitments to reduce and bind tariffs and the process of reduction has continued after the conclusion of the Round in many important countries, particularly in Asia. Some developing countries maintain quantitative restrictions for balance-of-payments reasons, but this is the exception rather than the rule and the prospects for their elimination in the near term are bright. The commitment by many developing countries to economic and trade reform has not only brought them fully into the trading system but also made them leading players.

Likewise, the erstwhile socialist economies have generally embraced the market economy and have become, or are in the process of becoming, part of the trading mainstream.

Looking at the pattern of reform overall, the WTO's experience with Trade Policy Reviews suggests that reform works best under conditions which involve a long-term policy framework, where alternative forms of protection do not replace those which are phased out, where a transparent framework is adopted for policy development and monitoring, and where there is mutually supportive domestic, regional and multilateral liberalization.

The significance of these changes has sometimes been obscured by the dramatic geo-political shifts of the last decade. Yet, though they lack a symbol like the fall of the Berlin Wall, their importance over the longer term may be even greater. The emergence of a virtual global consensus on the fundamentals of trade policy reinforces economic and political liberalization and lessens the risk of a reversion to old ways. Furthermore, open trade policies help encourage the rapid advance of global economic interdependence, not only releasing enormous energy for growth but also promoting a community of interest among countries at different levels of development. The WTO in turn embodies the new trade policy paradigm and gives it contractual solidity and enforceability.

A number of indicators show the growing economic interdependence among nations. Over the period 1973-1995, the estimated value of annual outflows of foreign direct investment multiplied 12 times (from $25 billion to $315 billion), and the value of merchandise exports multiplied eight and a half times (from $575 billion to $4,900 billion). Sales of foreign affiliates of multinationals are estimated to exceed the value of world trade in goods and services (the latter was $6,100 billion in 1995).

The reality of the global economy has outstripped international trade rules and policy approaches agreed half a century ago, in a different world. More than adjusting specific rules and disciplines in periodic negotiating rounds, what has become increasingly necessary is a permanent framework around which the trading system can grow and evolve continuously in a way which reflects the changing nature of world trade and of the participants in it.

This is why the establishment of the WTO deserves to be seen as one of the outstanding international achievements of the decade, as important in its time as the original foundation of the multilateral system was in its.

In systemic terms, the change that the WTO represents is clear. For example, the dispute-settlement machinery of WTO is now much more effective in dealing with disputes among Members and defusing them at an early stage. Expansion of the scope of multilateral rules to cover trade in services and intellectual property rights, coupled with the more effective dispute settlement machinery, discourages recourse to bilateralism and unilateralism and thus reduces international trade friction. All the past ills of the trading system may not have been cured, but it is now better equipped than ever before to promote growth and bolster stability.

III. WTO activities in 1996

When the WTO took over from the GATT, it did not have the luxury of a relaxed beginning and a gradual build-up to its new and greatly expanded mandate. The demanding pace of work in its first year, and again now in its second year, is a good indication of the central role the WTO is playing in the ongoing integration of the world economy. At the most basic level, the pace of the work is evident from the number of meetings. There were 1,650 meetings in 1995 (up 5 per cent from an already busy 1994), and in the first half of this year, the number of meetings was running 17 per cent ahead of 1995 (and 55 per cent above the first half of 1994). Allowing for periods when there are few, if any meetings, this means an average of nearly 40 meetings a week in 1995 and 46 meetings a week in 1996. All delegations in Geneva, and especially the ones with relatively smaller staff and fewer back-up resources in capitals, are feeling the pressure of this work load.

As regards the substance of those meetings, even a brief glance at the review of WTO Activities in Chapter Five reveals the extraordinary breadth of the WTO's mandate. The trade issues covered included:

The WTO headquarters in Geneva: the new organization did not have the luxury of a relaxed beginning. (Tania Tang/WTO)

» market access
» rules pertaining to specific product categories such as agriculture and textiles and clothing
» rules relating to anti-dumping, subsidies and safeguards, regulations and standards covered by technical barriers to trade and sanitary and phytosanitary measures
import licensing procedures
» rules of origin
» trade in services
» trade-related intellectual property measures
trade and environment
» accession

The work was carried out through some 30 different bodies. The discussions in these bodies provide Members with an opportunity to clarify and monitor the policies used by other Members; this process is the first stage of the mutually beneficial interaction among Members which eases trade tensions and helps to contain possible disputes.

For issues that cannot be resolved in other ways, the WTO's reinforced **dispute settlement** system continues to prove its effectiveness. The WTO dispute settlement procedures offer both a pragmatic approach which encourages the resolution of differences through consultations and a formal mechanism for resolving disputes through their submission to a panel and the WTO Appellate Body.

As of 16 October 1996, 59 requests for consultations covering 41 matters had been made under the WTO's Dispute Settlement Understanding. Of these, nine matters were settled without even the establishment of panels, and three were settled after the panel's establishment but prior to the conclusion of the panel process. Two panels (the Gasoline case and the Japan Taxes case) have completed their work, and these cases have also been reviewed by the Appellate Body. Currently, there are seven active panels on a variety of issues.

In a marked change from the past, when the dispute settlement system was mostly used by developed countries, both developed and developing countries are actively using the system to settle their trade disputes. This is a sign of increased confidence in the impartiality and effectiveness of the WTO's multilateral dispute settlement system. Ministers at Singapore can justly regard the dispute settlement system as an outstanding success story of the WTO's first two years.

The central focus of the WTO's work in 1996, as in 1995, has been the **implementation** of the commitments undertaken at the end of the Uruguay Round. These included commitments to continue negotiation in a number of vitally important sectors of trade in services. Two of these negotiations were due for completion in 1996: **maritime services and basic telecommunications.** Though the negotiations in maritime services were suspended this year, the negotiators were able to agree on some positive points. Negotiations will resume in the next major round of services liberalization, which is only three years away, and they will resume on the basis of the best offers tabled in this negotiation. Meanwhile, there is an understanding that countries will respect a "peace clause", i.e. not take measures to improve their negotiating position except in response to measures taken by others. In basic telecommunications, 34 members, counting the EC as one, made offers to grant foreign access to domestic telecoms markets for a wide variety of services. Thirty of these members also offered commitments in the vital area of domestic regulation. This was the first time that multilateral commitments were negotiated on fundamental competitive principles. Since the negotiations could not be completed by April this year, it was decided to freeze the existing offers until a one-month period beginning 15 January 1997, when participants will be able to improve, change or withdraw their offers.

Concluding the telecoms negotiation is clearly a top priority for the new year—as is improving on the result obtained in 1995 in financial services. The telecom sector alone is worth over $500 billion in global revenue annually, and the offers tabled so far cover 93 per cent of this amount. These sectors are the arteries and the nervous system of all economies, whatever their level of development.

These negotiations also open a window on the future of trade negotiations. Negotiations in new knowledge-based sectors transcend the traditional notions of exchanging concessions among opposing interests. In a world where economic prospects will more and more depend on access to an efficient financial and communications infrastructure, all parties to the negotiations have essentially the same interest. Liberalization within agreed rules can thus be seen as a shared understanding, not a trade-off of conflicting agendas. A more widespread appreciation of this perception would contribute significantly to the momentum for successfully concluding these negotiations—and others like them in the future.

Another way in which the WTO is embracing its future potential is through expanding its membership. Since the establishment of the WTO, the **accession** process for four countries (Ecuador, Bulgaria, Mongolia and Panama) has been completed, three of them in 1996. With the accession of Panama, all countries in the Latin American region are now Members of the WTO. The WTO currently has 28 accession Working Parties. The most recent requests for accession were from Georgia, the Kyrgyz Republic and the Sultanate of Oman. Existing requests include important economies like Belarus, China and Chinese Taipei, the Russian Federation, Saudi Arabia, Ukraine and Vietnam, economies in transition like those of the CIS, Estonia, Latvia and Lithuania, Croatia and the Former Yugoslav Republic of Macedonia, and important developing economies like Jordan. These are all important players on the international economic and trade scene. They are also among the most significant emerging markets. The strong desire among these countries to join the WTO shows the growing appeal of the concept of a truly universal trading system based on internationally agreed and enforceable rules.

The accession of new Members and the more active participation of many existing ones have placed an added importance on the **technical cooperation** activities of the WTO. This programme, which involves a very modest budget commitment relative to other international development aid activities, aims at building human and institutional capacity in developing and in transition economies so that they can benefit to the maximum from their trading opportunities.

Since the entry into force of the WTO in January 1995, a total of 173 technical cooperation activities has been organized both in developing regions and in transition economy countries, of which 94 were organized in 1996. These activities, including those organized at the regional level, benefited over 100 countries. A lasting, structural impact of these activities is sought through human resource development and institutional capacity building. In this context, a joint framework agreement was concluded between WTO, UNCTAD and the International Trade Centre (ITC), to promote complementarity among these institutions and to avoid duplication of technical assistance activities provided by them to African countries. Furthermore, as a result of an initiative by the Director-General following his visit to Africa in January 1996 with the Executive Director of the ITC, an "Integrated Technical Assistance Programme in Selected Least-Developed and other African Countries" was developed in close coordination between WTO, UNCTAD and the ITC.

This Integrated Programme initially covers eight African countries, including four least developed countries: Benin, Burkina Faso, Tanzania, Uganda, Côte d'Ivoire, Ghana, Kenya and Tunisia. It is envisaged to extend this programme to other countries in the short- and medium-term. The objective is to enhance the development prospects and competitiveness of African and least developed countries through increased participation in international trade. Other joint technical cooperation activities include WTO collaboration with the ACP Secretariat and the European Union, which resulted in a series of subregional seminars for ACP countries undertaken between February and October 1996, including five in Africa, one in the Caribbean and one in the Asia-Pacific region.

1996 has also been the year in which the **least-developed countries** began to receive the attention their situation deserves. The urgent need for concrete measures to counter their marginalization was one of the main themes at the G7 Summit in Lyon this year, at which the WTO was present for the first time. On that occasion, and on numerous occasions thereafter, the Director-General has put forward proposals to improve the situation of least-developed countries. These include:

» full and rapid implementation of the Marrakesh Declaration on the Least-Developed Countries

» improving their market access by working towards the elimination of all tariff and non-tariff barriers faced by their exports

» helping to improve their investment climate, especially by negotiating, when appropriate, multilateral rules on investment

» helping build human and institutional capacity by improving the effectiveness and coordination of technical cooperation.

The collective effort to help least-developed countries continues to be a major theme for the **cooperation between the WTO and other international organizations**. In 1996 these links were further developed and deepened. In particular, the Marrakesh Ministerial mandate to work for greater coherence in global economic policymaking was acted upon through the negotiation of cooperation agreements between the WTO and the IMF and World Bank. These agreements provide a basis for, *inter alia*, improving the exchange of information among the three organizations, attendance at each other's relevant meetings and pursuing mutually consistent and supportive policies. At the time of writing they were in the process of final approval by the respective governing bodies of the three institutions.

In addition, the WTO's already close cooperation with UNCTAD has been further strengthened, through the joint technical cooperation projects noted above, and through collaboration between the two secretariats at all levels. The Director-General has continued to hold regular meetings with Mr. Ricupero, the Secretary-General of UNCTAD, and made addresses to UNCTAD IX and UNCTAD's Trade and Development Board; Mr. Ricupero has in turn addressed the WTO General Council and Committee on Trade and Development.

Cooperation has likewise been intensified with the United Nations and its specialized agencies, notably in the context of the campaign for the least-developed countries. The WTO has also maintained cooperative contact in 1996 with a wide range of other organizations such as the OECD, WIPO, the World Customs Organization and the FAO, whose World Food Summit in November the Director-General is scheduled to address.

Throughout this increasing network of contact and collaboration the WTO is reinforcing the message that **trade is a central concern of international relations** and that the **trade dimension of growth and development** is one that cannot be underestimated.

Another very important area in which the WTO made significant progress in 1996 was the consideration of **regional trade agreements** in relation to the multilateral system. The considerable recent expansion in the number, scope and ambition of such initiatives has made it all the more essential to ensure not just that they conform to WTO rules but also that, in a wider sense, they reinforce, rather than detract from, the multilateral system. This year, the WTO's Members greatly improved the Organization's capacity to handle these issues by establishing a Committee on Regional Trade Agreements, which met for the first time in May 1996. The Committee was able to identify, through the examinations it conducted, a number of issues related to the relevant WTO rules which are of importance for its consideration of the systemic implications of regional trade agreements. In addition, the Committee undertook the examination of 21 regional trade agreements out of the 32 outstanding as of June 1996; provided a single forum for consideration of a variety of issues related to regional trade agreements under the WTO; and developed the "Standard Format for Information on Regional Trade Agreements" which is expected to accelerate the provision of information on agreements notified to the WTO.

Twice a year, the WTO holds training courses for developing country officials. Shown above are the 27 participants in the fourth trade policy course held from August to November 1996.

Lastly, as the scope of the multilateral trading system has evolved and traditional external barriers have been reduced by Members, domestic deregulation and international investment have assumed greater importance. The **special topic** in this year's annual report is "**Trade and Foreign Direct Investment**" (Chapter Four), which examines the evidence and the literature concerning the subject, sets out the policy choices WTO Members face, and concludes that only a multilateral negotiation in the WTO, when appropriate, can promote a global and balanced framework for dealing with the linkages between trade and investment.

The Significance of the Singapore Ministerial

This brief survey of the challenges and achievements of the WTO's second year makes clear the significance of the issues that are on the table at Singapore.

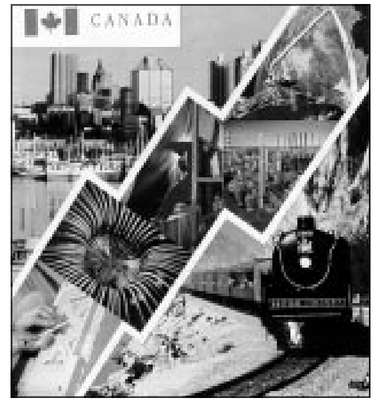
The Ministerial Meeting will be an event of political significance and it should send a strong political message, one which emphasizes the opportunities in the new global economy while not ignoring the challenges. It should be a message of ambition and confidence for the multilateral system as it approaches its 50th anniversary in 1998.

Unlike most of its GATT predecessors, the Singapore Ministerial will not be the start or the end of a major negotiation. The first ministerial meeting of the WTO will, instead, be a very important point on a continuum—the evolution of the multilateral trading system. This report sets out some of the challenges that the pace and the extent of global economic integration pose to the system. The new effectiveness and credibility that it has gained through the WTO must be maintained by ensuring that the Organization is mandated and equipped to respond to these challenges, and to assist its Members to do so. As the trading world moves ahead, the WTO cannot stand still. The issues at stake are not just ones of growth and prosperity, vital though these are; the existence and expansion of a trading system based on internationally agreed and enforceable rules and disciplines is one of the great successes of postwar international relations, and the world needs it to continue as an example of cooperation and a guarantee of stability.

Canada

Assurance that the WTO is "bedrock" of trade policy

The WTO Trade Policy Review Body conducted its fourth review of Canada's trade policies on 18 and 19 November 1996. Excerpts from the concluding remarks by the Chairperson, Ambassador Anne Anderson of Ireland:



Members acknowledge Canada's recent liberalization efforts but a number of concerns remains. (Photo montage courtesy of the Permanent Mission of Canada, Geneva)

Members recognized Canada's strong support for the multilateral trading system and its contribution to preparations for the WTO Ministerial Conference in Singapore. They noted Canada's progress in implementing and consolidating WTO Agreements, which had contributed to a more liberal trade régime in several areas.

Members generally saw Canada's participation in regional initiatives through APEC, the FTAA and the newly concluded free-trade agreement with Chile as complementing its actions at the multilateral level. They also viewed Canada's parallel implementation of the NAFTA and WTO agreement as complementary in general. However, some Members expressed concerns about possible trade diversion stemming from bilateral or regional preferences; in this connection, they linked the expansion of bilateral trade in textiles and clothing and in motor vehicles to the strengthening of NAFTA rules of origin and the growing gap between NAFTA and m.f.n. tariffs.

The representative of Canada responded that the GATT, and now the WTO, was the "bedrock" of his country's trade policy, and the framework for Canada's other bilateral or regional initiatives. Although Canada was obliged to place emphasis on managing its relationship with its largest trade partner, and implement the NAFTA, it continued to work for the complementarity of regional and multilateral rules.

Members welcomed the continued reductions in tariffs under the NAFTA and WTO agreements and the further autonomous cuts being made in m.f.n. and preferential rates. Average m.f.n. tariffs on manufactures were low; however, there were still significant peaks in textiles and clothing. By contrast, out-of-quota tariffs in agriculture were often prohibitive.

Members recognized that new anti-dumping initiations by Canada had declined in the last two years, continuing a trend established in the mid-1980s, and sought information regarding the current review of Canada's Special Import Measures Act.

In return, the representative of Canada stressed that Canada's performance in the tariff area was better than indicated in the TPR Report; across all imports, the trade-weighted applied tariff averaged only 1.6 per cent. Referring to the gap between m.f.n. and preferential rates, he noted that movement towards global free trade would reduce such gaps; Canada remained ready to support further multilateral tariff liberalization. The ongoing three-year tariff review was intended to make the tariff system simpler, more transparent and predictable, and to reduce regulatory costs. Consultations with the business sector were underway with a view to introducing a new customs tariff on 1 January 1998. Canada was also reducing its tariff on textile and clothing items; unilateral cuts made prior to the conclusion of the Uruguay Round were covered by the Uruguay Round reduction commitments and would narrow the gap vis-à-vis NAFTA rates. The recent decline in anti-dumping initiations was attributable to more favourable economic conditions and strengthened competitiveness.

Members recognized that Canada had taken several initiatives aimed at revitalizing the economy by reducing State involvement. Public expenditure on agriculture had been reduced by 20 per cent, due essentially to the elimination of grain transport subsidies. However, supply management regimes for dairy, poultry and egg products retained various restrictions on foreign access.

The representative of Canada responded that Canada's current tariff quota system reflected its Uruguay Round concessions on agriculture. With regard to further WTO discussions on agriculture, he said that Canada fully supported a programme of analysis and information exchange within the WTO on agricultural trade-policy matters, not limited to market-access questions, with a view to preparing for the eventual resumption of negotiations foreseen in the Agreement on Agriculture.

***

Members fully acknowledged the export-driven growth in the Canadian economy over the past two years, the liberalization in certain sectors and the various initiatives to review and update trade policy mechanisms. However, a number of concerns that had been expressed at earlier reviews remain. These include continuing high levels of protection in the agricultural sector, the large number of anti-dumping measures still in force, and the problems of ensuring that policies shaped at federal level were fully carried through at sub-federal level. Other issues that received emphasis were remaining restrictions in the services sector and the manner of implementation of the Agreement on Textiles and Clothing.

Developments in relation to NAFTA were of particular interest to Members, both in the wider context of interaction between regional and multilateral arrangements and also in terms of Canada's heavy dependence on the U.S. market. Members thus encouraged Canada to maintain its strong commitment to multilateralism and to continue to give close attention to ensuring complementarity between regional and multilateral initiatives. □

El Salvador

Wide-ranging structural reforms

The TPRB concluded its 1996 work programme with its first review of El Salvador's trade policies and practices on 25-26 November. Excerpts from the Chairperson's concluding remarks:

Members recognized that trade liberalization, together with the deregulation of domestic markets, had been a key element in El Salvador's economic growth, although the trade to GDP ratio had not yet recovered to 1980 levels. In addition, members noted the concentration of trade both in terms of partners and in goods. Members asked whether exports currently benefiting from preferential régimes would be competitive without these preferences.

Members noted that El Salvador had substantially reduced tariffs and that all rates had been bound, albeit at ceiling levels. Questions were raised regarding the persistence of tariff escalation and peaks in some sectors, as well as the spread between applied and bound rates. Members asked if there were plans to continue reducing tariffs for final goods and to reduce the WTO bound rates.

Members commended El Salvador's efforts to bring its national trade legislation into consistency with the WTO Agreements. However, it was noted that certain aspects of some laws were still outdated and in need of reform.

In response, the representative of El Salvador said that trade policy was based on the coordinated Central American tariff reduction programme, designed to reduce costs and contribute to the development and modernization of production. This was essential to diversify exports and markets. To complement this programme, El Salvador also had a programme to increase national competitiveness in world markets. The Government would implement these reforms in a comprehensive, progressive manner, and was studying how best to incorporate sectors such as textiles, clothing, sensitive agricultural products and leather into the reform programme. He provided information on the six-monthly tariff reductions planned through to July 1999, when the ceiling would be reduced to 15 per cent for imports of most goods produced in Central America, with duties on most other goods eliminated or reduced to very low levels. However, at present it was not considered prudent to lower bound rates, given the vulnerability of the external sector to remittances. Nevertheless, he stressed that El Salvador was also committed to further improvement in its trade policy régime in the few areas where non-tariff measures remained, including administrative and registration procedures for imports of pharmaceuticals and saccharin.

Members noted that, despite the efforts made to liberalize the import régime, import and customs formalities were still cumbersome, lacked transparency and remained an obstacle to trade. Members asked whether there were plans to simplify these requirements and to modernize customs. There was a question on the time-frame for creating a one-stop window for import procedures.

Structural reforms have attracted high-technology industries to El Salvador. (Photo courtesy of the Permanent Mission of El Salvador, Geneva).

Noting that the present system of customs valuation was based on the Brussels Definition of Value (BDV), members urged that new legislation be made consistent with the WTO Agreement.

In response, the representative of El Salvador said that, since 1995, the Government had accelerated the reform and simplification of customs procedures, including through the implementation of the Central American Uniform Customs Code and its regulations, which had entered into force in June 1996. These reforms would be complemented with a single window for imports and the privatization of some customs services. Work had already begun at the Central American level to bring customs valuation procedures into line with Article VII of GATT 1994 within the required timeframe.

The representative indicated that a draft law had been prepared to manage tariff quotas negotiated in the Uruguay Round and it was hoped this would soon be approved.

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Delegations welcomed El Salvador's wide-ranging structural reform programme of recent years, including the significant steps taken in trade liberalization, fiscal reform and privatization. They noted and encouraged El Salvador's intention to continue the process with further reductions in applied tariffs, measures to bring about greater competition, modernization of customs procedures and further steps to promote foreign investment.

A cautionary note was sounded on the need for diversification of exports, in relation to both goods and markets. It was also recognized that real exchange rate appreciation, fuelled in particular by the high level of emigrants' remittances, makes the task of export development more difficult. Overall, it was emphasized that maintenance of the current export-led growth pattern will require a continued strong commitment to trade liberalization, as well as sustained efforts to ensure a stable macroeconomic environment. □

WTO Programme of Meetings in 1997*

JANUARY	
15	Group on Basic Telecommunications
15-17	Committee on Regional Trade Agreements
20-21	Committee on Balance-of-Payments (India)
22	Dispute Settlement Body
23	Working Party on GATS Rules
27	Council for Trade in Goods
27-29	Textiles Monitoring Body
30	Committee on Trade and Development
31	Group on Basic Telecommunications
FEBRUARY	
5	GENERAL COUNCIL
6	Committee on Rules of Origin
10	Group on Basic Telecommunications
11-12	Trade Policy Review: Fiji
16	Committee on Market Access
14	Committee on Technical Barriers to Trade Committee on Trade in Civil Aircraft
15	Group on Basic Telecommunications
17-19	Textiles Monitoring Body
18	Working Party on Preshipment Inspection WP on State Trading Enterprises
19-21	Committee on Regional Trade Agreements
24	Committee on Government Procurement
25	Dispute Settlement Body
26	Council for TRIPS
MARCH	
11	Council for Trade in Goods
13-14	Committee on Agriculture
17	Committee on TRIMS
17-19	Textiles Monitoring Body Committee on Regional Trade Agreements
19-20	Cttee on Sanitary and Phytosan. Meas.
20	Dispute Settlement Body
APRIL	
8	Committee on Market Access
10	Committee on Trade in Financial Services
14	Council for Trade in Goods Committee on Trade and Development
17	WP on State Trading Enterprises
21-23	Textiles Monitoring Body
22	Committee on Import Licensing
24	GENERAL COUNCIL
25	Committee on Customs Valuation
28-29	Committee on Regional Trade Agreements
28-30	Committee on Anti-Dumping Practices Committee on Subsidies& Count. Meas.
30	Dispute Settlement Body
MAY	
1	Committee on Anti-Dumping Practices Cttee on Subsidies and Counterv. Meas.
2	Committee on Safeguards Committee on Government Procurement Cttee on Regional Trade Agreements
15	Committee on Rules of Origin Cttee on Technical Barriers to Trade
21-23	Textiles Monitoring Body
22	Sub-Cttee on Least-Developed Countries
26-30	Council for TRIPS
26-27	Trade Policy Review: Cyprus
28	Dispute Settlement Body
JUNE	
2	Council for Trade in Goods
2-3	Trade Policy Review: Paraguay
3	WP on Preshipment Inspection
9-11	Textiles Monitoring Body
17	WP on State Trading Enterprises
18-20	Committee on Regional Trade Agreements
19-20	International Meat Council
20	Committee on Trade in Civil Aircraft
23-25	Textiles Monitoring Body
24	Committee on Market Access
25	Dispute Settlement Body
26-27	Committee on Agriculture
JULY	
1	Committee on Government Procurement
1-2	Cttee on Sanitary and Phytosan. Meas.
7-11	Textiles Monitoring Body
10	Committee on Rules of Origin Committee on Trade and Development
15	Council for TRIPS
16	GENERAL COUNCIL
21	Council for Trade in Goods
21-22	Trade Policy Review: Chile
23-25	Textiles Monitoring Body
24-25	Trade Policy Review: India
28-29	Ad Hoc Anti-Dumping Group
30	Dispute Settlement Body
31	Committee on Safeguards
SEPTEMBER	
8-10	Textiles Monitoring Body
15	Committee on TRIMS
16	International Dairy Council
17	Dispute Settlement Body
18-19	Cttee on Regional Trade Agreements
23	WP on Preshipment Inspection
25-26	Committee on Agriculture
29	Committee on Government Procurement Committee on Market Access
29-30	Trade Policy Review: South Africa
30	Council for TRIPS
OCTOBER	
3	Committee on Rules of Origin
6	Council for Trade in Goods
6-8	Textiles Monitoring Body
7-8	Trade Policy Review: Morocco
9	WP on State Trading Enterprises
10	Sub-Cttee on Least-Developed Countries
14-15	Committee on SPS Measures
15	Committee on Import Licensing
16	Dispute Settlement Body
21	Cttee on Technical Barriers to Trade
22	GENERAL COUNCIL
23	Committee on Customs Valuation
27-30	Committee on Anti-Dumping Practices Cttee on Subsidies and Counterv. Meas.
31	Committee on Safeguards
NOVEMBER	
3-4	Trade Policy Review: Japan
6	WP on Preshipment Inspection
7	Committee on Trade in Civil Aircraft
10-12	Textiles Monitoring Body
13	Committee on Rules of Origin
13-14	Trade Policy Review: European Communities
17	Committee on Government Procurement Committee on Trade and Development
18	Dispute Settlement Body
19	Council for Trade in Goods
20-21	Committee on Agriculture
24-28	Council for TRIPS
DECEMBER	
2	Committee on Market Access
3-5	Committee on Regional Trade Agreements
4-5	Trade Policy Review: Malaysia
10	GENERAL COUNCIL
15-17	Textiles Monitoring Body

**This programme is subject to further additions and changes. Meetings indicated in this list are therefore confirmed only when convened by a notice to delegations from the WTO Secretariat.*

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