

## I. INTRODUCTION

1. This report, presented pursuant to Paragraph G of the Trade Policy Review Mechanism, is aimed at assisting the TPRB to undertake its annual overview of developments in the international trading environment that are having an impact on the multilateral trading system. It covers the period November 2009 to mid-October 2010.

2. In 2010, world trade recovered more strongly than output from its worst decline in many decades. Trade volume (measured by exports) grew annually by nearly 6% on average between 2000 and 2007, before slowing to 2% in 2008 and then falling by a record 12% in 2009 in the wake of the global financial crisis. By July 2010, world trade volume had recovered roughly to its level of July 2008 and was close to its pre-crisis peak in April of that year. Notwithstanding signs of weaker growth in the second half of the year, the WTO forecasts world trade volume growth of 13.5% for 2010 as a whole.

3. Developed countries' merchandise exports declined more than those of developing countries in 2009, falling by 15% compared to 8% for developing countries, as households and firms postponed purchases of consumer durables and investment goods. Developed countries' exports are expected to expand by 11.5% in volume terms in 2010 while developing countries and transition economies are expected to see an increase of 16.5%. The rebound of trade flows has been strongest among developing countries in Asia.

4. Rapid trade growth in the first half of 2010 appeared to decelerate over the summer months, and there are uncertainties ahead. The growth of world output is projected by the IMF to slow to 4.2% in 2011 from 4.8% this year, with growth of 2.2% in developed countries and 6.4% in developing countries.

5. The economic recovery has not been strong enough so far to impact significantly on high levels of unemployment in many countries. According to the ILO, based on current trends employment is not projected to return to its 2008 level before 2015 in high income economies, whereas in emerging economies that level was regained already in 2010.<sup>2</sup> Unemployment globally is estimated at 210 million, an increase of 30 million over pre-crisis levels. Youth unemployment remains persistently high at double the aggregate rate in most countries. In all G20 countries, manufacturing employment has fallen relative to pre-crisis levels and real wages in manufacturing have declined by 4% in 2010 relative to 2007.

6. The TPRB monitoring exercise and individual Trade Policy Reviews confirm that governments have continued this year to resist protectionist pressures and exercise restraint over the imposition of new trade restrictions. New trade restrictive measures have been imposed (Annex 1) but at a somewhat slower rate than in 2009, and there has been an encouraging increase in the number of new measures introduced to facilitate trade, especially by reducing or temporarily exempting import tariffs and by streamlining customs procedures. In the area of trade in services, some governments have introduced significant changes to their foreign investment regimes in order to allow broader presence of foreign suppliers in various service sectors.

7. Nonetheless, it is sobering to note that new restrictive measures introduced in the period between November 2009 and mid-October 2010 cover around 1.2% of world imports, an increase over the level of 1% recorded in the previous twelve month period.

8. The sectors most affected by new trade restrictive measures in 2010 are base metals and products, machinery and mechanical appliances, and transport equipment. These sectors, along with agriculture, were already relatively heavily protected before the global financial crisis. Continuing to

---

<sup>2</sup> ILO *Annual World of Work Report*, 1 October 2010.

target them with trade restrictive measures leads to chronic protection of these sectors, hampering structural adjustment at home and denying export opportunities abroad.

9. There is need for increased vigilance by WTO Members to three potential dangers.

10. The first is that the last few months have seen an increase in protectionist pressures generated by global imbalances, at a time when the political consensus in favour of open trade and investment is already under strain from stubbornly high levels of unemployment in many countries. The causes of large trade imbalances, as well as persistent high levels of unemployment and disorderly movements in currencies, are macroeconomic in nature. Restricting trade cannot correct those problems, but it could easily provoke retaliation which would seriously threaten jobs and growth worldwide.

11. The second is the danger of a steady accumulation over time of measures that restrict or distort trade and investment. Since the end of 2008, new trade restrictions have built up to cover 1.9% of total imports. Only around 15% of the measures introduced since the outbreak of the crisis have been removed so far. This is too low. G20 governments, in particular, need to give priority to removing those measures that were taken as a temporary response to the economic crisis.

12. The third is the challenge of managing the trade and investment impacts of stimulus and bail-out measures taken in response to the crisis. The effects of those measures, on trade and competition, will be examined by Members at a Special Session of the TPRB scheduled for early spring 2011. In the meantime, exit strategies to unwind them should be transparent and accountable and should not be used as a pretext to discriminate, directly or indirectly, against foreign traders or investors.

13. In Seoul, G20 Leaders expressed an unwavering commitment to resist protectionism in all its forms. They reaffirmed the extension of their standstill commitments until the end of 2013 as agreed in Toronto, committed to rollback any new protectionist measures that may have arisen, including export restrictions and WTO-inconsistent measures to stimulate exports, and asked the WTO, OECD and UNCTAD to continue monitoring the situation and to report on a semi-annual basis.

14. The March 2010 stocktaking on the Doha Development Agenda agreed to let work and consultations be guided by a so-called cocktail approach of a combination of meetings in small groups, bilateral contacts, Negotiating Group meetings and consultations of the Director-General. This process has been feeding into the Negotiating Groups and the Trade Negotiations Committee. The centrality and primacy of the multilateral process together with transparency and inclusiveness are the guiding principles. The G20 Leaders' meeting in Seoul and APEC Leaders and Ministers' meeting in Yokohama sent strong signals of political resolve to conclude the DDA. Leaders recognized the 2011 window of opportunity to achieve this goal. They called for intensified engagement and for negotiations across the board to conclude the end-game. They also committed to seeking domestic ratification once an outcome is reached. The challenge now is to translate this political will into negotiations in Geneva.

15. The number of regional trade agreements (RTAs) continues to rise rapidly. By end October 2010, almost 200 RTAs that are in force had been notified to the WTO and about 100 more are being negotiated. Since 2008, East Asia has been the most active region notifying new RTAs, with 19 agreements entering into force. Europe is also active, with 15 new agreements, as is South America with nine new agreements. North and Central America have notified four and six new agreements, respectively, and Africa three new agreements since 2008.

16. The Transparency Mechanism for RTAs, which has been operational since 2007, has shown that while RTAs generally do liberalize trade, many of them have been unable to address problems of tariff peaks and sectoral protection, and that it remains difficult to overcome vested protectionist interests at the regional level. Even where tariffs are eliminated, in many cases MFN tariffs are already low with the result that the additional liberalization in RTAs is marginal. For services, while

there is some evidence to suggest that commitments in RTAs go beyond GATS commitments, they are by and large binding the status quo and therefore not providing additional market access than that which already exists on an MFN basis. The new generation of RTAs is increasingly tackling barriers that are normally considered to be "behind the border", such as regulatory bottlenecks which have a significant impact on trade. Clearly, some of these RTAs are going beyond the multilateral rules. Given the economies of scale and scope in reducing regulatory barriers to trade and investment, it is time to bring these efforts into the multilateral trading system. This should be the focus of discussion among Members on RTAs.

17. The business environment for trade finance has continued to improve since the middle of 2009. Nevertheless, traders in low-income countries, especially Africa, are still confronted with significant difficulties in accessing trade finance at affordable prices. In addition, new and diverse regulatory requirements are deterring international banks from doing business in these areas, because the increasing cost of compliance has reduced already low margins to negligible levels. The WTO Expert Group on Trade Finance is continuing to explore sustainable solutions for these countries.

18. This report to the TPRB, and those that have preceded it, aims to contribute to improving the multilateral transparency of trade policies. Other important steps have been taken this year by all WTO Councils and Committees to improve the implementation of WTO notification requirements and stimulate a more up-to-date and comprehensive flow among Members of recent trade-related developments. The record of compliance with notification requirements has improved considerably in the past two years. More needs to be done. The global financial and economic crisis and the WTO's trade-monitoring exercise have shown the importance of increased transparency for the smooth functioning of the multilateral trading system. Progress in this area depends on active participation by all Members.