THE MULTILATERAL TRADING SYSTEM: 50 YEARS OF ACHIEVEMENT

by
The WTO Secretariat

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Section I: The Evolution of the World Trading System

Introduction

Fifty years ago, the world emerged from the ravages of the Second World War. The challenge at that time - an historically unprecedented challenge in dimension and complexity - was to rebuild economic stability in a world of pervasive disorder and massive dislocation, to restore a sense of world community and to establish the basis for future growth and prosperity. The architects of the new system had to build from the ground up, on multiple fronts simultaneously, and they showed vision and far-sightedness. After five decades of progress built upon the foundations laid at that time, it is easy to take for granted today what then was novel and imaginative. The latter half of the 1940s was not just about the end of the most destructive war ever waged; it was also about the curbing of destructive economic nationalism and the search for a new global order.

Today, we face once again a new kind of world and a new set of challenges. The end of the Cold War and the collapse of command and control economies, the dramatic rise of many developing countries, and the massive increase in trade and investment flows around the globe have greatly expanded the frontiers of the multilateral trading system, and tested its ability to manage an economy of global dimensions. Trade, investment, technology and communications increasingly link a world of very different systems at very different levels of development into a single market economy. The creation of the WTO in January 1995 was a symbol of the emergence of a more global economic system. If the challenge of the last fifty years was to manage a world divided, the challenge of the next fifty will be to manage a world of deepening integration.

The fiftieth anniversary of the multilateral trading system is a time for celebration. It is also a time for reflection and renewed commitment. Two basic ideas, as vital today as they were in the late 1940s, have underpinned the system's success over the second half of this century. One is the belief that an open international trading system, and its role in promoting economic prosperity, is an essential element in international peace and stability - that economic order must be at the foundation of a new political and security framework. Policy-makers in 1948 had lived through the economic destruction of the Great Depression, when turning inwards created a descending spiral of declining output and trade. The architects of the postwar system agreed the only route to economic reconstruction and recovery lay in progress towards open markets and liberalized trade, and the experience of fifty years has proved them right.

The second idea is that stability and predictability in international trade relations can only be secured through a mutually agreed system of rules, binding on all member governments and enforceable through dispute settlement. The defence of a rules-based system on a day-to-day basis has been greatly facilitated by the fact that this system gave primacy to markets and not governments in determining economic outcomes. This did not mean that governments abrogated responsibility. On the contrary, they focused on creating the underlying conditions for economic prosperity and on promoting liberalization, contemplating direct intervention only in specific circumstances where markets were found wanting. The rules were not expected to determine outcomes, but rather to establish the conditions for undistorted competition.

The centre-piece and guiding idea of the rules-based system is non-discrimination, which arose out of the conviction that exclusionary deals and preferential blocs helped fuel the interwar rivalries, insecurities, and conflicts that drove the international community into another world war. The non-discrimination principle was key to the system's stability in subsequent years. The patchwork quilt of arrangements that had so undermined coherence and continuity in interwar economic relations was replaced by a unified set of rules. These rules provided the essential political underpinning for the broad consensus, demonstrated through eight negotiating Rounds, to move the system forward into new sectors and wider areas of responsibility. More fundamentally, the principle of non-discrimination enshrined universality as a central objective of the trading system - ensuring that the GATT system emerged, especially after the Cold War, as a major force for integrating the world economy.

The non-discrimination principle plays an important economic role as well. Non-discrimination is an efficiency principle, both in the sense of ensuring access to low-cost supplies, and of allowing producers to sell in foreign markets without a policy-imposed disadvantage relative to other suppliers. Similarly, in a non-discriminatory policy environment, consumers can choose freely from among alternative foreign sources of supply. In a world of differentiated, discriminatory trade regimes, doing business across frontiers becomes more complex and time-consuming, implying additional costs for enterprises and impaired competitiveness. For both political and economic reasons, then, the non-discrimination principle has served countries well over the last fifty years, be they large or small, developed or developing.

Solutions to the challenges facing governments today and in future will, as always, call for concerted action on a variety of fronts. In considering how the trading system can contribute to meeting these challenges, it is useful to remind ourselves of what the system has achieved so far. Four achievements stand out, and provide the foundation upon which to build for the future.

First, the GATT/WTO trading system has contributed to an extraordinary period of economic growth and increased prosperity. Trade has expanded faster than output by a significant margin over the last five decades. On an annual average basis, merchandise exports have grown by 6 per cent in real terms from 1948 to 1997 (Table 1). Total output, by comparison, expanded at an annual average rate of 3.8 per cent, or 1.9 per cent in per capita terms. A similar picture of intensified international economic engagement is readily discernible from figures on foreign direct investment (FDI). Unfortunately, data are not available for the whole period from 1948, but annual FDI flows expanded sixteen-fold between 1973 and 1996, from US$ 21.5 billion to US$ 350 billion, an annual average growth rate of 12.7 per cent. Accumulated FDI stocks jumped from US$ 165 billion at the end of 1973 to US$ 3,205 billion in 1996, nearly a twenty-fold increase.

The significant gains in income growth, job creation and prosperity that underlie the statistics mentioned above are in part attributable to the success of the multilateral trading system in lowering trade barriers. Since negotiations began in 1947, average tariffs among industrialized countries have fallen from high double-digit levels to less than 4 per cent. Most non-tariff border restrictions have also been abandoned. And the system protects these market access gains through rules encompassing such matters as technical standards, regulations, and subsidy practices. Since the creation of the WTO, trade liberalization efforts have been extended to trade in services, covering both cross-border transactions and the rights of enterprises and to establish a commercial presence through direct investment in foreign markets and the right of natural persons to supply services abroad.

Table 1: World trade and output (selected indicators), 1948-97

						Average annual change		
	1948	1950	1973	1990	1997	1948-73	1973-97	1948-97
World merchandise exports								
Billions of current $	58	61	579	3438	5300	9.7	9.7	9.7
Billions of constant 1990$	304	376	1797	3438	5233	7.4	4.6	6.0
Exports per capita, constant 1990$	123	149	466	651	886	5.5	2.7	4.1
World exports of manufactures								
Billions of current $	22	23	348	2390	3920	11.7	10.6	11.1
Billions of constant 1990$	93	112	955	2390	3840	9.8	6.0	7.9
Exports per capita, constant 1990$	38	44	247	452	650	7.8	4.1	6.0
World output (Indices, 1990=100)								
Commodity output	16.9	18.5	64.6	100.0	113.1	5.5	2.4	4.0
Manufacturing output	10.9	12.8	60.3	100.0	111.6	7.1	2.6	4.9
GDP (Billions, constant 1990$)[a]	...	5372	16064	27359	30800	4.9	2.7	3.8
GDP per capita (constant 1990$)[a]	...	2134	4162	5177	5215	2.9	0.9	1.9
GDP (Billions, current $ and market exchange rates)	...	...	4908	22460	30000	...	7.8	...
World population (Million)	2473	2517	3860	5285	5906	1.8	1.8	1.8

[a]Average annual change refers to 1950 instead of 1948.

Second, the system has widened the circle of participation in the global marketplace. While the early rounds of multilateral trade negotiations, up to the Dillon Round in 1961, typically involved some 20 to 30 countries, the Kennedy Round (1964-67) involved over 60 countries, the Tokyo Round (1973-79) more than 100 countries, and the Uruguay Round (1986-94) had 125 participants. The WTO's membership stands at 132 countries today, and this could potentially grow to over 160 early in the next century. One-third of the largest trading countries today are developing countries. The end of the Cold War reflected and reinforced this geographical extension in participation. The walls between East and West collapsed, in part, because centrally-planned systems could not meet the challenges posed by free markets and technological change. Divisions between North and South have blurred, as developing countries have increasingly abandoned inward-looking import substitution in favour of more open trade and freer markets. The fact that the two largest countries outside the system, China and Russia, have made WTO membership one of their key policy objectives is a striking testament to the system's new gravitational pull.

Third, the dispute settlement system has demonstrated the willingness of governments to respect the rules. The record in this respect has been impressive. Over the past fifty years, the vast majority of cases brought have been settled, either on a bilateral basis before final multilateral determination, or through acceptance of a panel ruling. Dispute settlement arrangements were significantly strengthened in the Uruguay Round, introducing greater automaticity and clearer time frames into the procedures, eliminating the scope for interested parties to block the adoption of panel findings, and establishing an appeals body. These new arrangements have further strengthened the confidence of Members in the system. As of mid-March 1998, 119 cases have been presented to the WTO, compared to just over 300 cases throughout the life of the GATT, from 1948 to 1994. Moreover, increasing numbers of developing countries are making use of dispute settlement procedures.

Fourth, the multilateral trading system has broadened and deepened its agenda to take account of new realities in international economic relations. From its early focus on tariff reduction, the removal of quantitative import restrictions, and the development of rules on such matters as import licensing, customs valuation, and standards, the rules of the system have increasingly extended to the treatment of foreign persons and companies as well as foreign goods and services. As already noted, the incorporation of trade in services brought an investment dimension into the system, and rules have been developed for the protection of trade-related intellectual property rights. New initiatives have been launched to examine the relationship between trade and investment, trade and competition policy and procurement. These developments are explored further below.

This readiness to enable the system to accommodate changing realities will be continually tested in the years ahead. The processes that combine to produce the phenomenon of globalization - intensified trade and investment flows, supported by the communications revolution, the rise of the information economy and technological advances in transportation - are changing the world in ways that place a premium upon adaptation and flexibility. The constraints of time and space are diminishing, and new technologies are breaking down old barriers. Unprecedented opportunities are being created, but with these new opportunities go the challenges of ensuring that the benefits from these new developments are widely spread.

Early History

The commitment of governments to the establishment of international trade rules in the late 1940s, and their reliance on the principle of non-discrimination as the cornerstone of the system, cannot be explained only by the concerns of the moment. Memories of the late 1920s and early 1930s were still fresh in the minds of the architects of the system, and there was determination not to repeat the costly policy errors of that period. In the years prior to the establishment of the General Agreement on Tariffs and Trade (GATT), trade relations had largely been bilateral in nature, although some use had been made of the most-favoured-nation (MFN) principle in bilateral agreements. In the period following the 1914-18 war, nothing comparable to the post-1945 reconstruction and redefinition of international economic relations occurred. There was no roll-back of wartime restrictions.

Instead, trade regimes tended to become more restrictive, punctuated by only a few intermittent liberalization efforts. The culmination of these protectionist tendencies was a trade war in the early 1930s. The Smoot-Hawley tariff of 1930 involved sharp rises in the U.S. tariff, to a weighted average of 52 per cent on dutiable imports, and this was followed quickly by similar action by many other countries. By the end of 1931, twenty-six countries had raised tariffs, and resorted to a wide range of quantitative trade controls and exchange restrictions. Britain, which had long championed an open trade policy, established preferential trade and monetary arrangements in 1932. The collapse of the gold standard led to competitive devaluations, and international liquidity evaporated, cutting off credit and investment flows. The total imports of seventy-five countries in 1932 were only 39 per cent in current price terms of what they had been in 1929. It hardly needs emphasizing that the economic consequences of this breakdown in cooperation were crushing, nor that economic policy failures contributed to the outbreak of armed conflict.

The United Nations and the Bretton Woods policy framework provided the institutional context for the post-war international order. This was initially intended to comprise the International Trade Organization (ITO) for trade relations, the International Monetary Fund for the world financial system, and the International Bank for Reconstruction and Development for the task of physical and economic reconstruction. The Marshall Plan, underwritten by the United States, was also a vital element in early reconstruction efforts. The one part of the new order that did not proceed according to plan was that of trade.

The first discussions on the proposed ITO took place at the 1946 United Nations Conference on Trade and Employment. A preparatory committee set up at the conference spent the next year and a half drawing up a Charter for the ITO, at meetings held in London (October-November 1946), New York (January-February 1947), Geneva (April-August 1947) and Havana (November 1947 - March 1948). The charter that finally emerged from these negotiations, the Havana Charter, was a comprehensive agreement, covering more than just trade in the narrow sense. The Charter contained chapters, for example, on employment and economic activity, economic development and reconstruction (including international investment), restrictive business practices, and inter-governmental commodity agreements.

Neither the Havana Charter nor the ITO ever came into being, since the U.S. Congress did not approve the agreement. The reasons for rejection were complex, but perhaps among them was the sense that, in its comprehensiveness, the Havana Charter was an agreement before its time. There was also disquiet about the role implied for governments in such a far-reaching agreement, and the additional challenges that state activism would impose upon efforts to secure constructive international cooperation at a time when rapid results were of the essence. Whatever view is taken of the mix of motives that sank the ITO, the fact was that the fledgling institution would have made little sense without the United States.

But no government, least of all that of the United States, was prepared to contemplate a new world order without rules on trade, and the failure of the ITO ensured the birth of the General Agreement on Tariffs and Trade (GATT). At the meetings of the preparatory committee for the ITO held in Geneva in 1947, the GATT had been created (entering into force in 1948), but certainly not for the purpose it came to serve. The original GATT was negotiated among twenty-three governments as a consequence of a U.S. proposal made in 1946 that envisaged early tariff-cutting negotiations. The plan was to operationalize the results of tariff negotiations before the ITO came into being, based on the commercial policy chapter of the Havana Charter. However, with the failure of the ITO, the GATT lived on with less than fully developed legal status and provided the basis for the conduct of international trade relations for 47 years.

Today's trade agenda is an accumulation of many issues that have become important enough to the GATT/WTO membership at one time or another to find their way into a negotiation or onto a work programme. The earliest version of GATT, which was negotiated in 1947 and came into force at the beginning of 1948, adopted the relevant Havana Charter trade provisions in order to give coherence and legal force to the tariff reduction commitments that launched the GATT. A range of rules were then revisited and some amendments made at a review session in 1955. From then until the Kennedy Round in 1964-67, and the inclusion in 1965 of a new Part IV on trade and development, reflecting the increasing involvement of developing countries in the system, little was done by way of modifying or extending the rules. But as noted above, in the meantime tariff-cutting rounds continued to take place, and tariff-reduction exercises have been a feature of every one of the eight negotiating rounds held in GATT.

In the Kennedy Round, an attempt to elaborate better rules on anti-dumping had only met with partial success. But in the Tokyo Round, things were very different. In addition to the standard tariff-cutting exercise, negotiators addressed a series of non-tariff measures, and developed agreements on government procurement, technical barriers to trade, subsidies and countervailing duties, customs valuation, import licensing, and anti-dumping. These agreements were also known as "codes." With the exception of the agreement on procurement, all the other non-tariff measure agreements comprised elaborations or clarifications of existing GATT provisions. The agreements attempted to ensure that the GATT was sufficiently developed to deal with mounting concerns that some national practices and policies were frustrating the attainment of the objectives of the GATT. This concern was at least in part an acknowledgement of the reality that as tariffs came down, and residual quantitative restrictions were removed, these policies were becoming the cutting edge of protection.

At the time the codes were negotiated, not all GATT members were willing to accept the higher levels of policy discipline that they implied, and so governments had varying levels of obligation in relation to GATT rules. These different levels of discipline carried the risk that governments would discriminate, on the grounds that a proper balance of rights and obligations must be preserved. In the event, however, there were few instances in which discrimination became a problem, and the issue was largely resolved in the Uruguay Round, except in the area of procurement.

The Tokyo Round was also notable for its attempt to codify certain aspects of developing country treatment in the trading system, building on earlier provisions to be found in Article XVIII and Part IV. The Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, otherwise known as the Enabling Clause, gave trade preferences granted under the rubric of the Generalized System of Preferences permanent legal status as a departure from MFN. The Enabling Clause also provided legal cover for special and differential treatment for developing countries in the context of the Tokyo Round codes, recognized the special status of the least-developed countries for the first time, and provided a less rigorous path than that set out in GATT's Article XXIV for developing countries to follow when creating preferential trade agreements among themselves. The Enabling Clause reiterated the notion that developed countries should not expect full reciprocity from developing countries, whose participation in the trading system would be determined by the trade, development and financial needs of these countries. At the same time, the Enabling Clause called for developing countries to take on progressively higher levels of commitment as their circumstances permitted.

The question of how to define the appropriate nature and degree of developing country participation in the multilateral trading system had been debated since the inception of GATT. In the 1950s, many developing countries had expressed the view that their more developed trading partners were not providing them adequate market access opportunities in products that they were able to produce competitively, and were thereby frustrating the development process. Another strand of thinking, driven largely by the export pessimism that prevailed in much policy thinking of the time, was that developing countries should not be required to open their markets to foreign competition, as they needed time to diversify their economies and develop new industries and lines of production.

These issues have never been fully settled. But as export pessimism waned, and import substitution policies became less popular, developing countries have switched increasingly to outward-oriented trade policies and have been and have been successful in exporting an increasingly diversified range of products, taking advantage, under the mfn clause, of market access opportunities in developed country markets opened up by the succession rounds of trade negotiations. Dozens of developing countries have liberalized their trade regimes unilaterally during the last decade or two and become major traders and investors in the world market place. This new orientation has translated into greater interest in the multilateral trading system, less defensiveness, and a more pressing interest in securing clearer and more predictable market access conditions in the markets of their trading partners, especially the industrial countries. In the Uruguay Round, developing countries participated more actively than in any previous negotiation. Special provisions in favour of developing countries increasingly emphasized differences in the time permitted for phasing in multilaterally agreed commitments, moving away from the notion that the trade rules should intrinsically differ on account of the development level. This new perception led directly to the Uruguay Round focusing on preserving, strengthening and expanding the main system of rules and obligations of international trade, a need felt by developing and industrial countries alike.

These same reasons were also behind the Uruguay Round taking up two important issues left unfinished by the Tokyo Round. First, governments had been unable to agree on the substantive reform of the GATT's safeguard provision - that is, the measures that may be taken when a domestic industry is accorded temporary relief from import competition. Second, the GATT membership failed once again effectively to address trade in agriculture. While some important concessions were negotiated, the agricultural sector effectively remained outside the mainstream of GATT rules from the outset, and progress towards liberalization in this sector was meagre. Both these areas were of systemic and trade interest to developing as well industrial countries.

The Uruguay Round and the Creation of the WTO

Unfinished business from the Tokyo Round was only a small part of the Uruguay Round negotiating agenda. Despite difficulties in launching the Uruguay Round, the negotiating agenda finally adopted in 1986 was wide-ranging and ambitious. The round encompassed traditional tariff-cutting, revisited many areas where rules needed clarifying and strengthening, tackled long-standing and intractable issues such as textiles and clothing and agriculture, refurbished the dispute settlement system, instituted the trade policy review mechanism for examining the trade policies of individual countries, transformed aspects of the institution and the GATT's legal status, and took on the entirely new issues of trade in services and trade-related intellectual property rights.

In view of the extraordinary comprehensiveness of this agenda, it is not surprising that the Uruguay Round proved nearly as difficult to close as it was to launch. It was not until December 1993, seven years after the negotiations had begun, that the Uruguay Round finally ended. Even then, a few loose ends had to be tied up, and there was also agreement to continue negotiations in various areas, most notably services. The negotiations had proved challenging precisely because governments were seeking far-reaching agreement in difficult areas. No government could agree lightly to such a wide-ranging package, knowing that important commitments were at stake which would involve significant policy changes.

In the field of tariffs, the Uruguay Round saw average cuts of 40 per cent on industrial products. Prior to the round, developing countries had on average only bound 21 per cent of their tariff lines. This figure rose to 73 per cent after the Uruguay Round. Developed countries and transition economies increased their shares of bindings in total tariff lines from 78 per cent and 73 per cent to 99 per cent and 98 per cent respectively. These commitments added significantly to security and predictability in trade.

Following more than four decades of largely frustrated efforts to engender trade liberalization in the agricultural sector, the Uruguay Round finally put in place a comprehensive programme of reform, encompassing liberalization commitments with respect to tariffs, domestic supports and export subsidies. Moreover, all quantitative restrictions and other non-tariff measures used against imports were replaced by tariffs. Governments are already committed to further negotiations in the agricultural sector in the year 2000. In textiles, following years of special arrangements entailing discriminatory restrictions maintained by most developed countries against developing country exports, agreement was agreed to phase out these arrangements over a period of ten years.

A new safeguards agreement was established in the Uruguay Round - an achievement that had eluded negotiators for many years. This new agreement instituted strengthened procedures and public accountability, combined with greater flexibility to allow governments to take the necessary temporary measures to deal with pressing adjustment problems. Its adoption entailed the elimination of "grey area" measures, such as voluntary export restraints. Provisions relating to anti-dumping and countervailing duties were strengthened, as were those on state trading, technical barriers to trade, customs valuation, and import licensing procedures. The provisions on subsidies were further developed, establishing a definition of subsidies for the first time, and making the rules and remedies clearer. Additional clarifications were made to GATT Article XXIV, dealing with customs unions and free trade areas. New agreements were drawn up on sanitary and phytosanitary measures, rules of origin, and import licensing procedures. An agreement on trade-related investment measures, applying only in the area of goods, seeks to control the use of investment-linked measures that affect trade, such as local content and trade balancing requirements.

The Uruguay Round agreement on trade in services, known as the General Agreement on Trade in Services (GATS), represented the first attempt to bring a sector of ever-growing importance into the multilateral framework of rule-making. Built on the conceptual foundations of the GATT, the GATS is both a set of rules and a mechanism for progressively pursuing trade liberalization. An important difference between the two arises from the nature of many services transactions - namely, the fact that physical proximity is often either essential or desirable between suppliers and consumers. This means that for a comprehensive approach, market access commitments need to be expressed both in terms of cross-border transactions and commercial presence. The GATS does this, thereby taking the multilateral trading system into the field of investment for the first time. Several provisions have not been finalized in the GATS framework of rules, and negotiations are continuing in these areas. Governments have also agreed to pursue further negotiations aimed at liberalizing trade in services, recognizing that what has been achieved so far is a beginning.

The agreement on intellectual property is as remarkable as that on trade in services. It is the most comprehensive and important multilateral agreement on intellectual property rights this century. The agreement establishes standards for the protection of all the main intellectual property rights, copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits, and undisclosed information. The agreement also establishes a range of obligations designed to ensure that adequate enforcement mechanisms exist in the domestic context.

Finally, after more than four decades of legal limbo, during which the GATT was essentially a provisional arrangement, the GATT was finally transformed into the WTO - a permanent organization with a sound legal basis. An early result of the negotiations in this respect was the decision to establish a trade policy review mechanism. Participants agreed to set up the reviews at the December 1988 ministerial meeting that was intended to be the mid-way assessment of the Uruguay Round. Initially these reviews took place under the GATT, and like GATT, they focused on goods trade. With the creation of the WTO in 1995, their scope was extended, like the WTO, to include services and intellectual property. The objective was to increase the transparency and understanding of countries' trade policies and practic es, through regular monitoring; to improve the quality of public and intergovernmental debate on the issues; and to enable a multilateral assessment of the effects of policies on the world trading system. But while the reviews focus on member's own trade policies and practices, they also take into account the countries' wider economic and developmental needs, their policies and objectives, and the external economic environment.

No review of the institutional achievements of the Uruguay Round would be complete without mention of the dispute settlement system - in many ways the central pillar of the multilateral trading system and the WTO's most individual contribution to the stability of the global economy. Without a means of settling disputes, the rules-based nature of the system would be constantly under question. A procedure for settling disputes existed under the old GATT, but it had no fixed timetables, rulings were easily blocked. Many cases dragged on over many months inconclusively. The Uruguay Round agreement introduced a more structured process with more clearly defined stages in the procedure. It introduced greater discipline for the length of time a case should take to be settled, with flexible deadlines set in various stages of the procedure, all on the understanding that prompt settlement was essential if the WTO was to function effectively. The Uruguay Round agreement also made it impossible for countries losing a case to block the adoption of a ruling. Under the previous GATT, procedure, rulings could only be adopted by consensus, meaning that a single objection could block the ruling. Now, rulings are automatically adopted unless there is a consensus to reject a ruling.

As a result, the new WTO system is at once stronger, more automatic and more credible than its GATT predecessor. This is reflected in the increased diversity of countries using it. Some 106 cases have been brought to the WTO in the first three years of its existence, compared to approximately 300 cases throughout the life of the GATT - and many more of these cases are being brought by developing counties, underlining their growing faith in the system. An even more important measure of the system's effectiveness is the tendency to resolve cases "out of court" before they get to final decision – one-quarter of the cases brought so far. They system is working as intended - as a means above all for conciliation and for encouraging resolution of disputes, rather than just for making judgements. By reducing the scope for unilateral actions, it is also an important guarantee of fair trade for less powerful countries.

Negotiators also paid attention to other important institutional aspects of the multilateral trading system. In order to ensure an adequate degree of high-level political involvement in the WTO, it was agreed that Members would meet at ministerial level at least once every two years. The Ministerial Conference is the highest WTO body. Governments were also concerned to ensure that the WTO would maintain satisfactory working relations with the International Monetary Fund and the World Bank. The Director-General of the WTO was instructed to review all matters relating to cooperation between the three institutions, in consultation with his counterparts in the IMF and World Bank, with a view to achieving greater coherence in global economic policy-making.

Section II: The WTO Agenda

Singapore and Beyond

The successful conclusion of the Uruguay Round marked a turning point for the multilateral trading system. The WTO agreement was the most significant trade liberalization package in international economic history. As noted above, it brought whole new areas of economic activity under the umbrella of the trading system. And it established the trading order on a firm institutional foundation. As such it completed, along with the World bank and the IMF, the third pillar of international economic system originally envisaged at Bretton Woods.

And yet, in a sense, the conclusion of the Uruguay Round and the creation of the WTO did not mark the end of a process so much as the beginning of a new phase of international economic cooperation and rule-making. The changing focus of the system from shallow to deeper integration, and from narrow to far broader participation, involved more than adding a new rule here or a new member there. The "single undertaking" of the Uruguay Round symbolized an important shift in the nature of the system itself - an important step towards a world trading system of universal rules and universal membership.

This new reality was apparent in the WTO's first Ministerial Conference in Singapore in December 1996 - a Conference which can be seen as the first major step towards defining a post-Uruguay Round trade agenda. The Singapore meeting provided an occasion for Members to take stock of the implementation of Uruguay Round commitments. It also pointed towards some of the key challenges for the future -continuing the momentum of trade liberalization, deepening and extending the rules of the system, attaining universality and countering marginalization, addressing the interface between the trading system and other global policy issues, and ensuring that regionalism is supportive of the multilateral trading system.

Continuing the Trade Liberalization Process

Some very important trade liberalization negotiations were not completed by the time the Uruguay Round came to an end, especially in the area of trade in services. Continuing negotiations were envisaged in basic telecommunications, financial services, maritime transport services and the movement of natural persons. These negotiating efforts should be seen against the broad-based commitment under GATS to engage in successive rounds of negotiations, the first of which is to commence in the year 2000. In the case of the extended maritime services, continued negotiating efforts did not prove fruitful and the negotiations have been suspended until the year 2000. The negotiations on improved access for natural persons entering foreign jurisdictions to supply services were completed in mid-1995, albeit with relatively modest results.

Negotiations in the basic telecommunications sector were completed in February 1997, and the outcome was far-reaching. It involved 69 governments, accounting for more than 90 per cent of the basic telecommunications market - a market worth over US$600 billion today, which is, for example, more than the value of the total production of crude oil worldwide. Members not only agreed to significant market-opening commitments, but many of them also accepted a series of regulatory principles designed to ensure that trade liberalization efforts could not be frustrated by restrictive behaviour on the part of major incumbent suppliers.

In December 1997, 70 governments undertook further liberalization in financial services markets, bringing to 102 the number of Members that have undertaken commitments in this sector. This package represented a significant improvement on what had been achieved in earlier negotiations that were completed in mid-1995, and it involves countries accounting for well over 90 per cent of the relevant markets in banking, insurance and securities trading. Like basic telecommunications, the financial services sector is very large and an essential part of the infrastructure of any modern economy. In industrial countries alone, over US$1 trillion is earned annually in this sector. This amounts to some 5 per cent of the GDP of the countries concerned. The financial services sector accounts for around 3-4 per cent of total employment in OECD countries. Another indication of the sheer size of the sector is that world banking assets amount to more than US$40 trillion, exceeding total world income.

Another major post-Uruguay Round market-opening achievement is the Information Technology Agreement (ITA), an initiative that was given major impetus at the Singapore Ministerial Meeting. Some 43 governments, representing 93 per cent of world trade in the products concerned, are committed under the agreement to eliminate tariffs on a wide range of information technology products. These commitments are bound in the WTO tariff schedules of the Members concerned, and they apply on a MFN basis. The vast bulk of this tariff elimination exercise will have been completed by the year 2000. Trade in information technology products amounts to almost US$600 billion annually, or some 12 per cent of world trade. Further progress is expected in extending the ITA, through the ITA2 negotiations, which are scheduled for conclusion by 30 June 1998.

Quite apart from the benefits they bring in terms of further market-opening, the agreements on basic telecommunications, financial services and information technology products are of vital importance because of their implications for the evolving world economy. Each of these sectors is an integral part of the backbone of modern economies. They are the raw material of global economic integration. Access to these services and goods, efficiently supplied at competitive prices, is a fundamental determinant of the competitiveness of whole industries, and of the capacity of nations to share fully in the benefits and opportunities of globalization.

Moreover, liberalization in basic telecommunications and information technology products make a vital contribution to the expansion of electronic commerce. Electronic commerce will impart important benefits in terms of lower costs, wider choice and readier access to producers and consumers across the globe. Creating the appropriate environment internationally for electronic commerce to flourish is a challenge that governments will face in the months and years ahead.

On the goods side, the GATT system began fifty years ago largely as an exercise in removing tariffs at the border. It would be difficult to exaggerate the system's remarkable success in this regard. Tariffs in all countries, developed and developing alike, are on a sharp downward course. So impressive have been the accumulated results of successive Rounds of tariff liberalization that it has recently become fashionable to suggest that tariffs have ceased to be a serious trade policy issue. This is a mistake. A recent study conducted jointly by UNCTAD and the WTO shows that even after the full implementation of the Uruguay Round results, a substantial number of high tariffs will remain in both developed and developing countries. Some 10 per cent of all tariff lines in the major trading countries - the United States, the European Union, Japan and Canada - carry tariff levels in excess of 12 per cent. In many developing countries, the number of lines with rates at this level and above is considerably greater.

Obvious areas in need of particular attention are agriculture and textiles and clothing. The Uruguay Round tariffication exercise in agriculture was a major step forward, but it also served to illustrate the persistence of high trade barriers in this sector. Governments are committed to resume negotiations in trade in agriculture in the year 2000. And while the re-insertion of textiles and clothing trade into mainstream WTO disciplines is an achievement that had eluded negotiators for many years until the Uruguay Round, many high tariffs will still remain in this sector when the phase-in is complete. In addition, rates are high in areas such as processed foods, footwear, leather goods, the automotive sector, and a few transport and high technology products. Moreover, a serious lack of transparency often exists, as high tariff levels tend to be expressed as specific rates. This makes it hard to judge the real level of the trade barriers involved.

Deepening and Extending the Rules

As global economic integration progresses, the continuing need to develop the rules of the system becomes more and more apparent. Much of this work of examining the system's rules was envisaged as part of the Uruguay Round's "built-in agenda" - in which many aspects of the Uruguay Round agreements, and in some cases entire agreements, are subject to review by the year 2000. Discussions and negotiations on rules continue in various contexts. In the field of services, for example, negotiations are continuing on emergency safeguard provisions, subsidies and government procurement - areas that were left open in the GATS.

At the Singapore Ministerial Conference, this attention to rules was also apparent. Ministers agreed to establish a working group to examine the relationship between trade and investment. They established another working group to study issues raised by Members relating to the interaction between trade and competition policy, including anti-competitive practices, in order to identify any areas that might merit further consideration. Ministers made it clear that the deliberations of the working groups would not prejudge the question whether negotiations would take place on investment or competition policy. Members will determine after two years how the work of each body should proceed, it being understood that any future negotiations would only be engaged on the basis of consensus decisions. Both the investment and the competition policy discussions are raising complex and important issues bearing on the future of the multilateral trading system.

A third element in the Singapore work programme is the establishment of a further working group to conduct a study on transparency in government procurement practices, taking into account national policies, and, based on this, to develop elements for inclusion in an appropriate agreement in this area. The existing Agreement on Government Procurement is a plurilateral agreement with a limited number of signatories and only applies amongst its membership. This new exercise, as well as the negotiations on government procurement in services, have broadened the discussion of procurement into a multilateral setting, although further negotiations under the plurilateral Agreement are under preparation. There can be no doubt that significant opportunities exist to reap efficiency gains from liberalized procurement markets.

The final element of the Singapore agenda is the Ministerial decision directing the Council for

Trade in Goods to undertake exploratory and analytical work, drawing on the work of other relevant international organizations on the simplification of trade procedures, in order to assess the scope for WTO rules in this area. The initiation of this work programme reflects the fact that as traditional barriers to trade have fallen, cumbersome administrative procedures can undermine the benefits that would otherwise accrue from trade liberalization.

Towards Universality

Deepening the WTO's rules can - and must - go hand-in-hand with broadening its membership. For as the WTO's role and importance in the international economy increases, so to does its significance for those countries still outside the system. This is reflected in the fact that fifty countries have already acceded to the WTO since 1994, bringing total membership to 132, while another thirty-one applicants are negotiating accession. For the first time in the history of the system we can contemplate the prospect of practically universal membership. The aspirants range from large economies like China, Russia, Saudi Arabia to least-developed or island economies like Nepal, Tonga, Vanuatu and Sudan. Accommodating important countries such as China and Russia within the multilateral trading system poses challenges, but also great opportunities, for both the prospective entrants and existing Members. Essentially the challenge lies in conducting terms of entry which strike the right balance between respecting the needs of these economies while maintaining the integrity of the trading system.

There is another important dimension to universality. It is the need to ensure that the poorest do not become more marginalized in the rapidly globalizing world economy, and that they benefit from the opportunities presented by technological and economic integration. The nature and extent of developing country participation in the multilateral trading system has always been a subject of negotiation and debate. But the discussion has not been static, nor has the degree of participation of developing countries in the system. As noted previously, discussions over the years have focused on defining an appropriate framework of rules for developing countries, and on the benefits to them accruing from trade liberalization.

As part of the efforts of the international community to address the needs of the poorest developing countries, a high-level inter-agency meeting was held in Geneva under WTO auspices in October 1997. The purpose of the meeting was to promote positive action to address problems of marginalization facing the least-developed countries. The meeting focused on three main issues. First, 19 developed and developing countries announced new and improved preferential access measures for the least-developed countries. Second, the meeting worked on an integrated approach to technical assistance for least-developed countries, focusing on the needs of particular countries. This exercise is to continue with other least-developed countries whose technical assistance programmes were not discussed at the meeting. Third, the meeting focused on the application of new information technology to bring the least-developed countries into the mainstream of the global trading system. The objective is to offer the least-developed countries greatly improved access to the global information infrastructure. In particular, a website developed jointly by the World Bank and the WTO provides a range of information easily accessible through the Internet, and improves the scope for providing technical assistance on a continuous and interactive basis.

The Interface Between the Trading System and Other Global Issues

One of the greatest challenges on the horizon does not involve trade policy alone, but revolves around the interface between the trading system and a number of policy areas which are also spilling across national borders. Now the trading system is being called on from one side or another to take account of environmental policy, financial instability, labour standards, ethical issues, development policy, competition law, culture, technology, investment, marginalization, security, health – an ever-lengthening list of issues which can be associated in one way or another with trade. The relationship between the trading system and the environmental agenda is an important example. At the close of the Uruguay Round, WTO Members established the Committee on Trade and Environment to identify the relationship between trade measures and environmental measures in order to promote sustainable development, and to make appropriate recommendations on whether any modifications to the provisions of the multilateral trading system are required, bearing in mind the open, equitable and non-discriminatory nature of the system. The decision to establish this work programme, which was to build on an earlier GATT exercise of a similar nature, reflected growing pressure and concern from a number of quarters in relation to environmental protection and fears of environmental degradation. Now, the task is to keep the WTO trade and environment work programme meaningful and productive, while maintaining the necessary clarity about what the WTO can be expected to do in this area and what should be the role of an appropriate multilateral framework for environmental policy. The fundamental objective is to ensure that trade and environment are mutually supportive.

A number of Members have also proposed that the WTO take up the issue of labour standards. Ministers considered this issue at Singapore. They affirmed the commitment of all Members to observance of internationally recognized core labour standards. They said that these standards should be addressed by the International Labour Organization, whose work the membership fully supported. They noted that labour standards are promoted by growth and development, which in turn is fostered by trade liberalization. Finally, Ministers also expressed their rejection of the use of labour standards for protectionist purposes and agreed that the comparative advantage of countries must in no way be put into question.

What both examples reflect is the basic fact that the day has gone when we can afford to overlook the social, political or ethical issues raised by globalization, or ignore the need for constructive linkages between trade and other issues in an era when the distinction between policies as well as between countries is often blurred. What an open trading system provides is a powerful economic engine without which little lasting progress in the areas of environmental or social development will be possible. And what the rules of the WTO provide is a necessary contribution - in partnership with the appropriate environmental, development, or social policies - to building a more globally coherent policy response to the challenges of globalization. The broader solution to environmental, social and other challenges lies in reaching a global consensus in each of these areas. This means reaching enforceable global agreements and standards where appropriate, and building the global institutions needed to manage them. The solution, in other words, is to develop global rules to address global needs - as we have done over fifty years with the trading system.

Regional Arrangements and the Multilateral Trading System

One of the features of trade policy today is the expansion of regional trade arrangements at the very time that liberalization and technology are moving us towards a more global economy. There can be no doubt that some regional arrangements have played a positive role in promoting liberalization, especially for developing countries. Since the entry into force of the GATT in 1948, nearly 150 regional trade agreements were notified to the GATT or the WTO. More than 90 preferential regional agreements are currently in place, and over three-quarters of them entered into force in the last four years. And it is not just the pace of regionalism which is different today, but its breadth of ambition as well. The proposed Free Trade Agreement of the Americas (FTAA), to take one example, covers all but one of the 35 countries of North, Central and South America, boasting a combined market of well over half a billion people. Then there is the grandest regional project of them all - APEC. Spanning both sides of the Pacific Ocean and incorporating three of the world's four major economies - the United States, Japan, and China - APEC includes 40 per cent of the world's population, some 54 per cent of the world's GDP, and 42 per cent of its trade.

The central argument for regionalism has always been that smaller groups of countries may move further and faster towards integration than in a much wider multilateral system. But does this logic still lie behind the vast regional arrangements we see unfolding around us today? It is difficult to make the argument that liberalization is any easier in, say, APEC, the FTAA or between the EU and the Mediterranean countries, than in the WTO. Many of these new regional arrangements contain countries as different in outlook, economic size and level of development as any countries in the multilateral system. And the points of potential trade friction are no less vexing. For example, are negotiations between Japan and the United States really any easier in APEC than in the WTO? Can Europe resolve the issue of agricultural liberalization any more swiftly transatlantically with Mercosur, or across the Mediterranean with the countries of the Middle East and North Africa?

A second point is that the globalization process itself underscores the logic of global rules for global firms operating in a global marketplace. As firms increasingly internationalize their production and distribution systems, and as economies become increasingly integrated, a fragmented system with fragmented rules - and even perhaps a fragmented dispute settlement system - could be very costly. This is even more true in the world of borderless technologies we are now entering - a world where economic activity in areas like telecommunications, financial services, and electronic commerce will more and more take place in a single, global economic space, one which is basically indifferent to geography. In this borderless information economy, regional preference becomes an increasingly inadequate - even anomalous - instrument for managing the integration process.

At the WTO's first Ministerial Conference in Singapore in 1996, every Minister reaffirmed the primacy of the multilateral trading system. They did so for an important reason - a collective recognition that, while regionalism can provide an important complement to the multilateral system, it cannot provide a substitute. Earlier in 1996 WTO Members also created the Committee on Regional Trade Agreements, whose task it is to examine regional agreements notified to the WTO, to formulate procedures to improve the examination process, to define reporting obligations for regional agreements and practical arrangements for carrying out these obligations, and to consider the systemic implications of regional arrangements for the multilateral trading system. There are two broad dimensions to this task.

The first is to ensure that the foundation of the trading system remains non-discrimination, and that regional agreements do not introduce trade distortions and penalize the trade interests of third parties. Both the GATT and the GATS contain provisions to accommodate regional arrangements. In essence, GATT Article XXIV requires that substantially all trade among members of regional groupings must be free, and that in the case of customs unions, barriers against the trade of third parties are on average no higher after the formation of a grouping than they were before. Article V of the GATS is framed in the same spirit of seeking to protect the trade interests of countries that do not form part of regional arrangements. The GATS provisions require that economic integration agreements have substantial sectoral coverage and eliminate substantially all discrimination among parties to such agreements. Notwithstanding the intent of these rules, the fact remains that regional agreements which are preferential by nature represent an exception to the most favoured nation (MFN) principle. If the number and extension of these exceptions to MFN reach a sufficiently significant level, the exception could become the rule and the multilateral system would be substantially changed. Our goal must be to make regionalism contribute to multilateralism, not vice versa.

The second challenge is to ensure that regionalism and multilateralism converge in their goals and aspirations - which means that we must ensure that our multilateral goals remain at least as ambitious as our regional efforts. Government have already agreed to the aim of free trade in the Pacific, free trade in the Americas, free trade in Europe and between Europe and the Mediterranean. Now there is the prospect of creating new free trade areas between Europe and the nations of sub-Saharan Africa, the Caribbean and the Pacific and there is the possibility of free trade across the Atlantic. Each of these initiatives is planned to come into full effect within the next twenty years. What, then, is to hold us back from the logical next step of global free trade?

Section III: Looking Ahead

The Challenges of Globalization

The story of the international economy over the last five decades has been a story of pervasive and rapid integration. The ideological divisions which shaped the last fifty years have largely disappeared, in part because communism proved unable to deliver on its promise of human and material progress. Similarly, the divisions between North and South are also blurring, as developing countries have more and more turned to free markets and open trade as the best available route to modernization and growth, and as new technologies help to spread opportunity.

Three features of this new world economy stand out. One is the dramatic rise in trade flows over the last four decades. In 1997 worldwide trade exceeded US$6.5 trillion in for the first time in history - a more than fourteen-fold increase since 1950. The ratio of trade to global output was almost 26 per cent, compared to just 8 per cent in 1950. And with global trade projected to grow at some 7 per cent per year in real terms, this ratio could approach 45 per cent by 2020. The fast-expanding web of foreign investment is an even more striking sign of growing openness and integration.

Second, several decades ago many countries sought to shut out foreign investment; now they compete for it. Foreign investment has become an even more powerful force for integration than trade in goods, as multinational firms attempt to extend their global reach by establishing a direct presence in foreign markets. After a sharp decline in the early 1980s, direct investment flows grew six-fold between 1985 and 1996, from around US$ 60 billion to almost $350 billion per annum, boosting the global stock of foreign direct investment to $3.2 trillion, or double the level three years earlier. Cross-border mergers and acquisitions alone were valued at US$ 263 billion last year - taking advantage in part of a worldwide wave of privatization valued at some US$ 83 billion.

More and more trade takes place within companies or among related partners, as transnational firms seek out the most efficient global suppliers, customize products for different markets, and link into sophisticated distribution and technology networks. More and more, trade encompasses the whole spectrum of economic activity - from goods and raw materials, to components, services, and information.

A third key element driving the global integration process, particularly in recent years, is the information economy - where the marriage of digital technology and new communications networks is creating the possibility of an increasingly borderless economy in key sectors. Over the last decade or so, the cost of telecommunications and computing has fallen dramatically, just as speed and capacity have risen. A transatlantic telephone call now costs just one and a half per cent of what it cost sixty years ago. And the World Bank predicts that by 2010 the cost will have fallen by another two-thirds - to about 3 cents a minute - making transatlantic telecommunications almost a free commodity. The cost of computing power has also fallen dramatically - by almost 100 per cent since 1960 - in turn making computing power accessible to millions of ordinary people.

Essentially any service that can be digitalized and transmitted electronically can now be produced and delivered in a matter of seconds almost anywhere in the world. Although this burgeoning electronic commerce is perhaps best symbolized by the Internet - which has been steadily doubling in size each year since its creation a quarter of a century ago - other technologies such as computerized financial markets, E-mail, telephone banking, and electronic data interchange are all moving us towards a more borderless, information-driven economy. Financial services, data processing, computer software, medical information, educational programmes, legal and architectural services - all of these industries could become part of an increasingly borderless and competitive environment. As electronic commerce expands, it is important to deal with the policy challenges it poses in a coordinated manner.

The shrinking of time and space will have far-reaching economic effects. Transaction costs for consumers and businesses will fall rapidly as many steps that intervene between buyer and seller - distribution, sales, retailing - are compressed. Transaction times will fall even faster, adding a whole new dimension to "just-in-time" production processes. Perhaps most significant of all will be the falling barriers and costs to market entry - or starting a new business- allowing a far greater number of suppliers to enter a market. Not only will consumers benefit from this increased competition, but small and medium-sized enterprises - as well as large multinational corporations - will now be full participants in the global marketplace.

Another important feature of the borderless economy is its potential to equalize relations between countries and regions. Access to telecommunications is expanding rapidly - to one billion, or almost one in every five, will by the turn of the century have access to a telephone. The dozen or so global satellite schemes now under construction will virtually eliminate bandwidth constraints and reduce connection costs to a few dollars per station in a decade. Many developing countries will be able to "leap frog" entire stages of development into the newest generation of wireless telephony - avoiding the huge costs involved in building an older, copper-wire based infrastructure.

This is not to ignore all of the ways in which today's world is unsatisfactory - even unacceptable. It is a world where, according to the latest United Nations Human Development Report, over a quarter of the developing world's people still live in poverty. One in five people on the planet - about 1.3 billion - live on incomes of less than $1 a day. These statistics reinforce what our eyes and ears already tell us - that though we are part of an ever more integrated global economy, the distance between rich and poor is still intolerable.

But such sombre statistics should not obscure another basic reality which is that the human condition has improved dramatically over the past fifty years - and that an open and stable global trading system has made a vital contribution to economic growth, development and technological progress. World gross domestic product, measured in constant prices and adjusted for population growth, increased by an annual average of 1.9 per cent per year from 1948 to 1997. This is a high rate by historical standards - per capita income growth averaged 0.9 per cent per year in the period 1820-1913.

According to the United Nations, in 1997 120 economies out of 143 for which data were estimated, had positive per capita growth. And growth rates worldwide are projected to continue rising. Recent work by the World Bank and the OECD project extraordinary growth rates during the first two decades of the next century - even with modifications for the current financial crisis in South East Asia. According to the OECD, if countries pursue sound economic policies, adapting to new challenges as they arise, world output growth could average 3.7 per cent per year over the period from 1996-2020. Developing countries could grow by as much as 7 per cent per annum on average and developed countries by 3 per cent. The share of non-OECD countries in world output would jump from today's 20 per cent to 36 per cent. World income would double in 20 years. Should governments fail to seize available opportunities and avoid economic reforms, world output growth could fall to less than 3 per cent. At this rate, it would take an additional 10 years to double world income.

Globalization will not solve the very real problems of distribution we face - nor will it, on its own, feed and clothe our children, or educate and empower their parents. What globalization provides is the most powerful engine for growth the world has yet seen - an essential basis for building the shared global society that is now within our reach. Indeed, this remarkable record of economic and technological progress is already having a real impact on the everyday lives of millions of people in dozens of countries. Since 1960, child death rates have been almost halved. Malnutrition rates have declined by almost one third. By the end of the century, adult illiteracy will have been reduced by nearly three-fifths and about 4 to 5 billion people will have access to basic education and health care. Even more remarkable, the UNDP talks about the potential for eradicating global poverty in the early part of the next century - a utopian notion even a few decades ago, but a real possibility today. The most striking feature of the late twentieth century is not the pain and dislocation produced by globalization and technological change, although these realities are certainly with us. Rather it is the fact that billions of people have achieved a standard of living today which was attainable by only a fortunate few a century ago.

Section IV: Conclusions

This report has touched on a number of challenges that governments face in the months and years ahead. Among these are:

*to sustain the momentum of liberalization and continue to modernize the system in line with emerging realities;

*to work expeditiously towards bringing the candidates awaiting accession into the system;

*to address the pressing challenges of development, poverty and inequality faced by dozens of countries around the world, bearing in mind the contribution that can be made to development by the new information technologies and electronic commerce;

*to ensure the continued primacy of the multilateral trading system in trade relations, and secure coherence and complementarity between regional trade initiatives and multilateral commitments;

*to foster cooperation with other international agencies and organizations in addressing key issues in world trade relations;

*to deal appropriately with environmental and social problems, including in such areas as health and education, as these relate to the multilateral trading system; and

*to continue to make the case publicly for freer trade and preserve the benefits of globalization, including through the pursuit where necessary domestic policies designed to assist adjustment.

These challenges all come down to the basic question of what sort of world we want: A world divided into three or four vast regional blocs, whose rules discriminate against one another, and whose relations would be established on power and not laws? Or a truly global system of rules, based on non-discrimination, to deal with our globally integrating world? The world has changed dramatically over the last half century, but not the basic choices we face. And their implications go far beyond trade.

Born after the most destructive and generalized conflict in human history, the multilateral trading system has made an outstanding contribution to an unprecedented period of prosperity. It has fostered international cooperation and underpinned peace. It has expanded and adapted with changing circumstances, responding to challenges as they have arisen.

None of this could have happened without a shared and continuing commitment from national governments, developing and developed alike. The system has only functioned as well as it has because governments have been willing to work on the basis of consensus around a negotiated set of rules. They have accepted the core principle of non-discrimination, the principle that has allowed rules to prevail over power, and enabled all Members to have the same access to the protection of those rules. And this commitment to the system has been increasingly complemented by the conviction that progressive trade liberalization is in the national interest. The alternative would be to revert to protectionist policies, restoring barriers among countries and people, and deepening the marginalization of least-developed countries. History tells us that the economic and political rivalries underlying such policies make for a much more unsafe world.

Today we have the opportunity to create a universal trading system, bringing together industrial, developing and transition economies under enforceable consensus-based international rules and disciplines. Seizing this opportunity will be a major contribution not only to global prosperity, but also to global stability and peace. It will be an essential element in the international architecture of the future. What better time, therefore, than the 50th anniversary of the multilateral trading system to reinforce beyond doubt that our ultimate objective remains the establishment of a rules-based global system of free trade as the main element of a strategy for global development and security in the twenty-first century?