



International Centre for Trade
and Sustainable Development



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

Strengthening the Global Trade and Investment System in the 21st Century Synthesis Report



Published by

World Economic Forum

91-93 route de la Capite, 1223 Cologny/
Geneva, Switzerland

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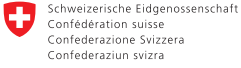
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Note on the E15 Initiative and this Synthesis Report

Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15 Initiative was established to convene world-class experts and institutions to conduct a strategic review of trade and investment rules and arrangements as well as develop proposals for their evolution to 2025 and beyond. In collaboration with 16 knowledge partners institutions, the E15 Initiative brought together more than 375 leading international experts in over 80 interactive dialogues grouped into 18 themes between 2012-2015. Over 130 background papers and think pieces were commissioned and published during the process.

This synthesis summarizes and interprets the significance of the expert group proposals in relation to eight critical imperatives faced by policymakers, business leaders and society at large. It draws directly from expert group think pieces and policy option papers. The latter are published in a second section of this volume, whereas the former are available online at www.e15initiative.org.

With the support of



Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO



ICTSD's Core and Thematic Donors:



Government of the Netherlands



E15 Knowledge Partners:



北京大学国家发展研究院
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Executive Summary

Strengthening the Global Trade and Investment System in the 21st Century

World trade has experienced a significant slowdown since the 2008 financial crisis. Over this period, the global ratio of trade expansion to income growth has halved. An effective global trade and investment system is crucial for reinvigorating economic growth and confronting 21st century global challenges. Yet the system—well performing as it is in many of its functions—is out of date and in need of greater coherence.

It is this reality that led the International Centre for Trade and Sustainable Development (ICTSD), the World Economic Forum, and 16 partnering institutions to bring together more than 375 international experts in over 80 interactive dialogues between 2012 and 2015 under the E15 Initiative. At the core of the initiative are 15 thematic Expert Groups and three Task Forces, each comprised of leading thinkers from developed and developing countries drawn from different fields and backgrounds. Their work has been complemented by an overarching dialogue looking at the global trade and investment architecture, involving consultations with hundreds of thinkers and policy-makers. The entire process has yielded approximately 150 analytical papers and its deliberations have stimulated a fresh look at the long-term challenges and opportunities facing the global trade and investment system, especially in respect of its efficacy, inclusiveness and contribution to sustainable development.

The policy option papers prepared by each E15 thematic group offered a detailed and comprehensive set of suggestions for improved governance of the global trade and investment system in the 21st century. They are accompanied by a Synthesis Report, which summarizes and interprets the significance of the proposals for progress on many of the international community's most important shared imperatives.

We wish to thank and salute each Expert Group and Task Force member, including particularly the Chairs, as well as the partner institutions which supported each group. Their commitment and diligence is what has made this significant contribution possible. We also wish to express our appreciation to the Initiative's distinguished Steering Committee, whose strategic guidance has been invaluable. It is important to note that not every Expert Group member necessarily agrees with every proposal or observation in their chapter, which were drafted under the responsibility of the Chairs. Nor do Expert Group and Steering Committee members necessarily agree with every representation made in the Synthesis Report, which was developed under our responsibility and does not represent an institutional position of either ICTSD or the World Economic Forum. Finally, we thank profusely the ICTSD and Forum E15 teams, including ICTSD Senior Fellow Dr. Harsha V. Singh and Senior Manager Marie Chamay as well as the Forum's Head of International Trade and Investment, Sean Doherty.

As conveners of the E15 Initiative, we have sought to provide a conducive environment for long-term strategic thinking among multiple stakeholders, regions and intellectual disciplines about the optimal evolution of the global trade and investment system in the 21st century. We believe this unprecedented process has produced a timely and relevant contribution at precisely the moment when the international community is beginning to consider a new direction. We commend it to the attention of policymakers, business leaders, scholars and citizens alike and look forward to the next phase of dialogue.

The recent failure by WTO member governments to reach agreement on a continuation of the Doha Round of multilateral trade negotiations has left the international community without a shared agenda for the future evolution of the global trading system. To be certain, there is no lack of initiative and innovation within the system. Regional and bilateral activity has never been more robust. But there is palpable unease about this lack of a common strategic vision and project, as well as questions about where the current dynamic of “competitive liberalization” will lead, even among its main drivers. Such questions include:

- Will the system fragment and degrade into trade-diverting regional blocs?
- Will global trade expansion continue its disappointing recent pattern of lagging global economic growth, rather than leading and propelling it?
- Will the system be able to contribute to rather than complicate progress on other global priorities, such as climate change, sustainable development, inequality, employment, population ageing, depletion of fish stocks and biodiversity, corruption and money laundering, etc.?
- Will it be able to contain the recent proliferation of non-tariff barriers, which can be just as big an obstacle to trade as the tariffs that successive multilateral rounds of negotiations have done so much to reduce?
- Will trade-related rules be able to adapt to the technological changes transforming the operating context of businesses and the very nature of commerce and investment?
- As globalization deepens, will the system succeed in striking the right balance between the policy-making prerogatives of national and local governments, on the one hand, and the logic of international economic integration and cooperation, on the other, particularly when key social values are implicated?
- In sum, will the trading system be able to maintain its essential *positive sum game* character, both in economic fact and political perception?

These questions and others have taken on heightened importance in the aftermath of the Nairobi WTO ministerial, but they have been building up within the system for some time. It is for this reason that the International Centre for Trade and

Sustainable Development and the World Economic Forum organized the E15 Initiative, a multistakeholder, long-term strategic review of international trade and investment rules and arrangements. Unprecedented in substantive scope and regional and stakeholder engagement, the Initiative convened 15 Expert Groups and three cross-cutting Task Forces, with participants from 57 countries, posing the question: how should trade- and investment-related rules and institutional arrangements evolve in each area over the next 10 years to 2025?

The groups were invited to conceive of the global trade and investment system broadly, including but by no means restricted to the WTO or other formal trade institutions and agreements. They were asked to think structurally, not incrementally, and not be bound by current calculations of political feasibility. Finally, they were instructed to be specific – to make concrete proposals and prioritize them.

A Synthesis Report created by the two convening institutions summarizes and interprets the significance of the proposals made by the Expert Groups and Task Forces. It draws directly from the policy option papers compiled by each group as well as many of the over 150 underlying research papers or “think pieces” authored by many of the 375 academic, business, civil society and governmental experts participating in the process. The Synthesis Report and individual Expert Group policy option papers are published as a single volume, and readers of the former are encouraged to delve more deeply into the latter for further detail. The think pieces, which are a remarkably rich resource in themselves, were published as they became available over the past three years and can be found on the E15 website: www.e15initiative.org. The process has received strategic guidance from a distinguished steering committee composed of eminent scholars, business leaders and policymakers.

Strengthening the Global Trade and Investment System in the 21st Century
Important shifts in the world economy and political economy of trade policy in recent decades have resulted in an increasingly fragmented and sometimes trade-diverting system that has moved off the centre of the stage of international economic cooperation and is losing legitimacy and relevance for key constituencies. A new common agenda is required that can reset the trajectory of the system’s evolution in ways that equip it to respond tangibly to contemporary concerns that are top of mind in Cabinets, boardrooms and kitchen tables around the world.

The output of the E15 Expert Groups and Task Forces is encouraging in this respect. Their proposals demonstrate that an agenda to strengthen and update the system is not only conceivable but also plausible. As synthesized and interpreted in the following chapters, they form a blueprint for how the international

community could come together to make progress on each of the following shared imperatives through improvements in trade and investment rules and arrangements:

Boosting Global Growth and Employment

Reducing Commercial Friction and Investment Uncertainty

Accelerating Sustainable Development in Least Developed Countries

Increasing Economic Diversification and Competitiveness in Middle-income Countries

Ensuring Food Security

Combating Climate Change and Environmental Degradation

Preserving National Policy Space to Make Societal Choices

Strengthening the Legitimacy of the Global Trading System

The substantial nature of the proposals that have emerged in each of these areas suggests that there are important, potentially even transformational, benefits in this agenda for every region and major constituency. **Just because the world was not able to agree to the particular multilateral agenda on the table in the Doha Round does not mean that a common (as opposed to single) undertaking that leaves each better off is not possible.**

However, the path toward deeper and more effective international trade and investment cooperation in the 21st century only comes into view if one steps back from a specific focus on the WTO and appreciates the much wider ecosystem of institutions and instruments available to influence trade and investment behaviour. The proposals summarized below take such a systemic view, spanning a wide range of disciplines and institutions in a way that contrasts with most trade policy analyses, including the two formal reviews commissioned since the turn of the century by the WTO. Embracing a broader frame of reference and deploying a much wider array of tools available for international economic cooperation is fundamentally what will make a *positive sum game* outcome possible in the current, more complex, economic and political context.

This insight has important implications for national and international governance. The agendas of trade ministers and institutions need to be embedded in larger strategies set by higher authorities that integrate other policy and stakeholder dimensions. This will be the focus of the next phase of the E15 Initiative -- a dialogue around the world about the implications of this blueprint for how trade and investment policy is set and administered in countries and at the global level -- and how improvements in international cooperative architecture could help.

Boosting Global Growth and Employment

Were the world economy able to return to its historical pattern of international trade and output growth in which trade expands at about 160% of the rate of economic activity, global growth would be nearly a full percentage point (i.e., one-third) above currently forecasted levels. International trade and investment contribute to growth by facilitating the flow of capital, labour and particularly technology to their most productive uses across the world economy. E15 Expert Group proposals would increase the global diffusion of productivity-enhancing technologies, improve the allocation of the capital and skills to their most productive potential applications and expand trade and investment in employment-intensive industries.

Diffusing Technological Progress

Scale Internet-enabled SME trade:

- Adopt interoperable, digitally-enabled **single windows for customs and border compliance**, and releasing open application program interfaces (APIs) to allow developers to create digital platforms to services to seamlessly link SMEs to large numbers of country single windows supported by an expansion of Aid for Trade capacity-building assistance for developing countries.
- Create comprehensive, **online, single points of enquiry for cross-border services providers** to learn about host country regulatory, licensing and other administrative requirements.
- Establish higher, standardized **de minimis customs levels** to facilitate cross-border flows of small packages supplied by internet-enabled retail services providers, especially SMEs, for example by adopting the APEC \$100 (or even \$200) minimum common threshold for developing countries and higher threshold, such as \$800, for advanced countries.

Establish clear rules pertaining to the electronic transmission of data and related services:

- Allow the **free flow of data across borders** subject to an exceptions provision based on the General Agreement on Trade in Services (GATS) Article XIV concerning the right of countries to protect the privacy of personal data as long as such right is not used to circumvent the provisions of the agreement.
- Establish regulatory certainty and coherence by **aligning rules with leading practices** regarding intermediary liability, privacy, intellectual property, consumer protection, electronic signature and dispute settlement.
- Establish a **permanent moratorium on the imposition of customs duties on the electronic transmission** of products.

Initiate negotiations to establish a Plurilateral Digital Trade Agreement or “eWTO”:

- A forward looking group of countries from various regions should take the initiative to create an **agreement to implement a comprehensive set of policies and leading regulatory and multistakeholder practices such as those outlined above**, to maximize the growth and employment potential of Internet-enabled trade. If such a group included, among other countries, the United States, China and European Union, its provisions could be extended on a most-favoured-nation basis to all countries as a “critical mass” agreement under WTO rules, serving as a thereby a powerful stimulus to global growth and employment particularly in the SME sector.

Create a WTO Working Group on Digital Trade to examine how the needs of digital trade are now covered under the existing rule framework, identify areas where coverage is inadequate or ambiguous, and recommend appropriate clarifications or adjustments.

Include research services in GATS and establish an Agreement on Access to Basic Science and Technology aimed at strengthening the global commons in science and technology without unduly restricting private rights in commercial technologies.

Improving the Global Efficiency of Capital and Labor Allocation

- ***Ensure correspondent-banking availability in developing countries***, which has decreased as a result of the tightening of Know Your Customer (KYC) requirements, by ensuring that the BIS, FSB or Wolfsberg Group mentored or sponsored at least one bank per country for purposes of validating its KYC process.
- ***Deepen regional regulatory cooperation in financial services***, including through the creation of regional credit bureaus and rating agencies, facilitation of free data flows and offshoring and standardization of documents and documentation requirements.
- ***Scale the blended (public-private) financing of infrastructure and industrial investment*** through expanded deployment of risk mitigation, co-financing, capacity building assistance and other public finance tools.
- ***Streamline processes and procedures related to visas and work permits and establish a plurilateral but open “innovation zone”*** working through GATS within which skilled researchers and technical personnel would be able to migrate freely for up to 10 years.

Expanding Trade and Investment in Employment-intensive Industries

- **Develop a comprehensive WTO Framework for Trade Facilitation in Services**, with attendant measurable indicators as in the Trade Facilitation Agreement. This Framework should encompass both cooperative and negotiating mechanisms, complemented by capacity building and technical assistance.

Reducing Commercial Friction and Investment Uncertainty

A large and growing share of the world's economic activity is organized through global value chains (GVCs) and strategic networks, rather than through arm's length sales between vertically integrated buyers and sellers in different countries. The most obvious evidence of that trend lies in the percentage of world trade made up of intermediate goods – a *nearly 60% share of world imports and close to three-fourths of the imports of large developing economies, such as China and Brazil*. In this networked world, steps aimed at increasing the quality and reliability of goods and services, decreasing time to market, and enhancing the ability to innovate matter more than lowering the price wedge that tariffs can create. Enabling local firms' participation in GVCs requires a focus on improving both an economy's "hardware" (for example, transportation and communications infrastructure) and its "software" (e.g., institutional arrangements, quality and safety standards; improvements in customs procedures, and so on).

- **Establish a Global Value Chain Partnership**, a public-private platform to improve the efficiency and inclusiveness of global supply chains. The platform would facilitate cooperation between governments seeking to integrate their economies into international supply chains and the companies and experts who could be their partners. The action orientation of the partnership would be underpinned by important new analytical efforts to map existing value chains and impediments to their expansion in new geographies as well as to assemble evidence and examples of good practice that can inform the strategies of developing country governments to maximize the contribution to sustainable development of their economies' participation in these production networks.
- **Simplify the conduct of business across the more than 400 existing regional and preferential trade agreements** through an **RTA (regional trade agreement) Exchange**. This comprehensive open information platform would aim to enhance transparency and understanding about the similarities and differences of RTAs, encouraging a dynamic of learning, best practice adoption and cooperation that leads ultimately to the alignment and even multilateralization of subsets of their rules.
- **Simplify the conduct of business across the more than 3,200 existing international investment agreements (IIAs)** through development of a **Model Investment Agreement** for the 21st century world economy. The

Investment Policy Framework for Sustainable Development recently issued by UNCTAD could serve as a starting point for this process, which would seek to build common ground on not only the articulation of and set of definitions for this restatement of the purpose of IIAs but also the design of the main elements of a 21st century international model agreement, using as building blocks a few of the more recently concluded bilateral agreements and perhaps the prospective US-China bilateral investment treaty that is under negotiation. This new model framework, formulated as a best practice open for voluntary adoption, would be a bottom-up way to spur the modernization and harmonization.

- **Strengthen the transparency of national regulations.** Transparency obligations in the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Agreements are the most far-reaching in the WTO regime. One-stop shops, enquiry points, intervals between the preparation and adoption of measures coming under the aegis of the two agreements constitute important innovations. Regulation, however, extends to areas not covered by the TBT and SPS Agreements. A new, consolidated framework on regulatory transparency should be agreed in the WTO in which:
 - There is a “mapping” of national mechanisms that are intended to provide transparency with respect to various national regulatory processes.
 - WTO members notify all adopted measures, whether based on international standards or not;
 - They explain the rationale behind their measures (“reasoned transparency”).
 - They involve affected parties at an early stage in the process.
 - Business is provided observer status in the TBT, SPS and other Committees.

- **Integrate services and goods in policy by deepening the Trade in Value Added research of the OECD and WTO and establishing a WTO Working Group** to recommend ways to reduce distortions resulting from the separate rules for goods and services, which are increasingly out of step with the transformation of economic activity in many sectors in which services are embedded in products.

- **Build upon the competitive neutrality principles for state-owned enterprises included in the Trans-Pacific Partnership and EU-Canada CETA agreements** by expanding application of these provisions to other RTAs.

- **Improve cooperation among competition and trade policy authorities** by inviting national competition authorities to evaluate the competition consequences of national decisions bearing on tariffs, antidumping, government procurement, foreign direct investment, services regulation and so forth. In addition, informal discussions in the International Competition Network (ICN),

OECD and UNCTAD should be deepened, concentrating on multi-jurisdictional mergers as the most likely source of consequential, inconsistent decisions. Agencies could voluntarily, but effectively, collaborate in joint investigation and enforcement.

Accelerating Sustainable Development in Least Developed Countries

Maximizing Preferential Market Access

- **Developed countries should extend full Duty Free Quota Free (DFQF) market access for all LDCs.** The European Union, Canada and Japan have essentially met this objective. A phased programme could be devised by the United States to address the small number of apparel tariff lines that are important for Sub-Saharan African exporters and covered by the African Growth and Opportunity Act.
- **Middle-income countries should follow the leadership of China, India and Brazil by implementing DFQF programmes that attain 97% tariff line coverage** within the next 5 to 10 years. China expects to reach this goal by the end of 2015 for LDCs with which it has diplomatic relations. Other middle-income countries should demonstrate a similar degree of commitment to South-South trade and the eradication of absolute poverty by following suit.
- Both groups of countries should follow the leadership of Canada and **implement rules of origin for these preference arrangements using an extended cumulation approach, forming, in effect, a broad cumulation zone** among all LDCs and countries that are members of free trade agreements (FTAs) in which the importing country participates. This approach would significantly stimulate exports from LDCs, judging from the evidence of similar rule of origin changes in the past.

Improving the Terms of Foreign Investment

- Use the Investment Policy Framework for Sustainable Development recently issued by UNCTAD as a starting point for the development of a **Model Investment Agreement** as described in the preceding section, including:
 - An articulation of **fundamental investor obligations**, including with respect to responsible business conduct in areas like corruption, human rights and taxation (i.e. for example, the new OECD Base Erosion and Profit Shifting framework) and benefit sharing. Supplemental sector-specific responsible investment frameworks could be developed through public-private dialogue, such as in the area of responsible mineral and natural resources development;
 - A new **international appeals framework** that states could choose to opt into as part of their bilateral agreements or FTAs. This mechanism would provide recourse for either party of an arbitral judgment to an ad hoc appellate body composed of members from a pool of investment adjudication specialists accredited by the international framework.

- Establish an **Advisory Centre on International Investment Law** to level the playing field for developing country governments that lack the legal expertise to defend themselves adequately in disputes, based on the model of the Advisory Centre on WTO Law.
- Expand donor country assistance to support for **capacity building to developing countries** in the implementation of the new model framework. This can be done by extending the WTO Aid for Trade initiative to cover investment-related as well as trade-related capacity building. These programmes of assistance could be shaped by the Investment Policy Reviews of UNCTAD or relevant reviews by OECD or the WTO.
- Scale **technical assistance from the International Monetary Fund or multilateral development banks to LDC sovereign debt issuers** to ensure they have the capacity to negotiate terms based on the model frameworks developed recently to eliminate judicial/sovereign risks, and in turn provide for efficient restructurings should the need arise.

Expanding the Inclusivity of Norm Setting and Adoption

- **Establish regional institutions for structured support programs to enhance local capacity** to conform to global standards, and provide links to lead firms to increase understanding of international market developments.
- Develop norms for making regional and plurilateral agreements more inclusive. In addition to more permissive rules of origin, devise methods or principles by which the multilateral system could accommodate newly emerging trade regulatory regimes.

Increasing Financing for Trade-Related Development

- **Expand the scope and scale of trade-related capacity building assistance** and the Aid for Trade initiative. Several E15 Expert Groups proposed major increases of such aid for the development of rules and administrative and adjudicatory capacity in the areas of services, legal and regulatory reform, investment frameworks, private standards adherence, responsible supply chain practices and labor, environmental and anti-corruption institutions, etc. While the Aid for Trade initiative has made important progress since it was launched 10 years ago, it and related bilateral donor programmes need to substantially broaden their scope and considerably boost funding levels so that a fuller spectrum of institutional weaknesses that raise trade costs and create investor uncertainty.
- **Deploy official development assistance (ODA) more strategically in further ways**, particularly by increasing use of blended finance to catalyze private investment and creating a more business-friendly policy environment through the strengthening of institutional capacity in the financial sector and public expenditure, tax and judicial systems. In particular, concrete steps could be taken to increase efforts to support implementation of OECD BEPS measures (e.g., with modest international support, Kenya's revenue collection from transfer pricing audits doubled recently from \$52 million to \$107 million)

- **Establish an agricultural subsidy solidarity fund** to support food security and climate change adaptation in LDCs, in which financial contributions would be made in proportion to the magnitude of such domestic support in advanced and emerging countries. With total ODA to agriculture in the order of \$9 billion and official trade-distorting support (OTDS) to agriculture in these countries amounting to about \$200 billion, a contribution of even just 1% or 2% of OTDS by each donor country would result in an expansion of ODA to agriculture by 20% to 40%, funds that could support a significant boost in capacity-building assistance for climate-smart agricultural productivity improvements and export performance in at-risk LDCs.

Increasing Economic Diversification and Competitiveness in Middle-Income Countries

Middle-income countries (MICs) face growing competition in traditional markets from other developing countries and the challenge of boosting their technological sophistication in order to compete effectively with advanced countries in higher value-added products and services. The best way for MICs to avert this so-called middle-income trap is to improve domestic competitiveness at the level of the firm, industry and the nation itself.

The evidence regarding industrial development over the past 50 years, including particularly the experience of a number of successful East Asian economies, suggests that horizontal (non-sector specific) policies to improve the enabling environment for private sector development are ultimately more important to success than vertical (sector- or firm-specific) ones. In particular, by **combining improvements in infrastructure, investment climate institutions and workforce skills with openness to foreign direct investment** in key sectors, countries create the possibility for technology and know-how from those foreign firms to be transferred more widely and organically through the bottom-up creation of forward and backward linkages. These linkages can build over time into clusters of industrial capabilities that propagate local production, investment and innovation. This dynamic can be accelerated by attracting investments by lead firms in global or regional value chains through the maintenance of an enabling tariff and non-tariff barrier environment for the importation of key inputs and improvements in trade facilitation (particularly customs administration and logistics). In this sense, **modern industrial policy emphasizes the facilitation rather than restriction of imports and inward foreign investment**. Vertical policies can also be helpful, but based on a recognition that they are more likely to be effective and cost-efficient if executed within a robust horizontal enabling environment and determined through a **rigorous and dynamic evaluation of the country's latent competitive advantages** that is insulated from rent-seeking behaviour of vested interests.

E15 Expert Groups propose several ways in which the international trade and investment regime can be strengthened to help countries translate enabling environment improvements into increased flows of foreign investment and commerce which contribute to economic diversification and industrialization. Rather than creating new rules, much of this agenda concerns facilitation, particularly of cross-border investment, services trade and integration into global value chains, as these are vehicles for introducing additional capital, technology, know-how and skills transfer into an economy. Specifically:

Create an international support programme for sustainable investment facilitation, focused on improving *national* FDI regulatory frameworks and strengthening investment promotion capabilities. In a world of global value chains, the Aid for Trade Initiative and the TFA address one side of the equation, namely the trade dimension; an international support programme for sustainable investment facilitation would address the other through enhanced transparency of both host government rules and practices as well as an expanded array of promotional services.

- One option would be to extend the Aid for Trade Initiative to cover investment or create a separate Aid for Investment initiative. The initial emphasis could be on investment in services, with a focus on sectors key to promoting sustainable development, such as environmental services, energy, transportation, and professional services
- Another, more ambitious, and medium-term option would be to expand the Trade Facilitation Agreement to cover sustainable investment as well, to become an Investment and Trade Facilitation Agreement, conceivably through an interpretation of that Agreement or through amending that Agreement.
- A third option is for a group of interested countries to launch a Sustainable Investment Facilitation Understanding that focuses entirely on practical ways to encourage the flow of sustainable FDI to developing countries. Work on such an Understanding could be undertaken in the WTO or within another international organization with experience in international investment matters, perhaps UNCTAD or the World Bank or the OECD. Or, a group of the leading outward FDI countries could launch such an initiative, perhaps through the G20.

Several of the proposals presented in the three preceding sections would also contribute strongly to economic diversification and competitiveness in middle-income countries, namely:

- **Establish a Global Value Chain Partnership** to expand the efficiency and inclusiveness of international supply chains through sectoral mapping, development impact analysis and facilitation.
- **Promote international trade in services and SME exports** by:
 - Helping countries to provide comprehensive, online, single points of enquiry for cross-border services providers to learn about host country regulatory, licensing and other administrative requirements and tasking an international organization or independent agency to benchmark country progress.

- Help countries to implement the Trade Facilitation Agreement and adopt interoperable, digitally-enabled single windows for customs and border compliance, and release open application program interfaces (APIs) to allow developers to create digital platforms for services that seamlessly link SMEs to large numbers of country single windows.
- Encourage the establishment of higher standardized *de minimis* customs levels to facilitate cross-border flows of small packages supplied by Internet-enabled retail services providers, especially SMEs.
- **Improve Regulations and Standards**
 - Develop human capital and allow the movement of skilled workers. Establish an innovation zone within which skilled researchers and technical personnel would be able to migrate freely.
 - Strengthen competition monitoring and establish competition best practices and cooperation.
 - Update the WTO telecom reference paper to regulate competition that affects Internet access and competition over the Internet.

In respect of vertical industrial policies:

- **Soften and monitor local content requirements.** Local content requirements (LCRs) could be “softened” by broadening them to encompass inputs from regional economic communities, strengthening regional value chain development. But at the same time, WTO notification should be required for formal LCRs and captured in the trade-monitoring database, with regular review via the Trade Policy Review Mechanism. Research should be undertaken to improve understanding of the conditions required for LCRs to achieve the objective of generating positive spillovers for the local economy. Finally, conversion of the WTO LCR prohibition into an “adverse effects” test similar to the regulatory system for domestic subsidies could be considered for some LCRs.
- **Allow non-actionable subsidies** related to publicly available R&D, regional development, environmental protection and disaster recovery by reviving a revised form of Article 8 of the ASCM.

Combating Climate Change and Environmental Degradation

The international community has resolved through the 2030 Agenda for Sustainable Development to protect the planet from degradation, including through sustainable consumption and production, sustainable management of natural resources and urgent action on climate change. The obvious links between trade and environmental outcomes require a convergence between regimes. In particular, work is needed to create additional clarity and space for climate measures that countries implement to carry out their commitments under the recent Paris UN climate change accord:

- **Establish a process involving the WTO and UNFCCC to assess and make recommendations for the trade-related legal implications of the Paris**

accord, for example through the WTO Committee on Trade and Environment and a subsidiary UNFCCC scientific body. This process should produce a **clear definition of what constitutes a climate action under the Paris accord for purposes of informing WTO dispute settlement**. It could also lead to creation of a UNFCCC dispute settlement mechanism to adjudicate disputes relating to this definition as well as an interim “peace clause” on trade law challenges to certain measures. And it should consider the extent to which WTO dispute settlement should defer to trade-related climate accords adopted by the International Maritime Organization and International Civil Aviation Organization.

- **Encourage the consistency and inter-operability of national climate change mitigation strategies** by:
 - Developing international standards for carbon accounting, including for carbon embedded in products and services
 - Creating a waiver from WTO obligations for certain climate measures targeting embedded carbon
 - Recognizing certain carbon taxes as indirect taxes under GATT Article II or creating a bespoke waiver for them
 - Clarifying that the exemptions under WTO Article XX apply to protection of the world's climate as a means of facilitating the creation of nationally determined emissions trading schemes and related border adjustment mechanisms that meet certain common criteria.
- **Facilitate the creation of higher ambition climate clubs within RTAs or new plurilateral arrangements** (such as the carbon pricing club of countries announced in Paris) by including in the WTO code of conduct for plurilateral arrangements described below an affirmation that club members may accord each other WTO-plus benefits or discriminate in certain ways against non-members.
- **Mandate within the WTO the disclosure and phased prohibition of fossil fuel subsidies**, according special and differential treatment to poorer developing countries.
- **Extend the ongoing Environmental Goods Agreement negotiations** to certain services and NTBs, while extending tariff liberalization in a second phase to a broader range of environmental goods.
- **Discourage overuse of trade remedies against public support for clean energy technology development** by making climate change a criterion in public interest tests, extending GATT Article XX on General Exceptions to such subsidies, creating a permanent climate change exception under the SCM Agreement or agreeing a clean energy waiver; and **clarify the treatment of energy flows** (e.g. classification of electricity as a good or a service) to provide

greater certainty to energy markets.

- **Develop a sectoral agreement on trade in finite natural resources**, as exists for agriculture, due to the trade and investment specificities and development importance of the mining, oil and gas sectors.
- Address, through multilateral negotiation, the current legal vacuum on **export restrictions and level the playing field with respect to export taxes** for natural resource products between newly acceded countries to the WTO and original members.
- **Build on the momentum of recent national and public-private initiatives and the important elements of the TPP agreement to reduce fisheries subsidies and address Illegal, Unreported and Unregulated (IUU) fishing** by establishing a cooperative network of such schemes. The aim over time would be to strengthen and link them through trade agreements and/or in mutual recognition standards arrangements in a manner that could eventually close off the global market for illegally caught fish.

Ensuring Food Security

Food security considerations have been upended by the emergence of a new normal in agricultural prices. Extreme price volatility has encouraged insulating policies that erode confidence in global markets while domestic support has seen a resurgence. As the primary means of livelihood for large, impoverished populations and with the growing challenge of water stress related to climate change, agriculture need to be addressed with care in trade policy.

- **Undertake confidence-building, non-binding commitments among governments** to rebuild trust, starting with time-limited pledges not to exceed domestic support levels that are at or above current levels but below bound rates, and moving in a second step market access.
- **Initiate plurilateral negotiations among major, like-minded countries on domestic support and market access** that, depending upon the countries engaged and commodities covered, could lead either to a closed agreement along the lines of the WTO Government Procurement Agreement or an open, critical mass agreement providing its benefits to all countries.
- **Discipline export restrictions** in the WTO to avoid price spikes and maintain confidence in the reliability of international markets as a reliable source of food. In the first instance humanitarian aid should be exempted from export restrictions as covered in the Nairobi agreement. Current disciplines should be made enforceable, while in the longer term export taxes and restrictions could simply be prohibited.

- **Support the establishment of emergency humanitarian food reserves** to prepare for times of crisis by updating the 1986-88 fixed reference price used for calculating the level of permissible domestic support and clarifying that if the administered price is below the market price then the support measure would be considered green box compatible (i.e., not an actionable subsidy). To address longer-term food insecurity a system of global food stamps or similar approaches, such as the “transfers to cover the poverty gap” proposed by the FAO, the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP), are worthy of attention.
- **Drive transparency in agricultural market data and government support** to avoid trade distortions. All nations should provide requested data to the Agricultural Market Information System and notify, in particular, support to biofuels more comprehensively. On the basis of this added transparency, consideration should be given to distinguishing between public-good and income-maintenance “green box” subsidies, with the latter possibly subject to some limitations.
- **Expand facilitation of agricultural trade**, not least domestically and regionally, by broadening the focus of the Trade Facilitation Agreement to hard and soft agricultural supply chain infrastructure as well as the **use of international sanitary and phyto-sanitary standards**.
- **Promote an integrated Agri-Food Value Chain approach to future negotiations** to provide an opportunity to address relevant aspects in an integrated manner, ranging from tariffs and non-tariff barriers, services related to agriculture (e.g. storage, handling, shipping or processing), seeds, pesticides and fertilizers, trade facilitation, transport and logistics, innovation and ITC.

Preserving National Policy Space to Make Societal Choices

There is rising concern among some countries and constituencies that international trade and investment liberalization have gone too far in the sense of unduly restricting the ability of governments to pursue critical national objectives that their societies may value as much as or more highly than the facilitation of cross-border trade and investment, in particular industrial development and certain social values in such areas as public health, environmental protection, labour and human rights, consumer protection and cultural heritage.

The Expert Group on Reinvigorating Manufacturing concluded that **for the most part international trade disciplines still do not pose a significant barrier to the kinds of industrial development strategies that have proved effective in places such as South Korea, Taiwan, China and India**. This is principally because a) while multilateral disciplines do exist and have been tightened in some respects in recent years regarding “vertical” or industry-specific policies (notably,

intellectual property rights), most such strategies are still available to developing countries on either a *de jure* or *de facto* basis; and b) the most effective policies for spurring industrial development have in fact proved to be “horizontal” (not industry specific) in nature, and these measures are essentially unconstrained by international trade and investment disciplines.

As for domestic policy autonomy in respect of social values, the current controversy over investor-state dispute resolution is a manifestation of a wider question about the appropriate limits of international economic integration, in particular a new generation of FTAs that involve much deeper integration of economies. By virtue of their emphasis on investment and services, these new trade initiatives are increasingly focused on improving regulatory coordination, sometimes on topics for which societies have differing or still-evolving underlying value systems (e.g. precaution, privacy, industrial relations, etc.). **The essential question such deeper integration poses is: what is the right balance between investor and citizen rights, investment certainty and democratic due process, and regulatory coherence in a highly-integrated world economy and deference to legitimate national values and choices?** E15 Expert Groups propose several ways in which the trade and investment rules and institutions could be improved to support a better balance:

- **Modernize and strengthen the coherence of investment agreements** as outlined above. The proposed new Model Investment Framework, formulated as a best practice open for voluntary adoption, would include a number of specific additional innovations that would help negotiating parties to strike a better balance regarding the preservation of essential national policy space, including:
 - An articulation of **fundamental investor obligations**, including with respect to responsible business conduct in areas like corruption, human rights and taxation (i.e. for example, the new OECD Base Erosion and Profit Shifting framework). Supplemental sector-specific responsible investment frameworks could be developed through public-private dialogue, such as in the area of responsible mineral and natural resource development.
 - A new **international appeals framework** that states could choose to opt into as part of their bilateral or FTA agreements. This mechanism would provide recourse for either party of an arbitral judgment to an ad hoc appellate body composed of members from a pool of investment adjudication specialists accredited by the international framework.
 - A new **dimension of citizen participation** modelled on the OECD Guidelines for Multilateral Enterprises. Specifically, a Consultative Committee for the new model framework could be established for the purpose of providing input into not only the elaboration of the framework but also its implementation. Various stakeholders could be accorded consultative status to identify and offer analysis of specific dispute settlement cases that they believe illustrate the need for further clarification or the evolution of the framework going forward.

- To help level the playing field for developing country governments that lack the legal expertise to defend themselves adequately, an **Advisory Centre on International Investment Law** should be established, modelled on the Advisory Centre on WTO Law. Created in 2001, this provides services to developing countries through its own staff or outside counsel at reduced rates.

- **Create a safe harbour for subsidies to address market failures.** The E15 Initiative Task Force on Subsidies made a set of additional proposals that would clarify (and thereby increase) the latitude governments have to address market failures or create public goods. They propose reinstating a modified version of Article 8 of the Agreement on Subsidies and Countervailing Measures concerning Non-Actionable Subsidies that expired in 2000. This would create a safe harbour for the use of subsidies that address four social objectives on the grounds that these are problems of the commons or other market failures whose remediation would have positive externalities: mitigation and adaptation to climate change; inclusion of marginalized regions; promotion of publicly available R&D; and recovery from natural disasters and conflict.

- **Promote the levelling up of social and environmental standards** over time through regulatory cooperation among self-associating clubs of countries and the parallel scaling of responsible supply chain practices by multinational and other companies. In particular:
 - Encourage like-minded countries to form open clubs that establish a common floor for such standards and help other countries join by extending trade and investment preferences and substantial capacity-building assistance to them.
 - Multinational enterprises be encouraged and even expected by their home governments and shareholders to **apply to their operations abroad the basic worker rights and pollution control rules to which they are subject in their home country**. This would go a long way towards addressing the concern in advanced countries about the implicit subsidy or artificial advantage represented by weaker standards in poor countries without prescribing legal and institutional changes that would impinge on domestic policy autonomy.
 - The **new initiative by G7 countries to spread responsible labour and environmental practices throughout the worldwide supply chains of companies headquartered in their countries should become a rallying point for public-private cooperation** to scale the voluntary application of best practices through a combination of governmental jawboning of the type suggested above and funding of developing country technical assistance and outreach. A concentrated effort over the next two to three years could build a critical mass of corporate adherence within most key industrial sectors.

Strengthening the Legitimacy of the Global Trading System

Three features that have historically underpinned the global trade system's legitimacy are widely perceived as being eroded. First is the bedrock principle of *non-discrimination*, which has guided the construction of a rules-based multilateral framework open to broad participation, ensuring the system has the character of a global public good. Second is the notion that the system is a *means serving larger ends*, in particular the objective of sustainable development but also other societal priorities determined by national polities. Third, the long Doha Round stalemate during a period of dramatic transformation of the world economy has raised the question of whether the system remains sufficiently *adaptive and fit for purpose*.

Inclusiveness: Five sets of proposals have emerged that would particularly help to reinforce the universality or inclusiveness of the system's benefits. These would help to ensure that the variable geometry made necessary by the complex economic and political landscape of the 21st century evolves in a way that encourages the widest possible inclusion of countries in such "clubs" (or key elements thereof) in the near term as well as the progressive integration of such regional and plurilateral arrangements (or key elements thereof) into a growing body of non-discriminatory multilateral norms over the medium to long term.

Establish the **RTA Exchange, Model Investment Agreement; and Regulatory Transparency** procedures outlined in previous sections.

Launch a formal process of negotiations to create a **WTO "code of conduct" for plurilateral agreements** that enshrines a specific set of proposed principles and rules.

Draft **Multilateral Impact Statements** for regional arrangements that would examine the extent to which such agreements (a) create contestable markets that provide benefits to outsiders as well as participants, and (b) serve as the modular components of a more integrated global trading system. One mechanism for establishing this practice would be for an independent authoritative body—either a think tank or distinguished panel of trade authorities perhaps commissioned by the RTA Exchange described above or the WTO—to lay out a set of relevant criteria and then to apply these to an analysis of RTAs.

These initiatives, in addition to the proposal above for all countries to follow the leadership of Canada and **implement rules of origin in preference arrangements using an extended cumulation approach for LDCs** (forming, in effect, a broad zone linking all LDCs with countries participating in particular FTAs), would have the combined effect of carving a constructive path for the system out of the current "spaghetti bowl" of fragmentation. They could set in motion a self-reinforcing dynamic of **modular multilateralization** in which individual regional and plurilateral rules are progressively reintegrated at the multilateral level over the next 10 to 20 years.

Synergy. The E15 Initiative has proposed many ways in which the global trading system could be strengthened to maximize its contribution to and minimize the complications it creates for the wider sustainable development agenda. These have been summarized particularly in three of the preceding chapters:

- *Boosting global growth and employment*
- *Accelerating sustainable development in least developed countries*
- *Combating climate change and other environmental degradation*

If the international community were to adopt the reforms outlined in these chapters, it would render the international trade and investment regime a much more potent force for progress on three of the most pressing global challenges of our times. Well beyond promoting coherence in the bureaucratic sense, these three sets of proposals would enlist the global trading system as a full partner---an accelerator of action---on each, in so doing enhancing the system's relevance and legitimacy for all countries.

Effectiveness. E15 Initiative Expert Groups would boost the delivery and effectiveness of the global trade system by expanding the array of negotiating approaches at the disposal of governments within the WTO as well as widening the set of tools available to generate forward progress beyond such norm-setting negotiations, per se. The agenda summarized above spans approaches that are:

- *multilateral, plurilateral and unilateral*
- *formal and informal (including greater use of best endeavours frameworks linked to increased capacity building assistance)*
- *uni-disciplinary (trade rules and institutions) and multi-disciplinary (involving multiple international organizations and ministry portfolios)*
- *new approaches to longstanding challenges (e.g., domestic agricultural support, special and differential treatment through trade preferences)*
- *new approaches to new challenges (e.g., digital economy, investment, services, climate change, competition, social standards)*

Such a results-oriented, multi-dimensional approach will only be possible if the trade policy community and the WTO in particular conceive of themselves as embedded in a wider global trade and investment system. Rather than seeing this complex variable geometry as an intrinsic threat or even rival, they must conceive of the WTO as fundamentally embedded in rather existing above or apart from it, indeed *servicing* the wider ecosystem by assuming a greater sense of responsibility for its positive evolution through the execution of an expanded array of leadership functions.

The Future of the WTO

Partly because of its origins in the GATT, the WTO's institutional culture is somewhat inward looking---the custodian of multilateral rules arrived at through multilateral negotiations. This remains a critical function, but the international community requires more from the WTO in the 21st century. The WTO's own

general principles as reflected in the preamble of its Charter also require more of it in this new context. Only if the institution's role is broadened from that of a framework for negotiations of reciprocal concessions and the settlement of disputes thereunder to *an enabler of the wider system's contribution to cross-border trade- and investment-related economic development* will the comprehensive set of opportunities for global trade summarized in the preceding chapters be realized and the fundamental legitimacy of the system be assured.

Informal Cooperation. There is much more the WTO should do in the areas of data, transparency, analysis, dialogue and facilitation of both normative coherence and expanded trade and investment flows in the service of economic development:

- **Strengthen the role of WTO Committees**, making them active platforms for deeper analysis and more productive *informal* dialogue (endnote think piece). This would entail extending the terms of Chairs and Vice Chairs from one to two or three years and empowering the corresponding secretariat directorates to be more proactive and independent in the structuring of their research agendas. There are multiple opportunities for the WTO to influence the course of national policy and even regional and plurilateral arrangements in this way.
- **Leading or otherwise participating actively in informal facilitation initiatives**, such as the Global Value Chain Partnership and possible Services and Investment Facilitation frameworks summarized above. These initiatives and others like them would combine evidence-based dialogue among governments, businesses and experts with the possibility of institutional capacity building assistance for developing countries that seek to capitalize on industrial development opportunities that the analysis and dialogue help to identify. As such, they have the potential to be just as catalytic of trade and investment flows as formal new trade agreements.
- **Leading or participating actively in informal anti-fragmentation initiatives**, such as the RTA and Investment Agreement Exchanges as well as enhanced regulatory transparency platform described above. These exercises and others like them seek to create an open-source dynamic of transparency, peer exchange, learning and reform. They can be a powerful force for improved consistency, convergence and ultimately the integration of regional and plurilateral arrangement rules into an ever-expanding core of multilateral disciplines.

Formal norm creation. The WTO would stand a better chance of catalysing the progressive reintegration of the system over the next 10 to 20 years through the **modular multilateralization of specific features of RTA and plurilaterals** if it was similarly creative and pragmatic about its negotiating function. It could do so by encouraging the creation of plurilateral clubs that are consistent with this long term objective through adoption of a code of conduct for plurilaterals; conducting a Multilateral Impact Statement on all proposed and negotiated plurilateral agreements; and proactively identifying as a result of its own analysis and then proposing for negotiation specific best-practice features of RTAs and plurilaterals

that are ripe for broader integration, whether through adoption by other RTAs or a global plurilateral or even meta-RTA agreement.

By embracing and adapting itself in these ways to a world of variable geometry, the WTO could help to steer the evolution of trade and investment liberalization, most of which occurs outside the WTO, in a direction that ultimately strengthens the global trading system's legitimacy. A more creative and assertive WTO along these lines is what could make the difference between a world of competing, trade-diverting blocs in which many developing countries fall further behind, and one in which the essential MFN nature of the system is rejuvenated and a virtuous circle of balanced integration across advanced and developing countries leads to a mutually-reinforcing cycle of broad-based progress in living standards within them.

The trade policy community and WTO would do well to learn from the recent experience of their climate change counterparts. It took the failure of negotiations in Copenhagen in 2009 for the UNFCCC to recognize that a near-exclusive focus on its own formal normative machinery was handicapping its effectiveness as an agent of progress. The negotiations in Paris in 2015 succeeded because the organization and key constituent governments embraced a wider, variable geometry of opportunities for progress –formal and informal, public and private—and steered them toward an integrated contribution. While the results were only partial, they were significant. And they created a blueprint for the construction of future, additional progress.

The agenda outlined above, derived through an extensive process of multistakeholder deliberation, is an analogous blueprint for adapting the WTO and the global trade and investment system to changed circumstances. By embracing the wider trade and investment cooperative ecosystem, assuming a broader role for enabling balanced progress within it, the WTO has a similar opportunity during its forthcoming “period of reflection” to develop a long-term plan to restore its relevance and safeguard the system's legitimacy. The international community is counting on it to succeed.

Introduction

The World Trade Organization (WTO) has struggled over the past 14 years to reach agreement on the Doha Round of multilateral trade negotiations. At the recent Nairobi ministerial, the organization's 162 members reconciled themselves to this reality and effectively suspended work on the overall package in its current configuration even as they reached important agreements on a few specific topics such as agricultural export subsidies.

The Round's difficulties over this period have prompted considerable soul searching about the WTO and multilateral trading system among trade policy-makers and experts. The organization itself commissioned two panels of eminent persons during the past decade. The first was a Consultative Board chaired by former WTO Director-General Peter Sutherland. Its 2004 report entitled "The Future of the WTO"¹ assessed the functioning of the WTO as an institution. The second was a Panel on Defining the Future of Trade² convened by then-Director-General Pascal Lamy. It issued a report in 2013 analysing the changing nature of trade in goods and services. By design, neither exercise focused on the policy agenda *per se* in deference to the ongoing negotiating process.

The failure to agree on the continuation of the Round in its current configuration has left the international community without a shared agenda for the future evolution of the global trading system. To be certain, there is no lack of initiative and innovation within the system. Regional and bilateral activity have never been more robust. But there is palpable unease about this lack of a common strategic vision and project, as well as questions about where the current dynamic of "competitive liberalization"³ will lead, even among its main drivers. Such questions include:

- Will the system fragment and degrade into trade-diverting regional blocs?
- Will global trade expansion continue its disappointing recent pattern of lagging global economic growth, rather than leading and propelling it?
- Will the system be able to contribute to rather than complicate progress on other global priorities, such as climate change, sustainable development, inequality, employment, population ageing, depletion of fish stocks and biodiversity, corruption and money laundering, etc.?
- Will it be able to contain the recent proliferation of non-tariff barriers, which can be just as big an obstacle to trade as the tariffs that successive multilateral rounds of negotiations have done so much to reduce?
- Will trade-related rules be able to adapt to the technological changes transforming the operating context of businesses and the very nature of commerce and investment?

- As globalization deepens, will the system succeed in striking the right balance between the policy-making prerogatives of national and local governments, on the one hand, and the logic of international economic integration and cooperation, on the other, particularly when key social values are implicated?
- In sum, will the trading system be able to maintain its essential *positive sum game* character, both in economic fact and political perception?

These questions and others have taken on heightened importance in the aftermath of Nairobi, but they have been building up within the system for some time. It is for this reason that the International Centre for Trade and Sustainable Development and the World Economic Forum have organized the E15 Initiative, a long-term multistakeholder strategic review of international trade and investment rules and arrangements. Unprecedented in substantive scope and regional and stakeholder engagement, the Initiative convened 15 Expert Groups and three cross-cutting Task Forces, posing the question: how should trade- and investment-related rules and institutional arrangements evolve in their particular areas over the next 10 years to 2025? The Groups and Task Forces were asked to conceive of the global trade system broadly, including but by no means restricted to the WTO or other formal trade institutions. They were asked to think structurally, not incrementally, and not be bound by current calculations of political feasibility. Finally, they were instructed to be specific – to make concrete proposals and to prioritize them.

This was drafted by the two convening institutions. It synthesizes and interprets the significance of the proposals made by the 15 Expert Groups and three Task Forces, drawing directly from the policy option papers assembled by each group as well as many of the over 150 underlying research papers or “think pieces” authored by individual Expert Group members. The synthesis report and 16 chapters of policy proposals are published as a single volume, and readers of the former are encouraged to delve more deeply into the latter for further detail. The think pieces, which are a remarkably rich resource in themselves, have been published separately as they became available over the past three years and can be found on the E15 website: www.e15initiative.org.

The Expert Group chapters were authored by a member of each respective Group, who sought to capture the main elements of their Group’s deliberations and proposals. Not all of the ideas and observations expressed therein necessarily represent those of every Group member or their institutions. The same applies to the monograph.

Constructing A New Agenda To Strengthen The Global Trading System

The international community's last common trade agenda, the Doha Round, was largely conceived in the late 1990s. Its elements consisted mainly of the unfinished business of the Uruguay Round's 1994 Marrakech Agreement. The Uruguay Round itself was conceived in the early to mid-1980s. Thus, it has been decades since the international community last constructed a shared trade agenda from the ground up. During the intervening period, profound changes have taken place in the global economic and political context. As a result, the world is now facing a substantially different set of long-term policy imperatives than those it confronted in the 1980s and 1990s.

Shifts in the World Economy

- **Global economic growth is markedly slower.** Annual global economic growth averaged in excess of 5% in the 1980s and 1990s, and trade was growing even faster, by an average of 6%. Today, in the continuing aftermath of the 2008-2009 global financial crisis, growth has fallen to 3%, and growth in trade flows has slowed.
- **The pattern of trade flows has diversified.** In the 1990s, developed countries accounted for 80%⁴ of global merchandise trade and 88%⁵ of global growth. Today, developing countries account for 44%⁶ and 64%⁷ of trade and output expansion, respectively. China's extraordinary economic transformation accounts for much of this shift; however, many other developing countries are also part of the story.
- **There has been a dramatic increase in foreign direct investment.** FDI in the last 10 years has been double the level of the late 1990s and three to four times higher than in the 1980s. The bulk of global trade now occurs in global or regional value chains in which goods are imported and exported at different stages of production across multiple borders (sometimes multiple times across the same border) often between related parties. These complex supply chains typically rely heavily on inputs of services (e.g. engineering, design, servicing, logistics, marketing), contributing to the growing importance of services in world trade.

Shifts in the Political Economy of Trade

- **Political influence in the shaping of trade agendas and decisions has become less concentrated and more complex as the weight of developing countries in the world economy has increased.** The Quad countries (the United States, European Union, Japan and Canada) no longer exert the decisive influence they did up to and including the Uruguay Round. Now the crucial balancing of interests is between developed and developing countries, and sometimes among different groups of developing countries.

- **Least developed countries and smaller states have lost a measure of confidence in the universality of the system's benefits**, feeling that their interests were subordinated to those of wealthier countries in the Uruguay Round and never adequately addressed in the Doha Round. In addition, many of them have been left further behind by rapid growth and technological progress in other parts of the world economy.
- **Political energy in international economic cooperation is increasingly focused on finding ways to reinvigorate global economic growth and accelerate sustainable development in poor countries.** Unless the global trade agenda demonstrably contributes to these imperatives, it will be seen as irrelevant. This was likely a major factor in the failure of the Doha negotiations.
- **A top new priority for international economic cooperation is combating climate change.** With the new framework agreed at the recent COP21 United Nations Paris conference, attention is turning rapidly to implementation. States are accelerating efforts of various sorts, some of which – like emissions trading systems and clean energy subsidies – will have cross-border effects. Here, too, the trade agenda faces a test of relevance and coherence.
- **The business community, traditionally a principal demandeur of global trade negotiations, is increasingly focused on a new agenda**, namely factors that influence the enabling environment for investment in and operations of global value chains. Much of this agenda concerns behind-the-border rules, institutions and infrastructure that influence costs at least as much as border measures. As a result, the political energy of this important constituency is increasingly invested in regional and bilateral initiatives involving limited groups of countries that are predisposed to work on these issues.
- **Indeed, 20 additional years of accumulated evidence about what works in economic development has underscored the importance of the institutional enabling environment for private sector development.** East Asia's remarkable success story has provided a powerful example in this regard, implying that trade and institutional capacity-building assistance should be much more deeply and even explicitly linked in order for trade liberalization to fully bear fruit in – and be politically relevant to – poor countries.

The combined result of these changes is an increasingly fragmented and sometimes trade-diverting system that has moved off centre stage of international economic cooperation and is losing legitimacy and relevance for key constituencies. A new common agenda is required that can reset the trajectory of the system's evolution in ways that equip it to respond directly and tangibly to the concerns that are top of mind in Cabinets, boardrooms and kitchen tables around the world in *this* century as opposed to the latter half of the last one.

The output of the E15 Initiative is encouraging in this respect. The proposals generated by the Initiative's Expert Groups and Task Forces demonstrate that an agenda to strengthen and update the global trading system is not only conceivable but also plausible. As synthesized and interpreted in the following chapters, they form a blueprint for how the international community could come together to confront each of the following nine contemporary policy imperatives through better deployment of trade and investment rules and arrangements:

Boosting Global Growth and Employment

Reducing Commercial Friction and Investment Uncertainty

Accelerating Sustainable Development in Least Developed Countries

Increasing Economic Diversification and Competitiveness in Middle-income Countries

Ensuring Food Security

Combating Climate Change and Environmental Degradation

Preserving National Policy Space to Make Societal Choices

Strengthening the Legitimacy of the Global Trading System

There are important, possibly even transformational, benefits in this agenda for every conceivable region and constituency. Just because the world was not able to agree to the particular multilateral agenda on the table in the Doha Round does not mean that a common (as opposed to single) undertaking that leaves everyone better off is not possible.

But the path toward deeper and more effective international trade and investment cooperation in the 21st century only comes into view if one steps back from a specific focus on the WTO and appreciates the much wider ecosystem of influences on trade and investment behaviour. The proposals summarized below take such a genuinely systemic view, spanning a wide range of disciplines and institutions in a way that contrasts with most trade policy analyses, including the two formal reviews commissioned earlier by the WTO. Embracing a broader frame of reference and deploying a much wider array of tools available for international economic cooperation is fundamentally what will make a *positive sum game* outcome possible in the current, more complex, economic and political context.

This insight has important implications for national and international governance. The agendas set for trade ministers and institution need to be embedded in larger strategies set by higher authorities that integrate other policy and stakeholder dimensions. This will be the focus of the next phase of the E15 Initiative -- a dialogue around the world about the implications of this blueprint for how trade strategy is set and administered in countries and at the global level -- and how improvements in international cooperative architecture could help.

Boosting Global Growth and Employment

Global economic growth is decelerating. The Organisation for Economic Co-operation and Development (OECD) is projecting that the world economy will have grown in 2015 at a rate of less than 3%, a level sometimes associated with a global “growth recession.” Expansion of world trade has decelerated even more markedly, to an annual rate of 2%. There have only been five years since World War II when trade has grown at such a slow pace, and this level has often been associated with economic recession.⁸

This weak performance is not a one-year aberration. World trade growth averaged just 2.4% between 2012 and 2014, the slowest rate on record for a three-year period when trade was expanding (excluding years like 1975 and 2009 when world trade actually declined).⁹

Weak global economic and trade growth are aggravating an already severe global employment crisis. The International Labour Organization (ILO) estimates that over 200 million people are unemployed and 1.44 billion people are in vulnerable employment. Both numbers are projected to worsen over the next several years. Long-run trends in labour force participation also point to a decline, and wage growth has been subdued, contributing to a long-term decline in the labour share of income.¹⁰ Youth and women continue to be disproportionately affected across all regions of the world, with a youth unemployment rate that is nearly three times higher than for the adult population as a whole.

For most of the past 70 years, international trade and investment have played an important role in driving global economic growth, expanding annually at about 160% of the rate of output growth on average. This correlation held up in the post-war period from 1950 to 1973, as well as from 1974 to 2007, and even during the first period of rapid globalization from 1850 to 1914.¹¹ The recent reversal of this relationship is cause for concern.

The relative dynamism of world trade in the latter part of the 20th century and early years of this century was due in part to successive waves of trade and investment liberalization. During this period, the international community completed no fewer than eight multilateral rounds of trade negotiations and countless bilateral and regional arrangements. Between 1950 and 2007, world merchandise trade expanded at an average annual rate of 6.2%,¹² three times the current rate, and the world economy grew over the same period at an average rate of 3.8%.

Were the world economy able to return to its historical pattern of trade and output growth, the global growth rate could be nearly a full percentage point above currently forecasted levels, which would have major positive implications on employment in countries around the world. What improvements in trade rules and institutions have particular potential to boost growth and employment and thereby shift the world economy back onto its long-term trajectory?

Economic growth per capita is generally understood to be a function of the quantity and quality or productivity of factor inputs, such as capital and labour, and the pace of technical progress in particular. Most economists believe that technological progress accounts for most of an economy's growth performance over time, 80% in the case of a famous estimate of the United States' long-term rise in per capita income.^{12a}

International trade and investment contribute to growth by facilitating the flow of capital, labour and technology to their most productive uses across the world economy. By expanding competition and diffusing technology and know-how, they help countries to concentrate and more fully capitalize on their actual or latent comparative advantages, thereby boosting output per capita. This heightened exposure to competition often has a positive secondary effect on growth by motivating countries to strengthen domestic institutions and undertake structural reforms that further enhance economic efficiency and productivity growth.

Three sets of proposals developed by E15 Expert Groups² have particularly strong potential to boost global growth and employment over the next 10 years by:

- Increasing the diffusion of productivity-enhancing technologies across the world economy;
- Improving the allocation of the capital and skills to their most productive potential applications;
- Expanding trade and investment in employment-intensive industries.

Diffusing Technological Progress

Digitization is a principal source of technological progress in the world today. As summarized in the E15 Services and Digital Economy Expert Group chapters of this volume, the digital revolution has reduced transactions costs in a variety of ways, raised productivity and contributed strongly to growth. It is a key driver of innovation and has brought about new products and new ways of producing and consuming old ones. It has reshaped business models and injected an unprecedented level of inclusiveness into commerce. The smallest enterprises can today aspire to serve markets worldwide. At the same time, large multinational firms have also relied increasingly on the internet to do business, coordinate physically disperse operations and exchange information.¹³

Following is some of the evidence that has emerged in recent years about the digital economy's contribution to economic growth and employment:

- Productivity growth. Much of the strong productivity growth in the United States in the mid-1990s through to the mid-2000s has been attributed to strong investment in information and communication technologies.¹⁴ A recent study of EU firms also found that engaging in e-commerce increases labour productivity – and that e-commerce accounted for 17% of EU labour productivity growth between 2003 and 2010.¹⁵ A 2014 US International Trade Commission (ITC) calculated the productivity gains from the internet by surveying US businesses and converting the results into an economic model. The ITC found that the productivity gains from the internet have increased US real GDP by 3.4-4.5%.¹⁶
- Small and medium-sized business expansion. In a survey of the internet's use in 12 advanced and developing countries, McKinsey Global Institute found similar microeconomic evidence, in particular a significant increase in performance in businesses at all levels and particularly among small and medium-sized enterprises (SMEs) and other entrepreneurial endeavours. Of the more than 4,800 SMEs surveyed, those utilizing Web technologies grew more than twice as fast as those with a minimal presence. The results hold across all sectors of the economy. Further, Web-savvy SMEs brought in more than twice as much revenue through exports as a percentage of total sales than those that used the internet sparingly. These Web-knowledgeable enterprises also created more than twice the jobs as companies that are not heavy users of the internet.¹⁷
- Job creation. McKinsey also found that digitization in general and the internet in particular contribute importantly to job creation. A detailed analysis of France over 15 years showed that the internet created 1.2 million jobs and destroyed 500,000, creating a net 700,000 jobs or 2.4 jobs for every one destroyed. This result is also reflected in the survey of SMEs across the 12 countries, which shows that 2.6 jobs were created for every one destroyed, confirming the internet's capacity for creating jobs across all sectors.¹⁸
- Exports. eBay has found that 95% of SMEs in the United States using its platform to sell goods and services are engaged in export to customers in more than four continents – compared with less than 5% of US businesses that export offline. In addition, 74% of these SMEs are still exporting after three years, compared with 15% of offline exporters.¹⁹ Similarly, a survey of businesses in developing countries using the eBay platform found that over 95% of SMEs were engaged in export, and that 60-80% of these businesses survived their first year, compared to only 30-50% for offline exporters.²⁰

Thus, one of the most important ways the trade and investment regime could contribute to higher economic growth and employment over the next 10 years would be to reduce existing or prevent the imposition of new barriers to the wider diffusion of digital technology and exchange of goods and services it supports via the internet. Following is a specific agenda for this purpose developed by the E15 Digital Economy, Services and Innovation Expert Groups:

Unilateral (National) and Plurilateral Action

Scale internet-enabled SME trade. Digital trade is changing the composition of goods trade. Pre-internet, it was often not commercially viable to export low value goods. As a result, international trade has been dominated by large companies exporting goods in bulk. The development of internet platforms that have connected businesses and consumers globally has opened up new opportunities for trade often by SMEs in individual goods of relatively low value. This includes SMEs in developing countries, which are increasingly leveraging the internet to export around the world.²¹ The growth opportunity this represents is reflected in data showing that the global delivery of small packets, parcels and packages increased by 48% between 2011 and 2014. Following are proposals that countries can take unilaterally or in groups to take fuller advantage of the opportunities for SME growth created by digitization:

- Adopt interoperable, digitally-enabled **single windows for customs and border compliance**, and release open application program interfaces (APIs) to allow developers to create digital platforms to services to seamlessly link SMEs to large numbers of country single windows. Aid for Trade capacity-building assistance should be expanded to help finance the implementation of these steps by developing countries;
- Create comprehensive, **online, single points of enquiry** for cross-border services providers to learn about host country **regulatory, licensing** and other administrative requirements;
- Establish higher, standardized *de minimis* **customs levels** to facilitate cross-border flows of small packages supplied by internet-enabled retail services providers, especially SMEs. These levels currently range from less than \$1 to \$1,000. Requiring businesses to make customs declarations for goods of small value creates additional transaction costs.²² According to one study, a 10% increase in time to move goods across borders reduces exports of time-sensitive manufacturing goods by more than 4%.²³ For trade in lower value goods that the internet is enabling, such costs account for a relatively larger share of the goods' total value, making it an even more serious trade barrier. Moreover, it is the consumer that is responsible for completing customs forms and paying the duties, adding another barrier to digital trade. Returning goods are also often treated as imports, which means they are again subject to similar documentation requirements and customs duties. In 2011, 10 Asia-Pacific Economic Cooperation (APEC) members agreed to implement a *de minimis*

value of at least \$100, which was estimated to produce a cost savings of \$19.8 billion per year in the APEC region.²⁴ Developing countries should adopt this or possibly \$200 as a minimum common threshold, with more advanced countries adopting a higher common threshold, such as \$800;^{24a}

- Explore the integration of national postal services into an **interoperable, global, package-shipping network**.

Establish clear rules pertaining to the electronic transmission of data and related services. Global and regional supply chains are a principal means by which technology and know-how are diffused around the world. Accounting for an increasingly important proportion of world trade^{24b}, they require extensive, real-time communication and coordination among a complex chain of design, production, transportation and marketing functions. This constant communication and just-in-time, precision management of resources are critically dependent upon the free flow of data across borders. The international coordination of rules pertaining to data transfers and regulatory issues raised by the new forms of commerce they support remains at an early stage. Following is a set of measures that countries could take unilaterally or in groups to establish a conducive enabling environment for this increasingly important dimension of the world economy:

- Allow the **free flow of data across borders** subject to an exceptions provision based on the General Agreement on Trade in Services (GATS) Article XIV concerning the right of countries to protect the privacy of personal data as long as such right is not used to circumvent the provisions of the agreement. The World Trade Organization (WTO) has such a data flow commitment but it only covers the financial sector, whereas the US-Korea Free Trade Agreement (KORUS) is an example of two countries agreeing to take a broader approach. Such a step should be accompanied by an explicit commitment to **eschew data localization requirements**, such as that included in the recent Trans-Pacific Partnership (TPP) agreement;
- Establish regulatory certainty and coherence by **aligning rules with leading practices regarding intermediary liability, privacy, intellectual property, consumer protection, electronic signature and dispute settlement**. Examples of leading practices on which to build include the 2005 APEC Privacy Framework and anticipated revised EU privacy Safe Harbour; 2007 OECD Recommendation on Consumer Dispute Resolution and Redress; new TPP commitments requiring parties to achieve an appropriate balance in their copyright systems through limitations and exceptions pertaining, for example, to fair use; KORUS provisions requiring consumer protection agencies in the two countries to cooperate in the enforcement of each other's laws against fraudulent and deceptive practices; and the KORUS commitment not to prevent parties to an electronic transaction from determining their own authentication methods;

- Establish a **permanent moratorium on the imposition of customs duties on the electronic transmission** of products. The agenda for the WTO Nairobi ministerial is still being finalized, and a further extension of this moratorium is likely to be agreed there. However, a permanent moratorium should be the aim as it would increase certainty among businesses and further support digital trade. This is increasingly necessary as more and more products (such as films, books and music) are traded across borders virtually rather than physically, in some cases creating uncertainty about their proper tariff classification.

Initiate negotiations to establish a Plurilateral Digital Trade Agreement or “eWTO”.^{24c} A forward looking group of countries from various regions should take the initiative to create an **agreement to implement a comprehensive set of policies and leading regulatory and multistakeholder practices such as those outlined above**, to maximize the growth and employment potential of internet-enabled trade. If such a group included, among other countries, the United States, China and European Union, its provisions could be extended on a most-favoured-nation basis to all countries as a “critical mass” agreement under WTO rules, thereby benefiting from access to WTO dispute settlement procedures. Such a plurilateral initiative would be a powerful stimulus to global growth and employment, particularly in the SME sector around the world.

Multilateral Action

These national and plurilateral actions could be reinforced by a number of steps in the WTO, including:

Expand the Information Technology Agreement (ITA2). An existing plurilateral, critical mass agreement known as the Information Technology Agreement (ITA) eliminated tariffs on certain information technology products based on an accord reached in 1996. To date 81 countries have joined the agreement, accounting for 97% of worldwide trade in the products it covers. Negotiations to expand the coverage of the agreement by 201 additional products (ITA2) were completed at the WTO’s 10th ministerial meeting in Nairobi in late 2015. Annual trade in these 201 products is valued at over \$1.3 trillion per year, and accounts for approximately 7% of total global trade today.²⁵

Create a WTO Working Group on Digital Trade. WTO rules in a number of areas already provide a strong foundation in support of the digital economy and digital trade.²⁶ Several cases that have gone through dispute settlement have addressed selective digital trade issues. Looking ahead, rather than wait for cases to arise that raise selective issues, a WTO working group could be composed to examine how the needs of digital trade are now covered under the existing rule framework, identify areas where coverage is inadequate or ambiguous, and recommend appropriate clarifications or adjustments. A technical advisory committee of private sector and academic experts should be organized to support the working group.

Among the items it should consider are:

- *GATS clarifications.* As noted above, the convergence in basic and value added telecommunications services makes unclear the scope of WTO Members' GATS commitments.
- *WTO Telecoms Reference Paper clarifications.* That Paper includes pro-competitive regulatory principles for the telecommunications sector which are designed to ensure that former monopoly operators do not use their market power – such as control of access to telecoms infrastructure – to undermine competitive opportunities for new market entrants.²⁷ It has been an important tool underpinning the move towards greater competition in the telecommunications sector but by its very terms is not fully self-explanatory, especially with respect to the internet.
- *Recommendations to provide direction to the Work Programme on Electronic Commerce* in the event that process does not yield progress at the Nairobi ministerial meeting.
- *Recommendations for the creation of a Trade Policy Review Mechanism (TPRM) framework* for the analysis and benchmarking of the consistency of country measures affecting digital trade with their WTO commitments.

Include research services in GATS. More broadly, research and development (R&D) services ranging from equipment purchases and testing protocols to grant management and accounting and beyond are often heavily regulated in favour of domestic providers. Compliance regulations may raise duplication costs and inefficiencies and encounter significant resistance if those regulations are subject either to technical barriers to trade disciplines or harmonization. A meaningful alternative would be to bring research services into GATS negotiations for those countries willing to liberalize the sector in particular ways. Commitments to open such services to competition, whether through GATS or perhaps the emerging Trade in Services Agreement (TISA), could offer efficiency gains and improve network linkages, increasing the worldwide pace of technical progress.²⁸

Establish an Agreement on Access to Basic Science and Technology. The E15 Expert Group on Innovation has endorsed a more far-reaching proposal to create a WTO Agreement on Access to Basic Science and Technology (ABST) aimed at strengthening the global commons in science and technology without unduly restricting private rights in commercial technologies.²⁹ The mechanism, which could be initially undertaken as a plurilateral agreement, would be to place into access pools the patented results of publicly funded research that develops knowledge capable of supporting applied science and R&D, especially in areas of common global concern, such as climate change and medicines. In essence, funding agencies in the participating nations would certify that, as a condition for receiving a grant in specific areas of primary science, universities and scientists must agree

to place the resulting patents in common resource pools. These patents would then be available for license to all competent agents from other member countries under terms worked out in advance.

Improving The Global Efficiency of Capital and Labour

If the goal is to boost global growth and employment – to achieve a systemic acceleration of economic growth and job creation – then distortions in the flow of capital and workers to their most productive applications worldwide, in particular between developed and developing countries, merit special attention. Two distortions particularly stand out:

- The low level, concentrated and variable nature of capital investment flowing from comparatively low-growth advanced countries to more rapidly growing developing countries;
- The even lower level of engagement of underemployed workers in developing countries by advanced countries whose population ageing and low fertility are projected to create labour shortages that are projected to slow or could even reverse the expansion of their economies in the near future.

Capital allocation. If more private capital in both rich and poor countries flowed to high-return investment opportunities in emerging and developing countries, away from their current concentration in comparatively low-yielding government debt and other assets in advanced countries, then incomes and aggregate demand would increase in both places, other things being equal. Much of the solution to this suboptimal global allocation of capital lies in domains other than trade policy (e.g. strengthened investment climate and regulatory institutions in poor countries and changes in the time horizons and fiduciary practices of investors in wealthy countries). But the E15 Expert Group on Finance and Development identified the following improvements in trade and trade-related arrangements that could make a major difference:

Ensure correspondent-banking availability. Banks have sharply cut down on their correspondent-banking networks as the costs of regulatory checks, such as Know Your Customer (KYC) activities, have far outpaced the growth of business potential. Further issues, centred on anti-money laundering actions, have reinforced this trend. Though hard data concerning this issue is scarce, it is believed in the banking community that the sharpest cuts were made in low-income countries, to the point that some of these countries are on the verge of being excluded from international financial networks. The consequence of this financial exclusion is particularly serious when it comes to the exchange of goods and services since, without the ability to exchange information or funds, local companies struggle to enter into the contractual obligations that underpin international trade. The economic development of many low-income countries is therefore severely compromised. The Expert Group's proposal is that each country should house at

least one local bank with a fully-fledged correspondent-banking arrangement with international financial institutions. The key steps involved in bringing this proposal to fruition are:

- Sponsoring/mentoring by the Bank for International Settlements (BIS), the Financial Stability Board (FSB) or the Wolfsberg Group^{29a} the process leading to the improvement of the local correspondent bank(s)'s governance structure;
- Validating the KYC process by the sponsor so that it will be deemed to be sufficient for international regulatory purposes; and
- Securing an international ruling to ensure that developed country banks are compelled to maintain a minimum service correspondent-banking network for each enabled country and chosen bank(s).

Deepen regional regulatory cooperation in financial services. The integration of financial services has received insufficient attention in regional integration efforts. Slow progress in the area of financial integration has made it difficult for banks and other financial entities to operate regionally and support their customers so that they can enjoy the benefits of diversified, more efficient and cheaper financial services. It is important to ensure that the full extent of benefits arising from the economies of scale accrue to those in need of finance, such as micro, small and medium enterprises (MSMEs). Access to finance has been highlighted as the single most important constraint for MSMEs to face the competition of an integrated regional market and connect with the global economy. Key issues to be addressed include the heterogeneity of regulatory frameworks and restrictive market access, significant checks on the mobility of talent, and constraints on cross-border data flows and offshoring regulatory structures. Three concrete steps can be implemented in various regional fora:

- The creation of regional mechanisms, such as regional credit bureaus and rating agencies;
- The facilitation of free data flows and offshoring;
- The standardization of documents and documentation requirements.

Strengthen international frameworks supporting long-term foreign direct investment in developing countries. The international trade and investment regime could very substantially improve its support for foreign direct investment (FDI) in developing countries by implementing:

- The slate of investment policy reforms recommended by the Expert Task Force on Investment Policy and summarized in monograph chapter 3, pp. 4-5);
- The slate of global value chain proposals made by the E15 Expert Group on Global Value Chains and summarized in monograph chapter 2, pp. –3-4, in particular a Global Value Chain Development Platform;

- New public-private international financial architecture^{29b} aimed at pooling risk mitigation, technical assistance, and debt and equity financing of interested bilateral and multilateral development banks, banks and institutional investors from both developed and developing countries, matching their investment processes to unlock private investment at scale in sustainable infrastructure and industry in developing countries.

Labour allocation. Economic migration is one of the most socially and politically sensitive topics facing many governments. But the economic growth dimension of this issue is too often overlooked. Several major economies – Japan, Germany, South Korea, Italy and Russia to name a few – are facing an outright contraction of their labour forces in the decades to come. Finding ways to import or otherwise integrate other sources of labour is one of their most important economic policy imperatives. How well they succeed in doing so will have far-reaching ramifications for the growth and employment trajectory of not only their own economies but also the world economy as a whole.

The temporary presence of non-residents who enter foreign markets to supply services has grown in importance with the internationalization of production. Global value chains require a continuing stream of people across frontiers to enable flows of goods, services and knowledge. The growing importance of digitized commerce that requires elements of expertise from non-resident suppliers of services also argues for improvements in temporary presence regimes. The bundling of goods and services to create value has increased complementarities and strengthened the case for an integrated “Mode 4 approach” that also encompasses manufacturing activities. The need for a larger bargain on Mode 4 trade is also rooted in underlying global demographics and chronic skills shortages in a number of sectors.

The E15 Expert Groups on Services and Innovation have made two proposals related to the migration of skilled technical personnel important for research and development, on the one hand, and the functioning of cross-border value chains, on the other.

Streamline processes and procedures related to visas and work permits.

Opportunities exist for reaping greater benefits from trade involving the temporary movement of natural persons across frontiers to provide services. Realizing these benefits does not require any modification to nationally determined public policy priorities with respect to such activities. Rather they rely on greater legal clarity and procedural efficiency, combined with closer regulatory cooperation among governments. Specifically:

- Calling upon WTO members to clarify GATS provisions in relation to how the Agreement covers processes and procedures related to visas and work permits;
- Improving transparency in relation to national conditions, procedures and processes for issuing visas and work permits;
- Strengthening regulatory cooperation between governments for managing the entry and stay of natural persons for the supply of services.

- **Establish a plurilateral but open “innovation zone”** working through GATS within which skilled researchers and technical personnel would be able to migrate freely for up to 10 years. Information, knowledge and know-how are usually transmitted by people; therefore, the Innovation Expert Group considers that increasing the ability of knowledge workers to move across international borders with maximum ease and without being tied to any particular employer for a temporary yet sufficiently long period of time – perhaps for a period of up to 10 years – is a longer-term policy option worth exploring.³⁰ This expansion in the international mobility of skilled and research-oriented persons would raise the probability of shared knowledge and thus of increased innovation and creativity worldwide. This would likely start as a plurilateral agreement, but would be open to all countries – whether developed, emerging or least-developed – and could build on Mode 4 of the GATS.^{30a}

Expanding Trade and Investment in Employment-Intensive Industries

The impact of the services sector on the process of economic development is relatively neglected, despite the evident and tremendous contribution of the services sector to national and global GDP, employment and value-added measures of international trade. There was a time when the dominant assumption in the development literature, reflected in policy and practice, was that services were low productivity, low value-added and largely non-tradable. These assumptions are not consistent with the conceptual framework on the modes of delivery established in the WTO’s GATS. Nor are they borne out by the recent empirical work on the role of services in innovation, multifactor productivity and trade in value-added. The important WTO work in reaching the Trade Facilitation Agreement has focused on reducing the costs of trade in goods. Attention now needs to turn towards reducing the costs of trade in services.

To this end, the E15 Expert Group on Finance and Development and the Expert Group on Services have proposed:

Development of a comprehensive WTO Framework for Trade Facilitation in Services, with attendant measurable indicators as in the Trade Facilitation Agreement. This Framework should encompass both cooperative and negotiating mechanisms, complemented by capacity building and technical assistance, through which the multilateral trading system can spur concerted action. It should include mechanisms for public-private dialogue with services stakeholders and allow for and encourage implementation of measures on a regional, plurilateral and multilateral basis. The Framework should address inter alia:

- Intensified temporary and short stay visa facilitation;
- Enhanced access to finance for trade in services;
- Common guidelines for the governance of electronic trade and cross-border data flows;

- The benchmarking of best practices and development of regulatory principles to address cross-border market failures in services sectors.

Conclusion

Over the years, trade and investment have been important contributors to innovation, growth and employment in the world economy. E15 Expert Groups have proposed an extensive and specific action agenda of measures that can strengthen that contribution at precisely the time the world is searching for new engines of growth. By increasing the diffusion of technology, more efficiently connecting capital and labour with their most productive uses and expanding opportunity in the employment-intensive services sector, these measures deserve to be a central element of international economic cooperation over the next several years. Many of them can be implemented in short order by acts of governments or self-associating coalitions thereof, rendering this agenda actionable even in the absence of the kind of grand multilateral undertaking that typically takes a decade or more to assemble. They demonstrate the central relevance of trade and investment policy to global economic progress.

Reducing Commercial Friction and Investment Uncertainty

International trade and investment activity result from a great quantity of individual commercial decisions taken by business people and investors around the world, in companies large and small. These decisions are influenced by prevailing national and international policies and legal frameworks but also by future expectations, economic conditions, available technology and resources, established business models and many other factors.

To many business people, trade policy appears part of the landscape; they work with or around it but don't spend much time thinking about or trying to change it. To the extent that salesmen, purchasers or, in large companies, deeply experienced supply chain officers or other executives express opinions on what they'd like from trade policy, they often start with a set of broad requests:

- 1) However good a policy is on paper, it is of little use unless it is **properly implemented**.
- 2) Policy needs to be **simple** so business can comply with or take advantage of it with the least hassle possible. In the first instance, this entails making the rules clear and easily available. Policies that increase the visibility of rules, and even better, market information, from other markets, are seen as valuable.
- 3) Where possible, policies that establish **coherence between different jurisdictions**, allowing businesses to offer their products and services in the most replicable or modular fashion as possible, are encouraged. Businesses often operate in a fast-paced competitive environment, so speed and pragmatism in setting up new arrangements or resolving disputes are called for.
- 4) Businesses also value **certainty** in critical policy areas, like climate change mitigation, that affect their long-term strategy. This allows them to plan their R&D, product design, sourcing and production.
- 5) Businesses recognize that developing countries often do not have the means to rapidly implement reforms, so **capacity-building** interventions are applauded.
- 6) Since strict demarcations between investment and trade, goods and services create frictions and distortions in the operation of global value chains, a **systems approach** is preferred.

This last point is particularly important to understanding business requirements for the evolution of the international trading system over the next 10 years, the perspective taken by the E15 Initiative. More and more of the world's economic activity is now organized through global value chains (GVCs) and strategic networks, rather than through arm's length sales between vertically integrated buyers and sellers in different countries, as the textbook examples of international trade imply. The most obvious evidence of that trend lies in the percentage of world trade made up of intermediate goods – *a nearly 60% share of world imports³¹ and close to three-fourths of the imports of large developing economies, such as China and Brazil.*^{32,33}

But, as explored in depth by the E15 Expert Group on Global Value Chains³⁴ and summarized below, the impact of GVCs extends well beyond the higher volume of trade in intermediates. Global value chains draw “a broader range of establishments, firms, workers, and countries into increasingly complex and dynamic divisions of labor”,³⁵ which has driven a much deeper and more far-reaching change in the organization of production globally and the basis of competition).^{36,37} Services are playing a key role in the operation of these GVCs and international production networks, especially transport, communications and other business services, the fastest-growing component of world trade. Goods and services are now fully intertwined and inseparable in production, and investment decisions are pushing international trade flows and patterns.³⁸

Linkages in a value chain consist of “more than just the purchase of raw materials and standardized intermediate goods”.³⁹ It requires “finding a partner with which a firm can establish a bilateral relationship and having the partner undertake relationship-specific investments so that it becomes able to produce goods or services that fit the firm's particular needs”.⁴⁰ Establishing the required linkages to form a global value chain “depends inter alia on the thickness of the domestic and foreign market for input suppliers, the relative cost of searching in each market, the relative cost of customizing inputs, and the nature of the contracting environment in each country”.^{41,42}

In that respect, participation in GVCs is fundamentally different from engaging in exchange in the textbook example of a completely undistorted market under conditions of perfect competition. In the case of arm's length sales, price is both the principal determinant of competition and the principal means of conveying information about the value the buyer and seller attach to the good or service exchanged.⁴³ Very little more needs to be shared between buyer and seller to effect a transaction, particularly if the exchange is an isolated, rather than a repeated, event. In contrast to market-based transactions, participation in a firm's supply and value chain requires a good deal more in the way of sharing information, which underscores the importance of rules and other institutional arrangements that protect that information, whether in the form of patents, copyrights, trade secrets or other institutional arrangements.^{44,45}

Participation in value chains also requires the ability to communicate effectively up and down the chain, which requires an infrastructure that supports such communication, as well as rules that protect those communications.⁴⁶ Increasingly, participation in value chains also requires the ability to innovate with other links in the chain, which requires a higher level of both technological sophistication and human capital, and institutions that foster entrepreneurial innovation.^{47,48} As a consequence, competition in this networked world is not based on price alone but depends as well on the capacity of firms and of economies to integrate themselves into the value chains that serve global consumer markets. That, as it turns out, has significant implications for how “market access” is defined in a more globalized world economy.⁴⁹

In this networked world, steps aimed at increasing the quality and reliability of goods and services, decreasing time to market, and enhancing the ability to innovate matter more than lowering the price wedge that tariffs can create. Enabling local firms’ participation in GVCs requires a focus on improving both an economy’s “hardware” (for example, transportation and communications infrastructure) and its “software” (that is, its institutional arrangements, such as quality and safety standards; improvements in customs procedures, and so on). This suggests the need for a broader focus for trade policy – one informed by the need to create an environment that facilitates participation in such value chains.⁵⁰

Out of the work of the E15 Expert Groups on Global Value Chains, Services, Competition Policy, Regional Trade Agreements and Digital Economy, as well as the Task Forces on Investment Policy and Regulatory Coherence, among others, has emerged such an agenda – **a 21st century specification sheet for the global trading system reflecting the realities of the new, more highly networked world economy in which international business people now operate**. This agenda consists of proposals that would have the effect of substantially reducing commercial friction and investment uncertainty, the first within existing international trade rules and arrangements and the rest through a number of specific improvements in them.

There is high potential to increase the efficiency and extend the reach of GVCs into new sectors and geographies. New forms of international cooperation could facilitate this process through deepened analysis, public-private dialogue, country-specific (unilateral) reforms and capacity building.

Establishing a Global Value Chain Partnership

The E15 Global Value Chains Expert Group has made concrete proposals in each of these dimensions that could be combined in **a new international public-private platform to improve the efficiency and inclusiveness of global supply chains**. This platform would be aimed fundamentally at helping to increase practical cooperation between countries seeking to integrate their economies into international supply chains and the companies and experts who could be their partners. The action orientation of the partnership would be underpinned by important new analytical efforts to map existing value chains and impediments to their expansion in new geographies as well as to assemble evidence and examples of good practice that can inform countries of how to maximize the contribution to sustainable development of their participation in global and regional value chains. Specifically, the partnership would include:

Supply chain councils. The private sector plays a key role in the operation of supply chains and there is a need for governments and policy-makers to better understand exactly how supply chains operate in practice. The creation of “supply chain councils” could serve this purpose, along the lines proposed by Hoekman (2013).⁵¹ These councils could focus on a selected number of specific production networks and would be composed of private sector firms, trade officials and regulators working within the sector in question. The councils would be tasked with two main areas of work:

- Carrying out mapping studies of the supply chains in specific production networks, identifying inputs used and locations from where they are sourced, as well as the “bundling” of inputs involved in the production process;
- Identifying the functioning of the GVC, its governance structure and most binding regulatory policy constraints that impact on the operation of the supply chain in question.

This initiative could help move beyond the current ad hoc and often superficial analysis of the functioning of specific value chains, while promoting a better understanding in policy circles of the constraints faced by the private sector, particularly in developing countries. The implementation of mapping studies within the supply chain councils would allow firms to lend their expertise to help policy-makers concretely understand how the fragmentation of production is taking place in practice. The results of these mapping studies could feed into discussions in various policy contexts, both internationally and domestically.

Development analysis. Given the uneven participation of countries in GVCs, the platform could host relevant policy research initiatives on GVCs, document their developmental implications, and develop and refine relevant metrics of policy analysis. Currently there is no platform gathering insights on how GVCs may offer a path to economic development and what type of developmental benefits might be gained from participating in these networks – with a view to assisting awareness and adoption of relevant strategies on the part of developing country officials. The information contained in the platform could serve the interests of developing country policy-makers with respect to the most appropriate policies to be adopted at the national and regional levels, including trade and investment policies, which would assist the insertion and upgrading of their firms into global production networks. Such information could also assist developing country officials in their participation in the negotiation and operation of regional trade agreements, as well as in the formulation of their national development strategies and the execution of their policy agendas. The information hosted by the platform could also be fed into the various regional integration processes, the deliberations of the development community, Aid for Trade strategies and donor assistance decisions. It could thus facilitate the meeting of minds and joint discussions of the trade and development communities. Online discussions and training could be organized on the platform, which would bring together analysts on the developmental aspects of GVCs and interested government officials.

Country strategies and capacity building. Countries could take advantage of the platform's resources to develop strategies for increasing their engagement in and benefits from global and regional value chains. The value chain analytics, development expertise and opportunities for interaction would create a fertile environment for governments, firms and donor agencies providing support for capacity-building requirements to explore opportunities for cooperation. Indeed, the platform could be a focal point for the development of a major new plank of Aid for Trade funding and technical assistance that is focused on helping countries strengthen the institutional aspects of their enabling environments which are crucial to the effective functioning of value chains (e.g. services, investment, regulatory frameworks, customs and logistics, etc.). In addition to these ongoing activities of the platform, an annual forum or summit could be organized to take stock of progress, engage leaders and stimulate public-private dialogue aimed at drawing wider lessons from experiences around the world and identifying new strategic priorities.

The proliferation of regional and bilateral international trade and investment agreements over the past two decades has dramatically reduced barriers and improved international business and investment conditions. However, it has also created considerable new complexity and placed under the spotlight policies that governments have traditionally considered purely domestic matters and therefore that they are only beginning to think about coordinating. Both of these factors are generating new costs and uncertainties for businesses that a number of the proposals developed by the E15 Expert Groups address.

Rationalizing preferential trade arrangements and investment agreements

There are over 400 regional trade agreements (RTAs), twice as many as there are states in the world, and several more are under negotiation. At the same time, nearly 3,300 bilateral and plurilateral investment agreements exist. The multiplication of these arrangements in recent decades, many of them with overlapping membership but different rules of origin and other conditions, has created not only commercial complexity but also trade diversion and fragmentation. The time has come to address both aspects of this problem.

- Simplify the **conduct of business across multiple regional and preferential trade agreements** through an **RTA Exchange**. The Expert Group on Regional Trade Agreements has proposed the creation of a comprehensive open information platform to enhance understanding about RTAs and encourage a dynamic of learning, sharing of best practices and ultimately cooperation among them that can lead to the harmonization and even multilateralization of subsets of their rules.⁵²

While RTAs are designed to lower the costs of cross-border business and paved the way for new production and distribution networks, the spaghetti bowl of multiple overlapping RTAs has created transaction costs to companies that operate global supply chains. Also small business exporters seeking to trade across many different markets, each with its own RTA, are mired in the maze of rules. Even though there are “RTA families” where different RTAs have rather similar rules (such as the US and EU’s respective trade agreements), the proliferation of RTAs has compounded the spaghetti bowl problem. Studies by the Inter-American Development Bank (IDB) and Asian Development Bank (ADB) indicate that some 60% to 80% of large companies in such diverse countries as Peru, Singapore, Thailand and Mexico would much prefer a single set of rules of origin to the several Rule of Origin (RoO) regimes in the RTAs signed by their respective governments. The complexity is also troublesome to customs officials for verifying RoO in countries with multiple agreements, such as Chile, Mexico, Singapore, Thailand, the United States and Vietnam. Erasing some of the transaction costs can yield major economic gains, particularly for smaller economies. A logical place to start would be to encourage wider acceptance of the diagonal cumulation of rules of origin, which would begin to streamline business operations across multiple RTAs.

By now, RTAs offer a vast reservoir of tested and tried rules that can help advance multilateral rule-making in critical areas. However, so far, RTA disciplines have not been multilateralized, and typically they extend only to RTA members. They are also not covered by the dispute settlement system of the World Trade Organization (WTO). Expanding the number of countries that apply rules negotiated and applied in the major RTAs would most likely yield great new efficiencies and expand world trade. Plurilateral agreements can be just the right vehicle for enabling a larger number of countries to sign onto tested and tried

sets of rules incubated in RTAs. However, it is not yet clear which plurilaterals should be negotiated or how plurilateral talks should be structured so as to enable all countries in the multilateral trading system to benefit from them.

The IDB, in collaboration with the ADB and the International Centre for Trade and Sustainable Development (ICTSD) are in the process of implementing the RTA Exchange proposal as a dynamic online platform and forum to share information, ideas, experiences and good practices on RTAs; further the capacity building of negotiators to negotiate and implement RTAs and companies to apply RTAs globally; regularly take stock of the general public's views on policies related to RTAs; survey the private sector's views on the functioning of RTAs; and further idea-generation to advance convergence and coherence with the multilateral system.

- Simplify the **conduct of business across multiple investment agreements** through a **model investment agreement**. The Expert Task Force on Investment Policy has proposed a multi-tiered set of recommendations to streamline and modernize the patchwork quilt of investment agreements around the world. The Group suggests building on the recent changes that have been incorporated in model investment agreements of countries as diverse as Norway and India, as well as the work under way and mandated by the United Nations Financing for Development conference in Addis Ababa at the United Nations Conference on Trade and Development (UNCTAD). Specifically, a consultative process would be launched to develop an updated articulation of the overall purpose of international investment agreements (IIAs). The Investment Policy Framework for Sustainable Development recently issued by UNCTAD could serve as a starting point for this process, which would seek to build common ground on not only the articulation of and set of definitions for this restatement of the purpose of IIAs but also the design of the main elements of a 21st century international model agreement, using as building blocks a few of the more recently concluded bilateral agreements and perhaps the prospective US-China bilateral investment treaty that is under negotiation. This new model framework, formulated as a best practice open for voluntary adoption, would be a bottom-up way to spur the modernization and harmonization of an international investment regime that has become highly complex and in some cases out of date. It could be coupled with an open information exchange platform such as that proposed above to stimulate the streamlining of RTAs. Or this “Investment Agreement Exchange” feature could be incorporated into that platform.

Coordinating services, competition, data transmission, IP and other trade-related regulation

Each of these policy areas is relevant to the establishment and functioning of an operation within an international supply chain, and yet governments are only now beginning to establish international frameworks that can simplify and add certainty to the investment and operational decisions of companies. The E15 Expert Groups in these areas have developed proposals to encourage this process by identifying leading practices on which to build wider understandings among countries. These could be added separately or in combination in a modular fashion to new or existing free trade agreements. Specifically:

Services

- **Create a network of country one-stop, online information platforms on services regulations, supported by capacity-building assistance for developing countries.** Online single windows for cross-border services providers in need of licences, permits and other administrative requirements should be established as a priority for developing countries seeking to build on their Trade Facilitation Agreement progress. The scope of Aid for Trade funding should be expanded for this purpose;
- **Facilitate the movement of skilled labour.** Processes and procedures related to visas and work permits should be streamlined through a clarification of General Agreement on Trade in Services (GATS) provisions in relation to how the Agreement covers processes and procedures related to visas and work permits as well as an initiative to establish a plurilateral but open “innovation zone” working through GATS within which skilled researchers and technical personnel would be able to migrate freely for up to 10 years. This would likely start as a plurilateral agreement, but would be open to all countries – whether developed, emerging or least-developed – and could build on Mode 4 of the General Agreement on Trade in Services;^{52a}
- **Utilize best-endeavour clauses,** accompanied by monitoring and assistance, to create momentum in services trade agreements where hard law commitments may not be feasible in the near term;
- **Expand cross-country benchmarking.** The Organisation for Economic Co-operation and Development (OECD) Services Trade Restrictiveness Index should be continued and expanded. It is a helpful tool to set policy reform and capacity building priorities;
- **Integrate services and goods in policy.** Appreciation of the need for trade-

related policy coherence across services, goods and investment should be expanded by deepening the Trade in Value Added research of the OECD and WTO and establishing a WTO Working Group to recommend ways to reduce distortions resulting from the separate rules for goods and services. Taking account of approaches adopted in preferential trade agreements, this exercise could identify areas where the goods and services firm playing field is not level; suggest ways to bring together the rules; evaluate the resulting implications of extending multilateral disciplines on investment beyond those inherent in the GATS; and consider the pros and cons of packaging both goods and services in stand-alone sectoral agreements such as the Information Technology Agreement.⁵³

Regulatory Coherence

- **Strengthen the transparency of national regulations.** Transparency alone is a factor that decisively contributes to reducing the magnitude of trade friction. Transparency obligations in the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Agreements are the most far-reaching in the WTO regime. One-stop shops, enquiry points, intervals between the preparation and adoption of measures coming under the aegis of the two agreements constitute important innovations. Regulation, however, extends to areas not covered by the TBT and SPS Agreements. A new, consolidated framework on regulatory transparency should be agreed in the WTO in which:
 - There is a “mapping” of national mechanisms that are intended to provide transparency with respect to national regulatory processes;
 - WTO members notify all adopted measures, whether based on international standards or not;
 - They explain the rationale behind their measures (“reasoned transparency”);
 - They involve affected parties at an early stage in the process;
 - They use the reasonable interval between publication and entry into force of a measure to fine-tune regulation so that it represents a balanced trade-off between genuine regulatory concerns and an effort to minimize the resulting trade impact. It bears repetition that this proposal is not limited to trade in goods;

- **Expand the use of the Common Regulatory Objectives model as advanced by Recommendation L of the UN Economic Commission for Europe.** Recommendation L enshrines the “International Model”, which is a set of tools that countries can use to approximate technical regulations in specific sectors. A UN Working Party has taken the lead to implement this Recommendation by fostering “sectoral initiatives” to develop common regulatory frameworks in the areas of telecom, earth-moving machinery, equipment for explosive environments and pipeline safety;

- **Provide observer status to business in the WTO TBT, SPS and other Committees.** Such requests for observer status should not be refused except for compelling reasons to be agreed and transparently communicated. In designing this observer status, the WTO could be inspired by the Business and Industry Advisory Committee of the OECD or the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council. The participation of business interests should not be confined to areas covered by the TBT and SPS Agreements.

Competition Policy

- **Build upon the competitive neutrality principles for state-owned enterprises included in the Trans-Pacific Partnership and EU-Canada CETA agreements.** State-owned enterprises (SOEs) have expanded beyond national borders and the value of their sales equates to around 20% of global trade in goods and services. SOEs frequently benefit from advantages in tax treatment, financing and regulation, denying international competitors a level playing field. SOEs typically also benefit from a dominant market position that allows them to more easily engage in abusive behaviour. Ensuring the appropriate application of competition law to SOEs is thus an objective.⁵⁴ The Trans-Pacific Partnership (TPP) and the EU-Canada Comprehensive Economic and Trade Agreement (CETA) include dedicated chapters on SOEs and designated monopolies to address these issues, a trend that future bilateral or plurilateral trade agreement should emulate;
- **Improve cooperation among competition and trade policy authorities.** Governments could anticipate potential trade challenges by inviting their own competition authorities to evaluate the competition consequences of national decisions bearing on tariffs, antidumping, government procurement, foreign direct investment, services regulation and so forth. A core appeal of this approach is that it calls on a domestic market efficiency programme to enforce international trade objectives, so is likely to be less objectionable than the foreign imposition of decisions on national governments.⁵⁵ In addition, the informal discussions and coordination that has started to occur in the International Competition Network (ICN), OECD and UNCTAD should be deepened, concentrating on multi-jurisdictional mergers as the most likely source of consequential, inconsistent decisions. Agencies could voluntarily, but effectively, collaborate in joint investigation and enforcement.⁵⁶

Digital Economy

- **Allow the free flow of data across borders** subject to an exceptions provision based on GATS Article XIV concerning the right of countries to protect the privacy of personal data as long as such right is not used to circumvent the provisions of the agreement. The WTO has such a data flow commitment but it

only covers the financial sector, whereas the US-Korea Free Trade Agreement (KORUS) is an example of two countries agreeing to take a broader approach. Such a step should be accompanied by an explicit commitment to eschew data localization requirements, such as that included in the recent TPP agreement;

- **Establish higher, standardized de minimis customs levels** to facilitate cross-border flows of small packages supplied by internet-enabled retail services providers, especially small and medium-sized enterprises. These levels currently range from less than \$1 to \$1,000. Requiring businesses to make customs declarations for goods of small value creates additional transaction costs.⁵⁷ According to one study, a 10% increase in time to move goods across borders reduces exports of time-sensitive manufacturing goods by more than 4%.⁵⁸ For trade in lower value goods that the internet is enabling, such costs account for a relatively larger share of the goods' total value, making it an even more serious trade barrier. Moreover, it is the consumer that is responsible for completing customs forms and paying the duties, adding another barrier to digital trade. Returning goods are also often treated as imports, which means they are again subject to similar documentation requirements and customs duties. In 2011, 10 APEC members agreed to implement a *de minimis* value of at least \$100, which was estimated to produce a cost savings of \$19.8 billion per year in the APEC region.⁵⁹ Developing countries should adopt this or possibly \$200 as a minimum common threshold, with more advanced countries adopting a higher common threshold, such as \$800.^{59a}

Conclusion

Reducing uncertainty and frictions in commercial operations is the key to boosting trade and investment. E15 Expert Groups have proposed a concrete agenda of measures that would greatly increase the simplicity, transparency and coherence of trade rules and arrangements. Many elements of this agenda are ripe for action in the near term, either by governments on their own or in like-minded coalitions. They provide a roadmap for rationalizing the fragmented universe of goods, services, investment, competition, data and other regulations – i.e. for adapting the trade regime to the big changes in the world economy in recent decades that have transformed the operating context for international businesses and investors since agendas for the Uruguay and Doha Rounds were set.

Accelerating Sustainable Development in Least Developed Countries

Poverty and inequality are major global concerns, as manifested in detailed studies as well as large global compacts, such as the Sustainable Development Goals (SDG) agreed by world leaders. The challenges faced by least developed countries (LDCs) provide a focus for attention for a broader set of concerns faced by poor and low-income economies. The issue of development is multidimensional and is reflected to a significant extent by the criteria used to determine LDCs, combining three different components: per capita gross national income, the Human Asset Index (HAI), based on four indicators,^{59b} and the Economic Vulnerability Index (EVI), based on eight indicators.^{59c} The HAI measures the nutrition, education and potential skill base of a nation. The EVI measures the structural vulnerability of countries to exogenous economic and environmental shocks.⁶⁰

Forty-eight countries are classified as LDCs. They differ considerably in terms of the various classification criteria, with a very wide variation among them. For instance, gross national income (GNI) per capita ranges from \$119 for Somalia to \$16,089 for Equatorial Guinea, and the HAI ranges from 7.8 for Somalia to 88.8 for Tuvalu. Nonetheless, each is vulnerable and economically weak in terms of the overall criteria considered for evaluating these aspects, and needs major efforts to upgrade its economic and social infrastructure to sustain growth and development. An indication of their relative weakness is provided by the fact that, of the 48 LDCs, the HAI of 44 is less than the global average. The average HAI for LDCs is 51.5 compared to the global average of 75.2. For “under five mortality per 1,000”, the LDC average is 79.4, much higher than the global average of 44.4.

A striking feature of LDCs is the very high level of economic concentration or narrow economic base, and the significant level of vulnerability several of them face, making them highly exposed to shocks. According to the classification of the United Nations Conference on Trade and Development (UNCTAD), 27 of 48 LDCs are dependent on commodities (agriculture, fuels and minerals) for their exports.⁶¹ For many of them, vulnerability arises due to their geography or difficult and fragile domestic conditions. Of the 31 landlocked developing countries (LLDCs), 16 are LDCs, and of the 40 small island developing states (SIDS), nine are either LDCs or recently graduated LDCs.^{61a}

LDCs’ low GNI per capita and low HAI scores have major economic and social implications. These indices indicate the scarcity of capital resources available to LDCs, together with the low nutrition, education and skill base of their population. This adversely impacts their domestic level of infrastructure, technology, competitiveness, efforts to diversify their product/export base, and the costs of conducting trade. Capacity and resource constraints also reduce the ability of LDCs to implement large, integrated economic or social initiatives, or to cope with major system changes in markets abroad, such as have begun to take place with mega-regionals like the Trans Pacific Partnership (TPP).

These difficulties lead to a very low level of participation in the global economy, as reflected in the minor share of LDCs in global merchandise trade, as well as foreign direct investment (FDI) inflows. In 2014, the total LDC shares of global merchandise trade and FDI were only 1.3% for exports, 1.5% for imports and 1.9% of global FDI inflows. A noteworthy feature is that Asian LDCs receive considerably more remittances than FDI, whereas for the other LDC groups, the reverse is true (Table 1). This implies an opportunity to improve the movement of labour to provide the skills required in external markets so that remittances could become a more important source of revenue in a wider set of LDCs.

Table 1: FDI Inflows and Remittance Inflows for LDCs, 2013 (Million US\$)

	FDI 2013	Remittances 2013
African LDCs and Haiti	21,801	9,179
Asian LDCs	5,943	21,328
Island LDCs	213	166
LDC Total	27,957	30,673

Source: “The Least Developed Countries Report 2014”, UNCTAD, Geneva, 2014, pp. 13 and 15

LDCs’ export products tend to lose out to competition and thus are more likely to be phased out of the market than those of other developing economies.³ A focus on competitiveness requires emphasis on cost efficiency. LDCs incur relatively higher costs in export and import: in some cases, about one and a half times that of others.⁴ Their markets are smaller and their infrastructure/skill base lower, which implies a larger presence of small and medium-sized enterprises (SMEs), and relatively simpler technology production.

Building on Recent Major Global Initiatives

The diverse characteristics of LDCs suggest multiple challenges must be faced and a combination of policies is needed to address them. In recent years, a number of important global initiatives have been taken to work with LDCs in several of these areas. These include, inter alia, the Programme of Action for the Least Developed Countries for the Decade 2011-2020,⁶² the 2030 Agenda for Sustainable Development,⁶³ and as laid out by the outcome document of the Third International Conference on Financing for Development, the Addis Ababa Action Agenda.⁶⁴

These initiatives provide a far-reaching agenda for assisting LDCs and others to achieve the SDGs. They cover a large number of issues. For conceptual ease, the different initiatives are shown below under different broad and somewhat overlapping categories, which contribute to the development process. The examples provide only an indication of the vast scope of the various efforts, which extend much beyond the illustrations given.

- a. Institutional/economic issues
 - Developing local capital markets;
 - Helping with project preparation for investment;
 - Providing financial support for project preparation to attract investment in LDCs;
 - Facilitating access to information on investment facilities and risk insurance and guarantees;
 - Reducing transaction costs to less than 3% for migrants' remittances;
 - Scaling up international tax cooperation;
 - Developing rural areas and sustainable fisheries;
 - Increasing investment in rural infrastructure, agriculture research and technology development;
 - Bridging the infrastructure gap;
 - Expanding infrastructure and upgrading technology for supplying modern and sustainable energy services;
 - Providing financial assistance to build sustainable and resilient buildings;
 - Raising capacity for effective climate change related planning and management;
 - Addressing illegal, unreported and unregulated fishing and destructive fishing practices;
 - Developing many trade related initiatives.

- b. Social initiatives
 - Developing initiatives in health and education;
 - Addressing poverty, hunger and food security.

- c. Development cooperation
 - Promoting enhanced capacity-building support;
 - Increasing Aid for Trade;
 - Encouraging official development assistance (ODA) providers to give at least 0.20% of ODA/GNI to LDCs;
 - Enhancing development cooperation;
 - Developing quality and timely development data;
 - Strengthening national data systems and evaluation programmes;
 - Strengthening the capacities of municipalities and other local entities;
 - Coupling graduation process of LDCs with appropriate measures so as to not jeopardize the development process and progress towards sustainable development;
 - Strengthening scientific, technological and innovative capacities.

The Role of International Trade and Investment

International trade is very important for LDCs. The ratio of international trade to GDP is relatively high, and it is positively correlated with human development index scores. The ratio for LDCs in the low human development category is 72.7%, increasing to 92.5% for LDCs in the medium human development category. This shows a very high degree of reliance on trade for LDCs, implying that it should be one of the priority areas for action.

Trade and investment are both important for addressing the scarcity of resources, skills and infrastructure.⁵ Further, in our interconnected world in which trade and investment overlap, it is essential to maintain or improve competitiveness to develop LDC economies and become more effective participants in global markets. To create links between domestic and foreign markets, LDC policy-makers need to develop mechanisms for collaborative interaction with private and public sector stakeholders, nationally, regionally and globally. The implementation of trade facilitation reforms, such as the setting of de minimis levels below which customs duties are not collected, is especially valuable for LDCs.

Though efforts to address the trade concerns of LDCs have been going on for many years, a careful analysis of both the underlying conditions and how they are likely to evolve over the next decade is required to substantively bring practical solutions to bear upon the issues faced by LDCs. The output of the E15 Initiative is significant in this context. The E15 Expert Groups on Global Trade Architecture, Finance and Development, Agriculture and Food Security, Regional Trade Agreements, Global Value Chains, and Services, as well as the Expert Task Force on Investment Policy, have made a series of proposals that together amount to an ambitious yet feasible agenda to strengthen the contribution of international trade rules and arrangements to the pace of sustainable development in poor countries by:

- Maximizing preferential market access;
- Improving the terms of foreign investment;
- Increasing financing for trade-related development;
- Ensuring the inclusivity of norm setting and adoption;
- Deploying official ODA more strategically.

Maximizing Preferential Market Access

The World Trade Organization (WTO) Doha Round of multilateral trade negotiations – or Doha Development Agenda – has thus far been unable to fulfil its fundamental objective of improving the trading prospects of developing countries. But the E15 Expert Groups on Global Trade Architecture, Finance and Development, and Agriculture and Food Security outline several other important, practical steps that can be taken in the coming years to improve access by LDCs to the markets of

their wealthier counterparts, regardless of the ultimate disposition of the Doha Round.

- **Expand duty-free, quota-free access.** Developed and major emerging market countries have made significant progress over the past decade in according duty-free, quota-free (DFQF) access to their markets of products from LDCs. However, this progress is uneven; it is often thwarted by restrictive and complicated rules of origin requirements, and it is progressively being eroded by the proliferation of regional free trade agreements. Following is a set of proposals to reinforce this important aspect of the trading system's support for the economic development of low-income countries:⁶⁵
- **Developed countries should extend full DFQF market access for all LDCs.** A phased programme could be devised by the United States to address the small number of apparel tariff lines that are important for Sub-Saharan African exporters and covered by the African Growth and Opportunity Act. The European Union, Canada and Japan have gone beyond the 97% of tariff line coverage agreed at the 2005 WTO Hong Kong ministerial meeting and essentially met this objective; however, the preference schemes of some, most notably the United States, still fall short. Studies show that excluding even 3% of tariff lines from DFQF programmes can significantly undermine the value of LDC participation.⁶⁶ For example, Bangladesh and Cambodia face average tariffs of over 15% on their apparel exports to the United States, generating customs payments that are equal to or greater than those paid by the much larger French and British economies on all of their US exports (\$460 million and \$480 million, respectively)⁶⁷;
- **Middle-income countries should follow the leadership of China, India and Brazil by implementing DFQF programmes that attain 97% tariff line coverage** within the next 5 to 10 years. China expects to reach this goal by the end of 2015 for LDCs with which it has diplomatic relations. India and Brazil have announced similar plans, but these have yet to be fully implemented. Other middle-income countries should demonstrate a similar degree of commitment to South-South trade and the eradication of absolute poverty by following suit;
- Both groups of countries should follow the leadership of Canada and **implement rules of origin for these preference arrangements using an extended cumulation approach, forming, in effect, a broad cumulation zone** among all LDCs and countries that are members of free trade agreements (FTAs) in which the importing country participates. This approach would significantly stimulate exports from and commerce among LDCs, judging from the evidence of similar rule of origin changes in the past, such as a shift from a double to single transformation requirement, which produced large increases in exports;⁶⁸

- These steps would markedly improve both *de jure* and *de facto* market access for LDCs around the world. None would require a multilateral agreement; they can all be achieved through the initiative of individual states or coalitions thereof.

Improving the Terms of Foreign Investment

The Expert Task Force on Investment Policy has developed proposals for improving the international investment regime and striking a better balance among investor, host government and citizen interests therein. The regime now consists of about 3,300 bilateral and plurilateral agreements – up tenfold in the last 25 years. The Group suggests building on the recent changes that have been incorporated in model investment agreements of countries as diverse as Norway and India, as well as the work under way and mandated by the United Nations Financing for Development conference in Addis Ababa at UNCTAD, in the following manner:

- Create a consultative process to develop an **updated articulation of the overall purpose** of international investment agreements (IIAs). The process would encompass not only investor protection against arbitrary measures but also the facilitation of sustained investment in sustainable development and the preservation of a certain degree of domestic policy space to protect public safety and health.
- Use the Investment Policy Framework for Sustainable Development recently issued by UNCTAD as a starting point for this process. It would seek to build common ground on not only the articulation of and set of definitions for this restatement of the purpose of IIAs but also the **design of the main elements of a 21st century international model agreement**, which would help negotiating parties to **strike a better balance regarding the preservation of essential national policy space**, including:
 - An articulation of **fundamental investor obligations**, including with respect to responsible business conduct in areas like corruption, human rights and taxation (i.e. for example, the new OECD Base Erosion and Profit Shifting framework). Supplemental sector-specific responsible investment frameworks could be developed through public-private dialogue, such as in the area of responsible mineral and natural resources development;⁶⁹
 - A new **international appeals framework** that states could choose to opt into as part of their bilateral agreements or FTAs. This mechanism would provide recourse for either party of an arbitral judgment to an ad hoc appellate body composed of members from a pool of investment adjudication specialists accredited by the international framework.

- Level the playing field for developing country governments that lack the legal expertise to defend themselves adequately. An **Advisory Centre on International Investment Law** could be established, modelled on the Advisory Centre on WTO Law. Created in 2001, this provides services to developing countries through its own staff or outside counsel at reduced rates.
- Foster donor country assistance and support for **capacity building to developing countries** in the implementation of the new model framework. This can be done by extending the WTO Aid for Trade initiative to cover investment-related as well as trade-related capacity building. These programmes of assistance could be shaped by the Investment Policy Reviews of UNCTAD or relevant reviews by OECD or the WTO.
- Promote technical assistance from the International Monetary Fund or multilateral development banks to LDC sovereign debt issuers. **This would ensure they have the capacity to negotiate terms based on the model frameworks** developed recently to eliminate judicial/sovereign risks, and in turn provide for efficient restructurings should the need arise. In 2014, a group representing the world's largest banks, investors and debt issuers (the International Capital Markets Association) created a new framework for bonds that they hoped would address problems faced during the Argentine debt crisis and Greece's 2012 debt restructuring when holdout investors resisted deals and demanded full payment; however, this model language has yet to be widely used by developing country governments, including in Sub-Saharan Africa.⁷⁰

Increasing Financing for Trade-Related Development

One of the most important development constraints LDCs face is a low level of private investment, both foreign and domestic. This prevents them from taking full advantage of existing export opportunities and new ones created by market opening initiatives, such as those proposed above. Recently, this problem has been exacerbated by a new and worrisome constraint in the availability of trade finance. The Expert Groups on Finance and Development, Services, and Global Value Chains, as well as the Expert Task Force on Investment Policy, propose the following action agenda in response:

Ensure correspondent-banking availability. Banks have sharply cut down on their correspondent-banking networks as the costs of regulatory checks, such as Know Your Customer (KYC) activities related to anti-money laundering, have far outpaced the growth of business potential. Though hard data is scarce, it is believed in the banking community that the sharpest cuts have been made in low-income countries, to the point that some of these countries are on the verge of being excluded from international financial networks. The consequence of this financial exclusion is particularly serious when it comes to the exchange of goods and services since, without the ability to exchange information or funds, local companies struggle to enter into the contractual obligations that underpin

international trade. The economic development of many low-income countries is therefore severely compromised. The Expert Groups' proposal is that each country should house at least one local bank with a fully-fledged correspondent-banking arrangement with international financial institutions. Following are the key steps involved in bringing this proposal to fruition, which have recently been endorsed by the Chairman of the Financial Stability Board and Chief Financial Officer of the World Bank Group:

- Initiate sponsoring/mentoring by the Bank for International Settlements, the Financial Stability Board or the Wolfsberg Group,^{70a} leading to the improvement of the local correspondent bank(s)'s governance structure;
- Have the KYC process validated by the sponsor so that it will be deemed to be sufficient for international regulatory purposes;
- Secure an international ruling to ensure that developed country banks are compelled to maintain a minimum service correspondent-banking network for each enabled country and chosen bank(s).

Deploy official development assistance (ODA) more strategically. LDCs and their international development partners need to develop a strategic vision regarding the efficient and effective use of ODA for private sector development in the coming years.^{70b} The four key building blocks of this new vision are the following:

- Enhancing the flows and quality of ODA. This would allow more targeted and results-oriented projects geared towards promoting specific elements of the enabling environment, such as social, economic and digital infrastructure, as well as productivity-enhancing public institutions and productive sectors.
- Increasing the use of blended finance to scale up investment. This can be done by leveraging other sources of finance (including private finance), by enhancing project impact (by keeping broader public welfare concerns well in view) and by ensuring financial returns (for private investors and others) by reducing the average cost of capital, funding viability gaps and providing guarantees against various kinds of risks prevalent in low income economies.
- Creating a more business-friendly policy environment by strengthening national capacities for accelerated domestic reforms. This is needed particularly in the financial sector, in public expenditure systems and in the area of the rule of law, thereby ensuring greater financial mobilization and a more efficient use of these resources.
- Emphasizing the role that ODA can play in dampening a country's exposure to shocks. Ensure that at least part of the allocation of conventional ODA depends on structural economic vulnerability, and make sure that conventional ODA is not merged with additional resources geared towards LDC adaptation to climate change, based on physical vulnerability indices.^{70c}

Expand the scope and scale of trade-related capacity building and the Aid for Trade initiative. Domestic institutions – in particular, legal frameworks and the public agencies that administer and enforce them – are crucial for the purpose of attracting private investment because they strongly influence investment risk. But despite the centrality of private sector development and finance to economic growth and job creation, capacity-building assistance for investment climate institution building has been a minor focus of official development assistance. Several E15 Expert Groups proposed major increases of such aid for the development of rules and administrative and adjudicatory capacity in the areas of services, legal and regulatory reform, investment frameworks, private standards adherence, responsible supply chain practices and global value chain mapping against domestic capabilities, anti-corruption, etc. While the Aid for Trade initiative has made important progress since it was launched 10 years ago, it and the bilateral donor programmes that underlie it need to substantially broaden their scope and considerably boost funding levels so that a fuller spectrum of institutional weaknesses that raise trade costs and generate investor uncertainty can be adequately addressed in LDCs. The Services Expert Group and the Investment Policy Expert Task Force call for services and investment facilitation frameworks analogous to the Trade Facilitation Agreement, in which a phased approach to implementing commitments is to be coupled with capacity-building assistance. This approach has great promise for facilitating trade and mobilizing additional finance for development, but it is predicated upon a structural shift in the focus and volume of trade-related capacity-building assistance.

Establish an agricultural subsidy solidarity fund to support food security and climate change adaptation in at-risk LDCs. Developed countries are continuing to resist major new international commitments to reduce farm supports due to stubborn domestic political realities, while emerging economies have recently become major users of similar, trade-distorting subsidies in their own right. At the same time, the share of official development assistance targeted at agriculture, forestry and fisheries has declined precipitously, down from around 20% in the 1980s to close to 5% today,⁷¹ even as high commodity prices and an increased prevalence of weather-related crop failures due to climate change are posing serious food security challenges in many low-income countries. A constructive, if partial, step forward on LDC agriculture proposed by the E15 Agriculture and Food Security Expert Group would be to create a **solidarity fund in which financial contributions would be made in proportion to the magnitude of such domestic support.** With total ODA to agriculture in the order of \$9 billion and official trade-distorting support (OTDS) to agriculture in all developed and emerging countries amounting to about \$200 billion, a contribution of even just 1% or 2% of OTDS by each donor country would result in an expansion of ODA to agriculture by 20% to 40%, funds that could support a significant boost in capacity-building assistance for climate-smart agricultural productivity improvements and export performance in at-risk LDCs.⁷²

Increase domestic resource mobilization in developing countries by boosting capacity-building assistance for the development of stronger domestic tax institutions and more transparent tax rules. Developing countries are chronically short of the funds needed to support their development, as the July 2015 United Nations Financing for Development conference in Addis Ababa highlighted. Increasing the tax raised in developing countries would help plug this financing gap, including for the kinds of essential economic institutions outlined above. Half of Sub-Saharan African countries still mobilize less than 15% of their GDP in tax revenues, below the minimum level of 20% considered by the United Nations as necessary for development. Several Asian and Latin American countries fare little better. Tackling “base-erosion and profit-shifting” (BEPS) by multinational enterprises (MNEs) could substantially increase tax collection by developing country governments. A recent International Monetary Fund paper estimated that developing countries could lose \$213 billion a year in the long run, close to 1.3% of their GDP, from BEPS.⁷³

Notable recent progress under the OECD BEPS initiative includes: (1) a new international “Common Standard” for automatic exchange of information between tax authorities (modelled on the US Foreign Account Tax Compliance Act); and (2) the introduction of country-by-country reporting requirements that will require MNEs to provide specific aggregate information annually to tax authorities in each jurisdiction where they do business, including on the global allocation of income and taxes paid. For developing countries, more support is needed in two areas. First, to strengthen domestic institutions and legal arrangements so they can implement new international standards and, second, to strengthen the international tax system so it facilitates the work of developing country tax authorities. Concrete steps that could be taken include:

- Increase capacity-building efforts on BEPS in developing countries, including by developing toolkits and providing guidance to support the practical implementation of the OECD BEPS measures and other related priority issues (international assistance can be a powerful catalyst for domestic resource mobilization: for example, with modest international support, revenue collection from transfer pricing audits in Kenya has doubled from \$52 million in 2012 to \$107 million in 2014);⁷⁴
- Increase the automatic exchange of information between tax authorities, prioritizing the transfer of information to developing country tax authorities;
- Increase the reporting by MNEs to tax authorities, for example by creating a public tracking system that enables the ready assessment of progress against international BEPS targets;
- Strengthen the involvement of developing countries in international BEPS initiatives, including those led by the OECD;⁷⁵

- Ensure that all licences and concessions are subject to transparent bidding procedures, including as regards non-commercial objectives;
- Increase transparency for commodity prices and volumes in international markets; Increase transparency of the commodity trading sector and its regulation.

Expanding the Inclusivity of Norm Setting and Adoption

Capacity and resource constraints reduce the ability of LDCs to be appropriately informed, or to provide input to or adapt to cope with major system changes in markets and trade regulation. LDCs have limited access to the related decision-making processes and their concerns demand further attention. Meeting the standards of a TPP, for example, is not possible for LDCs, yet access to these markets is crucial.^{75a} Inevitably, large new trade and investment agreements will become the *de facto* regime for global trade regulation. E15 experts suggested the following as a basis for enabling wider and more effective LDC participation in norm setting in a world of variable trade and investment geometry:

- **Establish regional platforms for excellence.** These platforms or centres would provide information, training and dialogue opportunities to clarify global regulatory initiatives and market developments and advise on necessary steps, including regional development bank funding. They would provide an opportunity for interaction with lead firms by both governments and SMEs, helping upgrading to meet the requirements of global value chains.
- **Augment capacity to conform to streamlined global standards.** Beyond a certain level of market penetration, private standards should welcome scrutiny and oversight by international public bodies and civil society. International institutions could assist with the promotion of key principles and guidelines to bring greater conformity to major private and public standards. Assistance for SMEs to meet the requirements of private standards could feature in official aid programmes. Assistance to comply with Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Agreements is a recognized element of Aid for Trade. Capacity building for governments to conduct conformity assessments is also needed, and in this context it would be desirable to strengthen the Standards and Trade Development Facility – a partnership between the Food and Agriculture Organization of the United Nations, the World Organisation for Animal Health, the World Bank, the World Health Organization and the WTO.
- **Encourage inclusivity in regional and plurilateral agreements.** Negotiators of new non-multilateral agreements could create conditions to extend benefits to LDCs, such as providing for exports from LDCs to fit within the Rules of Origin of the agreement. More broadly, the time is ripe to devise principles by which the emerging mega-regional regime can connect more easily with the multilateral system. This could be structured as an Agreement to Facilitate an Inclusive Roadmap for Sustainable Trade.

Create an Institutional Readiness Index to guide LDCs and development partners in setting priorities for the support of economic institution building.

The nature and success of the implementation of policy reform vary considerably across LDCs, with some making very significant progress in improving their economic and social performance, while others are still lagging considerably behind most other nations. This becomes clear when using a range of indices to measure the performance of nations in terms of market efficiency and human development. The Ease of Doing Business (EOB) Index, Human Development Index (HDI), Logistics Performance Index (LPI), Competitiveness Index (CI) and Enabling Trade Index (ETI) are considered below. For each of these indices, most of the countries in the lowest ranks are LDCs. Table 2 shows some of the top LDC performers according to different indices.

Table 2: Top Five LDC Performers for Selected Indices (with their rank for the Index)

EOB	HDI	LPI	CI	ETI
Rwanda (46)	Timor-Leste (128)	Malawi (73)	Rwanda (58)	Rwanda (66)
Bhutan (71)	Vanuatu (131)	Rwanda (80)	Lao PDR (83)	Zambia (91)
Vanuatu (94)	Kiribati (133)	Cambodia (83)	Cambodia (90)	Cambodia (93)
Zambia (97)	Bhutan (136)	São Tomé and Príncipe (84)	Zambia (96)	Lao PDR (98)
Nepal (99)	Cambodia (136)	Burkina Faso (98)	Nepal (100)	The Gambia (99)

Note: Bhutan and Cambodia have the same value for their HDI. For EOB, Cambodia’s rank is 127. Sources: World Bank Group, “Doing Business”, Economy Rankings, available at <http://www.doingbusiness.org/rankings>; World Bank, “Logistics Performance Index”, Global Rankings 2014, available at <http://pi.worldbank.org/international/global/2014>; World Economic Forum, “The Global Competitiveness Report 2015-2016”, available at <http://reports.weforum.org/global-competitiveness-report-2015-2016/>; United Nations Development Programme, “Human Development Report 2014”, available at <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>; World Economic Forum, “Competitiveness Rankings”, available at <http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/>; World Economic Forum, “The Global Enabling Trade Report 2014”, available at http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf

Rwanda and Cambodia occur most frequently in the table, followed by Zambia. For trade, logistics and competitiveness issues, Rwanda is a leader in the group of top performers. It is not among the top five for the HDI (its rank is 151), but even in that context it has registered a very good performance by making the largest improvement in the world in terms of its HDI ranking, by moving up 17 places from 2008 to 2013. This indicates that improving competitiveness and economic performance also contributes towards improving the human development performance of a nation.

The countries mentioned in Table 2 are leading performers and have made important efforts to improve their socio-economic conditions. They could provide an illustration of the policy steps needed for LDCs. Similarly, the World Bank shows that the 10 economies improving the most across three or more areas measured by the EOB included four LDCs, namely, Benin, Togo, Senegal and the Democratic Republic of Congo.⁷⁶ Likewise, in the list of areas covered by the EOB Index, LDCs were among the countries that improved most in 2013-2014 for some of these areas: starting a business (Timor-Leste), getting electricity (Solomon Islands), trading across borders (Myanmar) and resolving insolvency (Mozambique).⁷⁷ The experience of these LDCs can provide some guidance on steps that would help make progress for other LDCs as well.

The experience of these success cases illustrate that important policy reforms^{77a} include facilitating investment and trade, improving the effectiveness of transport and logistics, rehabilitating and improving roads, increasing the transparency of operations, simplifying policies, including licensing and reporting procedures, introducing time limits for issuing licences, ensuring the computerization of licensing and customs operations (e.g. using the Automated System for Customs Data), moving towards single window solutions, increasing awareness through training programmes for customs and other policy-makers/businesses, launching a trade portal or ease of doing business portals to facilitate transparency and the dissemination of information, automatic clearance mechanisms or pre-clearance schemes, and improving access to finance.

To support the strategic deployment of domestic resources and ODA for these purposes, the E15 Expert Group on Finance and Development suggests developing an Institutional Readiness Index. Given the importance of financial markets in enabling development and the efficient functioning of markets and institutions, the experts suggest some factors that are not fully covered by the above-mentioned indices. These include:

- A Herfindahl index of concentration in the banking sector;
- The existence of a functioning antitrust authority;
- An indicator of fluidity of visa policy, including the ease of obtaining a short-term visa;
- The number of correspondent foreign banks;
- The existence of a national or regional credit bureau and/or a rating agency;
- The legal system under which sovereign bond issuance takes place.

These six factors combined would give us an Institutional Readiness Index that could in turn be combined with other indices, such as the EOB and HDI to create a tool for policy planning, a two-dimensional Index for Policy Planning.

Conclusion

E15 Expert Groups have developed an ambitious yet practical agenda of changes in the international trade and investment regime that would deliver major benefits for LDCs. If implemented, these changes would result in zero tariffs on essentially all LDC exports (including agriculture) to developed countries and on nearly all such exports to major middle-income countries. Foreign assistance for agriculture productivity improvements, export market readiness and climate adaptation would rise by roughly a third. The Aid for Trade initiative would be expanded in scope so that it henceforth supported the building of effective legal and regulatory, services and investment institutional frameworks and administrative capacity, which are critical for attracting job-creating investments in the modern global economy. Current trade financing constraints would be addressed on a priority basis by financial regulators, and assistance would be provided to strengthen the hand of LDC governments in the structuring of FDI, sovereign debt issuances and tax dealings with international companies.

These proposals demonstrate that much can be done within trade-related rules and institutions to accelerate the sustainable development of LDCs. Moreover, these changes need not await the conclusion of a formal multilateral trade negotiation. They simply require a commitment by key countries to follow through on the spirit of Hong Kong, Addis Ababa and the recently concluded New York United Nations Sustainable Development Summit with a series of steps that would require little of any individual economy but together would generate major gains for the poorest countries on the planet.

Increasing Economic Diversification and Competitiveness in Middle-Income Countries

The diversification of products, skills and market linkages has historically been an important objective as well as indicator of development. Diversification has been considered important to address declining terms of trade for primary products, to limit the adverse effects of volatility and risk, and to improve the stability of the growth process.

The diversity of domestic products is a significant indicator of improvement in domestic capabilities and systems, the ability to move up the value chain, and link up with new technologies and “sunrise” industries. A diversified product and export structure tends to reflect greater capabilities and competitiveness. More recent work has shown that it is also a good indicator of the growth potential of an economy. Thus, for example, Dani Rodrik (2004) states: “Whatever it is that serves as the driving force of economic development, it cannot be the forces of comparative advantage as conventionally understood. The trick seems to be to acquire mastery over a broader range of activities, instead of concentrating on what one does best.”⁷⁸

Normally, diversification is considered in terms of the product or export structure of an economy. However, products are only a reflection of underlying skills and technological capabilities. Ricardo Hausmann (2013), who has done extensive research into these issues, is emphatic about the importance of capabilities. He says: “The diversification that matters is at the level of capabilities. It is expressed in the variety and complexity of the products that countries are able to put together.”⁷⁹ Likewise, Rodrik (2013) says, “Only countries that steadily enhance their fundamental capabilities eventually become rich.”⁸⁰ The economic situation that leads to low diversity indicates lack of human capital, education levels and skills, financial instruments, technology and knowledge, and innovation base. The factors, capabilities and productivity that provide a basis for and are reflected in product diversification contribute also to competitiveness.

As Sharmila Kantha (2015) states: “Competitiveness is a broad term, extending to the ability of nations and industries to expand their presence in global markets. ... It is important to keep in mind developments in international markets because this indicates global performance criteria and the kind of competition that domestic producers will have to face in accessing global value chains” (emphasis added).⁸¹

The sometimes footloose nature of production of global value chains only underscores the importance of diversification. As production capacity is now shifted more easily from one location to another, international investors can move on once wages are bid up in the current location, making it harder for hosts to upgrade and transition to higher levels of activity.⁸² But evidence shows that those that are able to diversify and shift to higher-value-added activities grow faster than those that focus purely on remaining competitive within their traditional areas of competence.⁸³

The challenge for middle-income countries (MICs)⁸⁴ of navigating this transition and becoming high-income countries (HICs) is immense, as they face increasing competition in three different kinds of markets. In their traditional markets, they face growing competition from high-growth low-income countries (LICs); in their new markets, the competition is from established technically complex products from other MICs and HICs, and in their “aspirational” markets, it is from emerging highly sophisticated products from HICs that dominate those markets. As MICs attempt to operate in new markets, HIC producers upgrade their own technologies to maintain their market share.

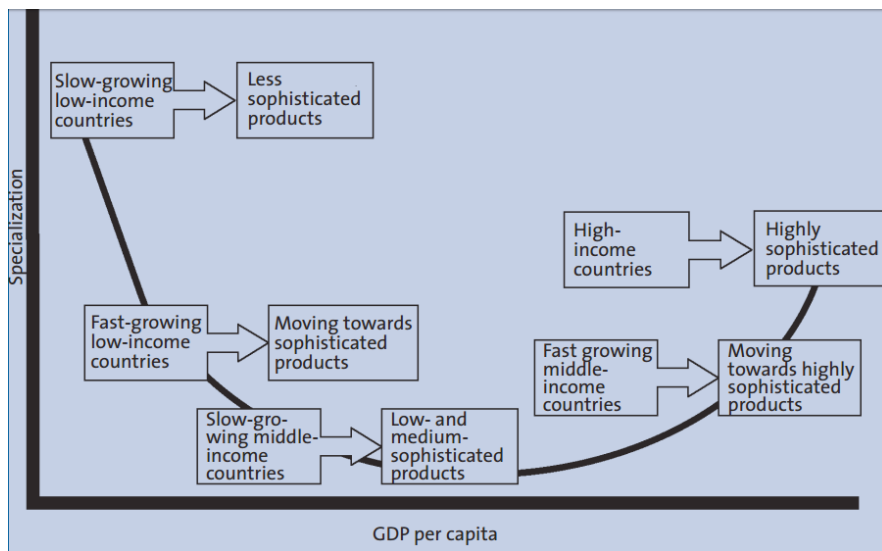
Thus, MICs face strong challenges in both their traditional and new markets, combined with the immense difficulty of raising technological capacities. They risk being snared in a “middle-income trap.” The only way for MICs to break out of this trap is to improve domestic competitiveness at the level of the firm, industry and the nation itself. Policy support and incentive systems, combined with the requisite institutions, infrastructure, capabilities and governance, are recognized as important to drive a virtuous circle of improved competitiveness, diversification and sustained growth and improvements in living standards.

Diversification can consist of both providing a larger number of products without much improvement in technological capabilities, or increasing technological complexity, including in different parts of the supply chain. Diversification can take place through efforts to copy existing products or implement established technologies, to develop capabilities to move towards new technologies, or to improve the existing frontier technologies to produce new ones. Development combines each, though sustained economic growth requires increasing capabilities over time. However, the creation of diverse, complex and technology-intensive products is not necessarily job-intensive. The challenge is to keep improving technological capabilities while maintaining a momentum to provide jobs in the economy.

Since greater product diversity is normally associated with richer economies, a positive relationship is expected between GDP per capita and diversity: the richer a country, the greater the diversity of its production and exports. However, this relationship is actually in the form of an inverted U-curve for both domestic products as well as exports.⁸⁵ As per capita income rises, the diversity of domestic products and exported products increases up to a point and then declines.

In contrast, the relationship of GDP per capita with product sophistication appears to be a linear one: the richer a country, the more sophisticated the product structure of that nation. These two different relationships can be seen in Figure 1. The left axis shows specialization, i.e. the opposite of diversification.

Figure 1: Relationship between Specialization, Diversity, Sophistication and GDP per Capita



Source: UNIDO (2009, page 18)

High-Income Countries

One feature of the high-income countries is that they produce very sophisticated products that few other countries are able to make. These products require high-level capabilities that are not prevalent in a large number of countries. Therefore, very sophisticated products are less ubiquitous than simpler ones. Given the need for HICs to keep improving their competitive abilities in the markets they dominate, their policy focus is on continued improvement of their technological base. Table 1 shows the importance of R&D for HICs. It is noteworthy that defensive industrial policy is temporary and used to address situations that arise infrequently. Thus for HICs, catch-up and innovation-based industrial policies are the main focus. Since the niche for HICs is in areas with sophisticated products, their policy support has R&D as an important part of its emphasis.

Table 1: Industrial Policy in High-Income Economies

Type	Examples	Policy Instruments	Implications for WTO Rules
Defensive Industrial Policy	Adjustments to oil shock in the early 1970s and to the 2008-2009 financial crisis (UK, France, US, Japan)	Provision of credit, training grants, demand stimulus, temporary import restrictions	Potential challenge where specific subsidies or export subsidies exist
Catch-up Industrial Policy	National Champion policies in the 1960s and 1970s (UK, France, Japan, Korea)	Provision of credit, seed funding, and tax incentives for R&D, merger policy	Potential challenge to specific subsidies in relation to differential incentives
	Foreign investment promotion (Ireland, Czech Republic, Spain)	Tax incentives, investment grants, package of support measures	
Innovation-based Industrial Policy	Innovation and competitiveness policies (EU, UK, France, US, Japan)	Finance for basic research and its commercial application, R&D tax credits, procurement policy, higher education policy	Potential challenge to specific subsidies to innovation

Source: Weiss, 2015⁶⁶

Several insights for policy-making emerge from the E15 Initiative:

1. The process of development requires the production of more sophisticated products and greater diversification of both products and capabilities.
2. This implies a need for the continued expansion of capabilities, skills and infrastructure that will facilitate the application of these capabilities to new product areas.
3. Diversification takes place more easily by progressing incrementally from existing products and capabilities to “related” products, i.e. products with similar input, infrastructure and capability requirements. Thus, it is useful to identify such “related” products for possible focus.
4. Meeting the incremental requirements of new production can enable a wider impact through increasing concentric circles of economic activity.

5. Instead of considering these issues only in domestic terms, the opportunities available through trade, investment and collaborative efforts among nations need to be taken into account.

Diversification, Competitiveness and Trade Policy

New technologies and capabilities that are not domestically available must be obtained from external sources largely through trade and investment. Further, as global value chains (GVCs) come to dominate international markets, policies have to facilitate links to such chains. Conveniently, policies intended to encourage competitive domestic value chains are similar to those needed to facilitate links with GVCs; thus, improvements in one tend to lead to improvements in the other.

Connections with international markets and investment have direct and indirect effects on efficiency, and are important instruments for increasing both spillovers and access to technology.⁸⁷ Studies show that countries better linked to international markets tend to have more dynamic growth.⁸⁸ Both domestic and trade policies need to be oriented towards sustaining competitiveness through improving quality and cost-efficiency, meeting the standards-oriented demand in global markets, quicker communication, and facilitation policies rather than the restriction of economic transactions.

Within GVCs, opportunities for upgrading and diversification may be present both upstream and downstream, in goods or services. A difficulty is that lead firms work to retain control over the higher value-added activities and developing country firms can encounter significant barriers to entry to higher-value segments.⁸⁹ At the same time, the best practices of global firms and disciplines of international markets are crucial learning opportunities for new participants.

The policy option paper from the E15 Expert Group on Industrial Policy states that, “whether a country stays stuck in the middle-income trap depends on several factors. Most importantly, it depends on the policies adopted for continuously improving productivity and innovation, through better infrastructure, skills, and links with high-technology and high-productivity activities”.⁹⁰ Complementary steps include monitoring and reducing constraints and problems for producers and investors, timeliness and predictability in governance,⁹¹ and cooperation between government and industry to devise the most efficient and effective policies.

Indeed, the evidence on industrial development during the past 50 years, including particularly the experience of a number of successful East Asian economies, suggests that horizontal (non-sector specific) policies to improve the enabling environment are ultimately more important to success than vertical (sector- or firm-specific) ones. Specifically:

- Improvements in **infrastructure, education and training, enterprise development, entrepreneurship, innovation, finance and social policies** create the potential for positive spillover effects from early manufacturing successes to take root and spread locally
- In particular, by combining **parallel improvements in the enabling environment for private sector and skills development with openness to hosting foreign direct investment** in key sectors, countries create the possibility for technology and know-how from those foreign firms to be transferred more widely and organically through the bottom-up creation of forward and backward linkages. These linkages can build over time into clusters of industrial capabilities that propagate local production, investment and innovation.
- These clusters can be reinforced and accelerated through efforts to attract investments by lead firms in global or regional value chains by maintaining a hospitable tariff and non-tariff barrier environment for the importation of key inputs, including improvements in trade facilitation (particularly customs and logistics). In this sense, **modern industrial policy emphasizes *the facilitation rather than restriction* of imports and inward foreign investment.**
- This brand of industrial policy, which has been employed with considerable success in many of today's upper middle income countries, **requires a systems approach** – i.e., a recognition that successful industrial development is a process of ongoing upgrading of particularly skills, infrastructure and economic institutions, not least the professionalism and insulation from rent-seeking behaviour of vested interests of economic policymaking and regulatory institutions.
- This approach can be usefully combined with vertical policies such as some of those highlighted above, but based on a recognition that these more targeted initiatives are more likely to be effective and cost-efficient when they are executed within a robust horizontal enabling environment and determined through a **rigorous and dynamic evaluation of the country's latent competitive advantages** in the ever shifting international economic context.

The E15 Expert Groups on Investment, Services, Global Value Chains, Competition, Digital Trade and Industrial Policy propose several significant ways in which the international trade and investment regime can be strengthened to help countries translate improved horizontal enabling environment conditions into increased

flows of foreign investment and commerce that reinforce the process of economic diversification. Much of this agenda concerns facilitation rather the creation of new norms, particularly in respect of cross-border investment, services and regional and global value chains that are vehicles for introducing additional capital, technology, know-how and skills transfer into an economy. Specifically:

Supporting Inward Investment

The E15 Investment Task Force proposes creation of an international support programme for sustainable investment facilitation, focused on improving *national* FDI regulatory frameworks and strengthening investment promotion capabilities (Sauvant and Hamdani 2015).⁶ Such a programme would concentrate on practical ways and means—the “nuts and bolts”—of encouraging the flow of sustainable FDI to developing countries.⁷ Such a programme would complement the various efforts to facilitate trade, notably those governed by the WTO-led Aid for Trade Initiative and the recently adopted WTO Trade Facilitation Agreement (TFA—which focuses on practical issues related to trade and does not deal with yet contentious issues such as the WTO-committed access conditions for agricultural and other products). In fact, in a world of global value chains, the Aid for Trade Initiative and the TFA address one side of the equation, namely the trade dimension, while an international support programme for sustainable investment facilitation would address the other side of the equation, namely the international investment dimension.⁸ It would be unrealistic to expect that, in today’s world economy, trade facilitation alone would achieve the benefits that are being sought without investment facilitation. If anything, the interface of trade and investment calls for a close alignment of investment and trade policies.

A sustainable investment support programme could address a range of subjects, beginning with transparency:

- *Host countries* could commit to making comprehensive information promptly and easily available (online) to foreign investors on their laws, regulations and administrative practices directly bearing on *incoming* FDI, beginning with issues relating to the establishment of businesses and including any limitations and incentives that might exist. Information about investment opportunities, as well as help in project development, would also be desirable. Host country governments, be they of OECD or non-OECD economies, could also provide an opportunity for comments to interested stakeholders when changing the policy and regulatory framework directly bearing on FDI or when introducing new laws and regulations in this area; at the same time, they would of course retain ultimate decision-making power.
- *Multinational enterprises*, in turn, could make comprehensive information available on their corporate social responsibility programmes and any instruments they observe in the area of international investment, such as the ILO Tripartite Declaration and OECD Guidelines and the United Nations Global Compact.

- Both *host countries and MNEs* could commit to making investor-state contracts publicly available.
- From the perspective of investors, moreover, transparency is not only important as far as host countries are concerned, but also as regards support offered to outward investors by their *home countries*. Thus, home countries (through a designated focal point) could commit to making comprehensive information available to their foreign investors on the various measures they have in place, both to support and restrict *outgoing* FDI. Supportive home country measures include information services, financial and fiscal incentives and political risk insurance. Some of these measures are particularly important for small and medium-size enterprises.

On the national institutional side, IPAs, as one-stop shops, could be the focal points for matters related to a sustainable investment support programme, possibly coordinating with the national committees on trade facilitation to be established under the WTO's Trade Facilitation Agreement.^{91a} Within a country's long-term development strategy, IPAs could undertake various activities to attract sustainable FDI and benefit from it as much as possible.^{91b} They could, among other things:

- Improve the regulatory framework for investment by drawing lessons from best practices in countries that have successfully attracted sustainable FDI projects. Policy benchmarking could help in this respect.
- Establish time-limited and simplified procedures for obtaining permits, licenses etc., when feasible and when these do not limit the ability of governments to ensure that the regulatory procedures can be fully complied with by investors and government officials.
- Identify and eliminate unintended barriers to sustainable FDI flows.
- Engage in policy advocacy (part of which could relate to promoting the coherence of the investment and trade regulatory frameworks).
- Render after-investment services.
- Facilitate private-public partnerships.
- Identify opportunities for inserting the country in global value chains and targeting these.
- Promote backward and forward linkages between foreign investors and domestic firms.
- And—very importantly—find ways and means to increase the sustainable development impact of FDI in host countries.

Investment promotion agencies could also play a role in the development of investment risk-minimizing mechanisms badly needed to attract investment into, especially, various types of infrastructure. They could also have a role in the prevention and management of conflicts between investors and host countries (to be discussed below), including through providing information and advice regarding the implementation of applicable IIAs and the preparation of impact assessments to avoid that liability arises under these agreements. If conflicts arise, they could seek to resolve them before they reach the international arbitral level. Institutionalized

regular interactions between host country authorities and foreign (as well as domestic) investors would be of particular help in this respect. Finally, as in the WTO's Aid for Trade Initiative and the Trade Facilitation Agreement, donor countries could provide assistance and support for capacity building to developing countries (especially the least developed countries) in the implementation of the various elements of a sustainable investment support programme. This could begin with a holistic assessment of the various elements of the investment policy framework—economic determinants, FDI policy framework, investment promotion, related policies—and how it is anchored within the broader context of countries' overall development strategies. The Investment Policy Reviews undertaken by UNCTAD—or the WTO trade reviews or OECD investment reviews—could provide a useful tool that could be made available to more countries. Support could focus on strengthening the capacity of national IPAs as the country focal points for the implementation of the sustainable investment support programme and the central country institutions to attract FDI and increase its benefits.

The E15 Task Force on Investment Policy identified several ways in which a sustainable investment support programme could be taken forward:

- One option would be to extend the Aid for Trade Initiative to cover investment as well, and fully so (it has already been expanded to cover infrastructure and some elements of investment), creating an integrated platform for promoting sustainable FDI. This would be a logical and practical approach that recognizes the close interrelationship between investment and trade. It would also be in tune with already existing international frameworks such as the WTO's General Agreement on Trade in Services (as indicated earlier, transactions falling under Mode 3 of the GATS—"commercial presence"—account for nearly two-thirds of the world's FDI stock). The initial emphasis could thus be on investment in services, with a focus on sectors key to promoting sustainable development, such as environmental services, energy, transportation, and professional services. Alternatively, the current Aid for Trade Initiative could be complemented with a separate Aid for Investment Initiative; but, given the close linkages between trade and investment, this would be a second-best solution.
- Another, more ambitious, and medium-term option would be to expand the Trade Facilitation Agreement to cover sustainable investment as well, to become an Investment and Trade Facilitation Agreement. This could conceivably be done through an interpretation of that Agreement or through amending that Agreement; in either case, member states would have to agree. A subsidiary body of the Committee on Trade Facilitation (to be established in the WTO when the Trade Facilitation Agreement enters into force) could provide the platform to consult on any matters related to the operation of what would effectively be a sustainable investment module within the Trade Facilitation Agreement. Apart from such a module complementing the Trade Facilitation Agreement, such an approach could also build on the WTO's GATS and, more specifically, its commercial presence provisions.

- A third, and also ambitious, option is for all—or a group of interested—countries to launch a Sustainable Investment Facilitation Understanding that focuses entirely on practical ways to encourage the flow of sustainable FDI to developing countries. It could be inspired by, and complement, the Trade Facilitation Agreement. Work on such an Understanding could be undertaken, in due course, in the WTO. It could also begin within another international organization with experience in international investment matters, perhaps UNCTAD or the World Bank or the OECD.^{91c} Or, a group of the leading outward FDI countries could launch such an initiative (which would, in effect, be a plurilateral approach); for instance, the top ten outward FDI economies (which include four non-OECD economies) accounted for four-fifths of world FDI outflows in 2014. The impetus could come from the G20, which could mandate the initiation of such work, should it be judged desirable to put such an Understanding in place.

Establishing a Global Value Chain Partnership

The E15 Global Value Chain Expert Group has made proposals that could be combined in **a new international public-private platform to improve the efficiency and inclusiveness of global supply chains**. As described above at greater length in the *Reducing Commercial Friction and Investment Uncertainty* chapter, this platform would be aimed fundamentally at helping to increase practical cooperation between countries seeking to integrate their economies into international supply chains and the companies and experts who could be their partners. The action orientation of the partnership would be underpinned by important new analytical efforts to map existing value chains and impediments to their expansion in new geographies as well as to assemble evidence and examples of good practice that can inform countries of how to maximize the contribution to sustainable development of their participation in global and regional value chains. Specifically, the partnership could include:

- *Supply Chain Councils*. The private sector plays a key role in the operation of supply chains and there is a need for governments and policy-makers to better understand exactly how supply chains operate in practice. The creation of “supply chain councils” could serve this purpose, along the lines proposed by Hoekman (2013)⁹². These councils could focus on a selected number of specific production networks and would be composed of private sector firms, trade officials and regulators working within the sector in question.
- *Development Analysis*. Currently there is no platform gathering insights on how GVCs may offer a path to economic diversification and what type of developmental benefits might be gained from participating in these networks and under what conditions. This kind of information and analysis could aid developing country policy-makers in framing policies to be adopted at the national and regional levels, including trade and investment policies, which would assist the insertion and upgrading of their firms into global production networks.

- *Country Strategies and Capacity Building.* The value chain analytics, development expertise and opportunities for interaction of this platform would create a fertile environment for governments, firms and donor agencies providing support for capacity building requirements to explore opportunities for cooperation. Indeed, the platform could be a focal point for the development of a major new plank of Aid for Trade funding and technical assistance that is focused on helping countries strengthen institutional aspects of their enabling environments which are crucial to the effective functioning of value chains (e.g., services, investment, regulatory frameworks, customs and logistics, etc.). In addition to these ongoing activities of the platform, an annual forum or summit could be organized to take stock of progress, engage leaders and stimulate public-private dialogue aimed at drawing wider lessons from experiences around the world and identifying new strategic priorities.

Expanding Services & SME Trade

A specific international effort to promote international trade in services and SME exports would also help to support economic diversification in middle-income countries. In particular, advances in information and communications technologies in recent years have opened up numerous opportunities for SMEs to engage in international commerce. Yet because these enterprises are small, they are disproportionately affected by trade costs associated with processes, procedures, regulations and other technical burdens associated with cross-border trade. Bearing in mind the new opportunities offered SMEs by the digitization of trade, the Expert Group on Services proposed the following actions:

- Call upon countries to provide comprehensive, online, single points of enquiry for cross-border services providers to learn about host country regulatory, licensing and other administrative requirements;
- Recruit another international organization or an independent agency to rate and annually report on the progress of each country in this effort;
- Call upon countries implementing the Trade Facilitation Agreement to adopt interoperable, digitally-enabled single windows for customs and border compliance, and release open application program interfaces (APIs) to allow developers to create digital platforms to services to seamlessly link SMEs to large numbers of country single windows;
- Encourage the establishment of online single windows for cross-border services providers in need of licenses, permits and other administrative requirements and explore the provision of Aid for Trade to implement this project in developing countries;
- Encourage the establishment of higher standardized *de minimis* customs levels to facilitate cross-border flows of small packages supplied by Internet-enabled retail services providers, especially SMEs.

Improving Regulations & Standards

As countries build broad international linkages across the economy, the negative consequences of regulatory mismatches become more visible. Regulators have to consider the cross-border economic implications of their work, a responsibility that requires support though their legal mandates, the design of institutional mechanisms and a broader understanding of the impact of regulatory decisions on trade and investment incentives.⁹³ Similarly, as standards increasingly play a role in coordinating international production sharing, concerted efforts to improve the standards compliance capacity of firms and government agencies become stepping stones to competitiveness. Several E15 Expert Groups have made proposals to support the upgrading and international coherence of such important policy domains for economic diversification as competition, skills, innovation, subsidies and investment performance requirements. For example:

- **Develop human capital and allow the movement of skilled workers.** This includes increasing stocks of skill and expertise beyond the thresholds needed to achieve the momentum to escape the middle-income trap. High quality human capital is especially important for modern high value-added activities like business services, for adapting imported technology to local conditions and embodying it in exports with high local content.⁹⁴ One possibility identified by the Expert Group on Innovation would be to establish an innovation zone working through the General Agreement on Trade in Services (GATS) within which skilled researchers and technical personnel would be able to migrate freely.
- **Strengthen competition monitoring.** This proposal would provide a WTO mandate for competition agencies to evaluate, in consultation with external parties, their governments' anti-dumping actions, tariff schemes, procurement policies, sanitary and phytosanitary and technical barriers to trade regimes, foreign direct investment (FDI) review mechanisms, and services regulations, with ministerial-level authority to propose change. A Global Competition Alert, modelled on the Global Trade Alert, could be set up.
- **Establish competition best practices and cooperation.** This proposal would include consolidating informal international interactions between competition authorities, harnessing the OECD's technical capabilities and its own network to strengthen best practices, and developing a "model" advocacy strategy to help younger competition agencies persuade lawmakers to change existing laws to comply with best practices. With the help of UNCTAD, technical assistance and capacity building could be provided. Another recommendation is to update the WTO Telecoms Reference Paper to regulate competition that affects internet access and competition over the internet.
- **Soften and monitor local content requirements.** Local content requirements (LCRs) could be "softened" via broadening them to encompass inputs from regional economic communities – strengthening regional value chains in the process. As a complement, a WTO notification requirement for formal LCRs is recommended, to be captured in the trade-monitoring database, with regular

review via the Trade Policy Review Mechanism. Another recommendation is to improve understanding of the conditions required for LCRs to achieve the objective of generating positive spillovers for the local economy. WTO flexibilities for LCRs could be considered based on converting the WTO LCR prohibition into an “adverse effects” test, similar to the regulatory system for domestic subsidies.

- **Allow for non-actionable subsidies.** This involves explicitly allowing subsidies related to R&D, regional development, environmental protection and disaster recovery, by reviving a revised form of Article 8, and create a category of narrowly defined non-actionable subsidies with clear boundaries.
- **Update digital policies with private sector input.** This includes enhancing government/private sector cooperation on digital trade issues like dispute settlement, security and building awareness. The World Trade Organization (WTO) moratorium on customs duties on electronic transmissions could be made permanent. Other recommendations include empowering the WTO Work Programme on Electronic Commerce to further conceptualize how the digital economy can be supported in both developing and developed economies, and expanding the WTO’s information gathering and dissemination on digital trade through an external group of experts.
- **Facilitate learning and quality improvements.** This includes developing centres of excellence to build capabilities and foster synergies and joint ventures along value chains. Small and medium-sized enterprises could be trained to meet relevant product standards and follow process standards to improve cost and quality efficiency.⁹⁵ Creating and sharing databases of training programmes and experts would also be beneficial.⁹⁶

Conclusion

In summary, the search for diversification and competitiveness is best led through a combination of horizontal economic development policies and more targeted value-chain partnering. Each can be supported by domestic, regional and global actions.

E15 Expert Groups have outlined an agenda of measures that would help middle-income developing countries that wish to diversify their economies through an expansion of their share of the growing amount of foreign direct investment driven by global value chains and of trade in services and digitally-enabled SME exports. Such a concerted agenda by the international community would have the effect of increasing the payoff to these countries from implementing the kind of smart (mainly horizontal) domestic industrial policies used with considerable success by several East Asian and other economies over the past few decades. It would particularly aid small and medium-sized MICs that are unable to rely on the sheer size of their domestic market to attract the foreign capital, technology and know-how that can accelerate the upgrading and diversification of their economic base. Much of this agenda is facilitative rather than normative in nature, suggesting that it could be advanced organically over the next decade by purpose-built and results-oriented coalitions rather than through a formal WTO accord.

Combating Climate Change and Environmental Degradation

Economic activity today remains dependent to a large extent on the natural environment, and its possibilities and success in generating higher levels of well-being are intimately linked to the integrity of energy systems in nature, well-functioning ecosystems and the sustainability of resources. International trade and investment frameworks regulating the global economy, together with a myriad of specific legal treaties and agreements for international cooperation, determine directly or indirectly the use and allocation of resources in any national economy. Currently, the world faces critical environmental and natural resource challenges, particularly related to climate change emanating from anthropogenic activity, water stress, desertification and soil atrophy, diminishing fisheries and biodiversity, timber harvesting and the exploitation of extractive resources. Other stresses are related to the pollution of water, air and soils.

The interaction of trade with each of these problems is very specific but multifaceted. In many instances it's localized geographically, in others the problems are global in nature as they concern global commons or migratory species. On several occasions the international community has reiterated the primacy of adequate stewardship of the natural environment over economic activity. It did so recently in the adoption of the Agenda 2030 for Sustainable Development and its Sustainable Development Goals, where the coherence between trade and investment policies and the natural environment is called for as a means to address poverty.

In the context of the E15 Initiative, four main clusters of issues related to this vast agenda were treated: climate change and clean energy technologies; extractive industries; fisheries and oceans; and challenges related to environmental policy more generally. Recognizing that the topic is larger than these four clusters, this chapter will focus on them in the context of global governance options for trade and investment.

Climate Change in Today's Globalized Economy

Climate change presents several challenges directly relevant to trade policy and regulatory systems:

- The biophysical impacts of climate change will directly impact sourcing, land use, as well as production and trade flows and, most likely, terms of trade and competitiveness. It seems certain that agriculture will be altered by changed weather patterns, shifts of crops and herds, and changed methods of production. The geography of production and trade flows of food, fibre and biofuels are expected to dramatically change in the next 10 years.
- Moves to promote mitigation and adaptation, including national and subnational policy strategies, will imply major transformations to consumption and production patterns, and consequently for trade.

The challenge for climate and trade policy is to steer a transition of this magnitude without compromising development and growth prospects. Cooperative international action, such as through the United Nations Framework Convention on Climate Change (UNFCCC), is crucial to managing the impacts on competitiveness in an equitable manner.

Over the past 20 years, the relationship between multilateral policy-making on climate and trade has been characterized by avoidance rather than collaboration. The climate regime, unlike some other environmental agreements, has so far avoided the use of trade measures to implement its objectives. But the obvious links, coupled with the politics of climate discussions, seem to be pushing for convergence.

The Paris Agreement: a high ambition global accord to address climate change, through differentiated capabilities and bottom-up contributions.

In December 2015, parties to the UNFCCC delivered a new climate agreement applicable to all. Rather than a comprehensive binding top-down agreement, prescribing national policies and measures, the deal is based on bottom-up *contributions* by individual countries, so-called Nationally Determined Contributions (NDCs). This provides countries with much leeway to target climate policies to their respective circumstances, needs and capacities. It also elevates ambition, with a new best-endeavour temperature limit outlined as part of the “purpose” of the agreement. Although parties reaffirm previously-agreed intentions to hold global average temperatures well below a two-degree-Celsius rise from pre-industrial levels, they would also pursue best efforts to limit these to 1.5 degrees Celsius.

In addition, subnational and non-state actors, such as cities, regions, companies and investors, will play an increasing and more formalized role in the climate effort. It's now recognized that, operating at multiple scales and arrangements, including transnational, and under often more enabling mandates than national governments, these actors can realize mitigation efforts that may complement or be more difficult to achieve at the national and multilateral levels. For example, while implementing national carbon pricing in the United States has so far proved unsuccessful, several subfederal entities, such as California and those states that take part in the Regional Greenhouse Gas Initiative (RGGI), have implemented emissions trading schemes (ETSs) in territories under their jurisdiction. In addition, many companies use shadow carbon pricing in their business decisions, even where actual carbon prices do not exist or are very low.

Monitoring, reporting, verification and compliance: top-down elements of climate governance. An implication of the bottom-up approach is, however, that the level and nature of contributions will vary between countries. This raises a range of challenges, for example with regard to the aggregate effect of the individual contributions and compliance. One key role of the UNFCCC will therefore lie in providing and operating a robust framework for the monitoring, reporting and verification of contributions. In doing so, it can complement the bottom-

up approach with some crucial top-down elements of climate governance. The Paris Agreement includes a *carbon budget* by noting with concern that current efforts do not fall within least-cost two-degree-Celsius scenarios, and that much greater efforts will be needed to reduce emissions to 40 Gt by 2030 from a current projected level of 55 Gt. To remedy this situation, a five-year review cycle of the NDCs submitted was created, and new national plans call for a manner that would incrementally ratchet compromises. The new INDC submissions should be informed by a global stocktake designed to assess progress towards achieving the deal's delivery on its long-term goals. A first review will take place in 2023 and thereafter every five years.

This Paris Agreement is a major undertaking with transformative aims affecting sourcing, production, trade and the consumption of goods and services in the global economy. Its explicit aspiration to neutralize carbon emissions by 2050 in the entire global economy supposes either a full phaseout of fossil fuels or an augmentation of sink capacity through either the introduction of technologies to capture and store carbon, or the enhanced capacity of natural sinks such as forests and oceans. Such an outcome would only be possible through a major transformation of energy supply for electricity and mobility. In turn the required massive scale-up of clean energy technologies would only be feasible in a policy environment that stimulates rapid technological development and the markets for investment, goods, services and associated knowledge, while discouraging and penalizing the use of fossil fuels.

With the burden of **implementing the Paris Agreement falling on national policies and measures** pledged under the aegis of tackling climate change or adaptation, potential conflicts may arise with frameworks regulating trade and investment at the various international levels; similarly, one risk is that climate-related actions end up being judged by the World Trade Organization's (WTO) Dispute Settlement Body, when and if such policies and measures result in discrimination or are deemed to constitute disguise protectionism. It may therefore be necessary to create some clarity and space for climate measures under the multilateral trading system, for example through waivers of WTO obligations or interpretative understandings of WTO rules.^{96a}

Against this backdrop, the E15 Initiative identified a large number of policy options for the global trade and investment system to respond to the challenge posed by climate change by:

- Ensuring coherence between the trade and climate regimes;
- Contributing to climate action through enabling trade and investment frameworks;
- Enabling the transition to low-carbon energy systems.

Some of these options are summarized below.

Coherence between Regimes

- Coherence will only be fully achieved once parties of both the UNFCCC and the WTO develop a system for the **systematic assessment of mutual implications**, for instance by accordingly expanding the mandates of the WTO's Committee on Trade and Environment and the Trade Policy Review Mechanism, on one hand, and a UNFCCC subsidiary scientific body on the other.
- Through common action, agreement on a **clear definition of what constitutes “climate measures” and/or “climate action”** is needed for the purposes of dispute settlement under trade regimes. In this same vein, a legal breathing space could be established in the WTO through a **time-limited “peace clause”** on challenges to such measures or actions.
- The establishment of a **dispute settlement mechanism (DSM) under the UNFCCC** could be promoted along with agreement to bind the WTO for purposes of dispute settlement to judgements of such climate DSM to allow for the furtherance of national determined contributions.
- To make viable sectoral approaches to climate action related to emissions in international maritime shipping and international aviation, it may be necessary to **decide at the WTO that climate agreements affecting trade established under the International Maritime Organization and International Civil Aviation Organization will be upheld in WTO** dispute settlements for WTO members that are parties to those agreements.

Enabling Trade and Investment Frameworks

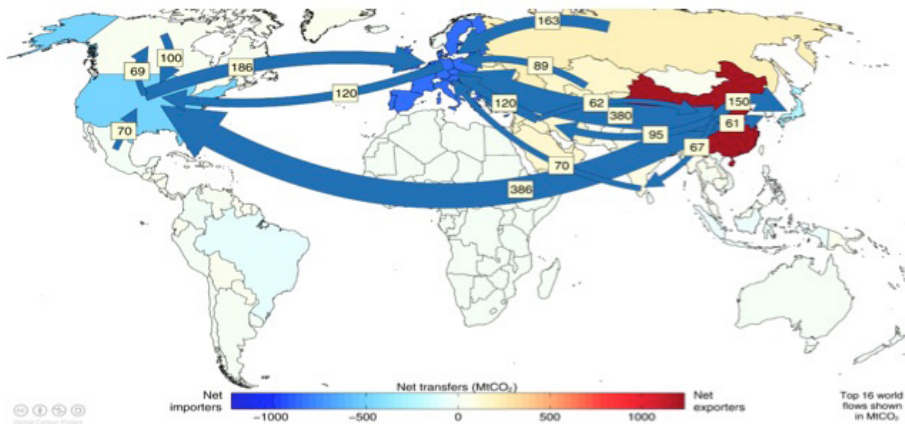
- Differentiation between and among traded goods on the basis of carbon use and carbon emissions would need the **establishment of international standards for carbon accounting**, as well as a **“waiver” from WTO obligations** for all trade restrictive “climate measures” based on embedded carbon and taken in furtherance of and in compliance with the UNFCCC agreements.
- **Plurilateral implementation of the UNFCCC Paris Agreement** may be desirable through higher ambition club-type agreements between several parties. One such *climate pricing club* was launched in Paris. These arrangements may include subnational jurisdictions with competence to impose climate measures, such as provinces. To ensure the viability of clubs incorporating the use of trade-related climate measures under WTO law, **climate clubs may be established within regional trade agreements (RTAs)**. Otherwise, it may be necessary for **WTO members to affirm through a decision the permissibility to provide WTO-plus benefits among club members or to discriminate against non-members**.
- According to a 2014 World Bank report, 39 national and 23 subnational jurisdictions have implemented or are scheduled to implement *carbon pricing* instruments,^{96b} such as ETS or carbon taxes, in an effort to reduce GHG emissions. However, the uncoordinated implementation of such approaches and unilateral carbon pricing are often accompanied by concerns about carbon leakage, as well as competitiveness concerns from trade-exposed

domestic industries. To deal with these concerns, many jurisdictions have chosen to reduce the carbon costs for their affected industries. For example, in ETSs large shares of allowances are often allocated for free. Another option may be the use of *border adjustment measures*. Agreements to cooperate on carbon pricing could also alleviate competitiveness and carbon leakage concerns and provide an alternative to the above measures. With 19 existing ETSs and 11 more under consideration, including a national ETS to enter into force at a national level in China in 2017, the linking of schemes with each other is expected to become a trend as it would lead to a convergence of carbon prices in addition to providing other benefits, such as increased market liquidity as well as greater price stability and predictability. Enabling the further development of these possibilities would require a **clarification of exemptions in WTO's Article XX such that they apply to the protection of the world's climate**. With respect to taxes, it may be necessary to **adopt a decision by WTO members providing that a carbon tax is an indirect tax under Article II:2(a) of the General Agreement on Tariffs and Trade (GATT)** and not a violation of Article III:2 on excessive taxation.

- **Climate provisions in regional trade agreements and international investment agreements:** There is significant space for regional trade agreements (RTAs) and international investment agreements (IIAs) to drive climate action through the inclusion of climate measures. Since such agreements involve smaller groups of countries, they provide opportunities to take on more ambitious climate actions than those conceivable at a multilateral level. At the same time, they can reduce some concerns associated with unilateral action. RTAs can create windows for climate action through the adoption of exemptions from trade rules that could otherwise restrict climate measures. RTAs and IIAs can also include commitments not to lower climate standards to attract foreign investment, so as to avoid a “race to the bottom”. Another concrete opportunity for RTAs is to adopt specific provisions for deeper cooperation on climate change issues among signatories, for example in the area of carbon markets or technology transfer. RTAs also have the potential to promote the scale-up of trade in environmental goods and services, for example through the inclusion of relevant liberalization provisions, possibly going beyond tariffs to encompass non-tariff barriers (NTBs).^{96c}
- **Carbon and international trade: dealing with territorial versus consumption-based emissions.** The current design of policies and measures to address climate issues, including most of those listed by countries in their INDCs under the UNFCCC, largely target the production level. This is in line with the current accounting framework, as greenhouse gas (GHG) emissions are attributed to the countries in which they occur during the production process. However, this approach fails to take into account imports and exports of embedded carbon in goods and services traded internationally, which account for almost one-fourth of global emissions.^{96d} In fact, based on 2012 data, many developed economies are net importers of embodied carbon emissions, while others are net exporters.^{96e} This means that although some countries have reduced their territorial emissions, they have in some cases increased them at the consumption level. As a result, in some countries total emissions remain unchanged or have even increased.

There are therefore potential gains from complementing production-based approaches through consumption-based accounting and policies. It can help address carbon embedded in international trade and thus drive greater and more effective climate mitigation at the global level. At the same time, it would help address consumption as a key driver of increasing GHG emissions by offering a wider range of mitigation options across the value chain and at the point of final consumption.

However, in addition to challenges in accurately accounting for consumption-based emissions, policies targeting the consumption level will have different implications for international trade. An array of policies could be designed to address consumption-based emissions, ranging from technical regulations, private standards and labelling, to carbon embodied taxes, waste targets and infrastructure improvements. From a trade perspective, some of these may be covered in the options provided above. Still, while any successful consumption-based policy will affect international trade flows due to the demand changes it induces, some policies may lead to more direct impacts, such as market access barriers, and would require the kind of WTO dispensation identified above for embedded carbon to ensure their compatibility.



Source: Davis, S.J. and Caldeira, K., “Consumption-based accounting of CO₂ emissions”, *Proceedings of the National Academy of Sciences of the United States of America* (2010), 107(12): 5687-5692.

Note: dominant net exporting countries of emissions (blue) and dominant net importing countries of emissions (red)

Enabling the Energy Transition

- A transition to cleaner energy will require a prompt full costing of fossil fuels. A first step is the **elimination of fossil fuel subsidies**. Since such practices affect competition and trade, the WTO rulebook could be of immediate help if a full **disclosure of fossil fuel subsidies is mandated, and they are positively identified as actionable, and gradually prohibited** in time. In addition, through fisheries subsidies reform, the elimination of fossil fuels used in fisheries fleets, which may account for over 1% of global fuel consumption, could be pursued.
- The massive scale-up of clean energy technologies (CET) in a globalized economy characterized by international supply chains would require ensuring the most efficient provision of parts and services for CET installations. **Tariff liberalization** has been proposed as an immediate option to be pursued through ongoing Environmental Goods Agreement (EGA) negotiations within the WTO, through RTAs, via a comprehensive Sustainable Energy Trade Agreement or through unilateral action.^{96f} The EGA is organized as a critical mass plurilateral that would extend benefits to all 163 WTO members. In order for the ensuing agreement to become truly relevant for climate mitigation purposes, it would seem necessary to significantly increase the coverage of goods. In particular, it would be necessary to include components, such as inverters used in solar PV systems and ball and needle bearings used in wind turbines. In addition, CET technologies are often made of components that contain embedded services (such as software activated devices) or require associated services to make them useful. The initial focus of the EGA is only on tariffs for goods, and the challenge will be to **extend the agreement to services and NTBs** in order to reap greater climate benefits.
- Market access is also affected in a major way by the imposition of additional duties on imports deemed to be sold at dumping prices. Indeed, the targeting of CETs seems to be a recent trend.^{96g} Options have been identified to address this problem by i) targeting anticompetitive behaviour rather than simple price discrimination – **use antitrust law**; ii) **limit trade remedies on CET** in level, time, number and value of imports; iii) include in antidumping investigations on CET a public interest test, and environmental provisions in the WTO's Anti-Dumping Agreement (AD) and **make climate change a criterion in public interest tests**.
- To date, a range of national and subnational jurisdictions have implemented trade-related measures aimed at increasing the generation of clean energy and the deployment of energy efficiency goods and services. Renewable energy subsidies intended to promote the production and consumption of clean energy are a popular example. However, as subsidies can be trade-distorting or used to protect domestic industry, their use is disciplined by the WTO's Agreement on Subsidies and Countervailing Measures (SCMs). Whether a climate-related subsidy can be successfully challenged depends upon its trade effects vis-à-vis other WTO members. When subsidies involve local content requirements (LCRs), there is a particular risk for them to be challenged under the WTO – as evidenced by existing disputes^{96h} – as they have a stronger likelihood of being disguised trade restrictions.

Since the transition to a low-carbon economy will require large-scale transformative actions, which implies substantive investments into new technologies, it raises the question of whether there is a need to create additional policy space for climate-related subsidies. Put simply, certain subsidies might be desirable in light of the climate challenge despite potential market-distorting effects and may require different rules from those currently in place. One option would be **to extend GATT Article XX on General Exceptions to subsidies**, as there is no equivalent to this in the WTO's Agreement on Subsidies and Countervailing Measures Agreement (SCM).⁹⁶ⁱ Another possibility would be to **create a permanent exception under the SCM Agreement**. A **clean energy waiver** could also create some policy space for clean energy subsidies.^{96j}

- CETs require a number of services to be assembled, installed, operated and maintained. These are often provided through the various modes of supply, i.e. cross-border services, through the establishment of services providers in the country of installation, or through the cross-border movement of service providers. In this context, it is necessary to undertake a scoping exercise to clarify which **services** closely support CETs and to incorporate them into a plurilateral agreement such as the EGA, or in individual schedules of liberalization under trade in services frameworks, such as the GATS.
- Use of CETs may not be possible in certain jurisdictions, given natural conditions (availability of sun, wind, geothermal, etc.). In this context, electricity import through interconnected grids would be required. **A clarification of the classification of electricity as either a good or a service**, as well as of rules governing the transport of electricity across borders is proposed as neither is explicitly dealt with in the WTO.

Natural Resources — Extractives

Non-renewable mineral resources dominate the economies of over half of the world's countries, which collectively account for a quarter of the world's GDP. Many of these are poor low and middle economies, such as those in Africa, home to 30% of the world's mineral reserves. If managed properly, natural resource endowment has an important potential for contributing to sustainable development goals and targets.

Natural resources are heavily traded. Between 1998 and 2008 world exports increased more than six-fold, albeit in large part due to steadily rising prices. According to the 2013 World Energy Outlook,^{96k} fossil fuels including crude oil, coal and gas will remain the major source of energy generation throughout the next decade, with use increasing by one-third from 2011 to 2035. Nearly two-thirds of oil production and one third of natural gas is traded each year. There is potential for high growth, especially with regard to trade in liquefied natural gas (LNG). The share of mining products in global exports is relatively smaller, but mining products dominate exports in a number of developing countries

Although international trade is indispensable for the economic viability of mining, research has mostly concentrated on oil or export restrictions – both taxes and quantitative limits. International investment law and policy have been concerned with protecting the foreign investor in resource rich countries but there are now calls for a more balanced approach, enabling host countries to pursue public policy objectives.

The sense that underground riches have contributed insufficiently into societal value and durable development outcomes, has led to governments to try a wide variety of policy interventions, including industrial policies, export restrictions, local content requirements, and provision of competitive advantages to state-owned enterprises, with mixed results. Now that the most recent commodity price boom seems to be over and FDI in extractives is contracting, resource-rich countries are even more concerned about building linkages upstream and downstream to reduce their vulnerability to price volatility by ensuring that the extractives industry is integrated in the wider economy.

The E15 Expert Group on trade and investment in extractives focused on three overarching objectives that international trade and investment frameworks should support:

- Sustainable extraction of natural resources
- Distribution of benefits and contribution to economic transformation of host countries
- Access and availability on global markets

The main options proposed to ensure that the trade and investment regime supports such objectives include:

- Negotiate, multilaterally or plurilaterally, improvements in investment agreements related to the extractives industry. Some of the greatest challenges faced by FDI in natural resources include lack of transparency in revenue streams, controls to prevent corruption, and measures to set and enforce effective environmental standards.
- **Develop a sectoral agreement on finite natural resources and trade:** The sector exhibits sufficient specificities for a stand-alone agreement to be valuable (as exists for agriculture) This would help to structure regulations to reflect the particularities of the extractives sector (finite resources, environmental concerns, rights of indigenous communities, etc.) which are often overlooked in general agreements. Such an approach would contain disciplines, including on local content, which would take into account the needs of governments to diversify given the finite nature of resources.

Fisheries and Oceans

Global marine fish stocks have been unsustainably exploited for decades. Despite efforts at national and collective fisheries management, the Food and Agriculture Organization of the United Nations (FAO) reports that in 2011, 28.8% of assessed marine fish stocks were fished beyond biologically sustainable levels, while 61.3% were fished at maximum sustainable level and only 9.9% of stocks were under-fished. Over-exploited, and therefore under-productive, stocks represent an ongoing loss to the global economy. The FAO estimates that returning overfished stocks to healthy levels could result in an additional 16.5 million tonnes of catch per year, and boost annual rents from fisheries by \$32 billion. While global marine capture production has not increased appreciably in the last 25 years, production of fish from aquaculture more than tripled, from 13.4% of production in 1990 to 42.2% in 2012. (FAO, 2014)

A significant proportion of fish products are traded, exposing fisheries harvesting and production decisions to global demand and supply. In 2012, 37% of global fish production, with a total value of just over \$129 billion, was exported, over half of this value originated in developing countries. (FAO, 2014) China and Thailand, for example, are important processing locations for fish sold in the United States and in Europe. While the direct impact of traditional trade policy measures (like tariffs) on the sustainability of exploited fish stocks appears to be context-specific, there is evidence that some tariff policies (particularly tariff preferences for low-income countries) have shaped patterns of fish processing and trade in fish products. (Campling, 2015)

Fisheries subsidies: WWF estimates that the global fisheries fleet is 2 to 3 times larger than what the oceans can sustainably support. There is strong evidence that the billions of dollars' worth of subsidies provided to the fishing industry contribute to over-capacity in fishing fleets and overfishing of fish stocks. The lack of transparency around the amounts of money provided by governments to their fishing sectors means that many global studies of subsidy levels are essentially estimates. The most comprehensive recent global estimate (Sumaila et al., 2013) suggests that governments provided around \$35 billion in fishing subsidies in 2009. Japan, China, the European Union and the United States were among the largest subsidisers.

Not all transfers to the fishing industry necessarily have a negative impact on fish stocks. Sumaila et al.'s estimate classifies subsidies into those that are:

- beneficial, in the sense that they encourage investment in the resource (e.g. fisheries management expenditure);
- capacity-enhancing subsidies that encourage dis-investment in the resource once fishing effort exceeds what would be economically rational (e.g. subsidies to vessel construction or to fuel);
- those subsidies whose effects on fish stocks are ambiguous (e.g. subsidies to buy back fishing vessels).

According to Sumaila et al.'s estimates, capacity-enhancing subsidies accounted for \$20 billion in 2009. The single largest kind of subsidy was subsidies to fuel, which accounted for 22% of the total, or around \$7.7 billion in 2009.

Illegal, Unreported and Unregulated (IUU) fishing: Another major challenge for sustainable fisheries is the prevalence of IUU fishing. Estimates suggest that between 11 million and 26 million tonnes of fish, with a value of between \$10 billion and \$23.5 billion, is lost to illegal and unreported fishing every year. (Agnew et al. 2009). The same study found that illegal and unreported fishing is particularly prevalent in seas where governance is poor, and that developing countries were at particular risk; total estimated catch off the coasts of West Africa, for example, was 40% higher than the level of catch reported. The role of large import markets is significant: between 20 and 35% (by weight) of all wild-caught seafood imported into the United States in 2011 is estimated to be from illegal and unreported catch. (Pramod et al., 2014) According to European Commission estimates, around €1.1 billion worth of illegally caught fish from foreign-flagged vessels enters the European market every year (EC, 2007).

Addressing Root Causes of Fisheries Depletion through the Trade Regime

- Concern over the environmental and commercial impact of subsidies led to a mandate for negotiations to discipline fisheries subsidies as part of the 2001 Doha Development Agenda (DDA) of the World Trade Organization (WTO). The reliance of much industrial fishing on subsidies also meant that negotiations over subsidies became, in a sense, proxy negotiations over access to the resource itself. In this context, the discussions revealed fundamental disagreement between existing and emerging fishing powers over their respective roles in global fishing. In this context it is urgent to **establish multilateral disciplines in fisheries subsidies** through the mandated negotiations of the WTO Doha Round. Failing that, do so by **building step-wise and bottom-up based on a the plurilateral provisions agreed in the context of the Trans Pacific Partnership Agreement (TPP)**. Parallel to the DDA negotiations, twelve WTO members have agreed to their own system of disciplines on fisheries subsidies as part of the Trans-Pacific Partnership Agreement (TPP), still to be ratified at the time of writing. (USTR, 2015) In the mercantilist arithmetic that generally governs trade negotiations, it was generally assumed that subsidy reform could only be tackled multilaterally; otherwise those outside the agreement would free-ride on the benefits of reform by those that were subject to the deal. The development of meaningful plurilateral disciplines on fisheries subsidies is therefore be very significant. It indicates that, for the countries participating, the benefits of being part of the TPP deal (either in terms of market access or the kudos of leading by example) are worth the cost of reform, including its benefits to free riders outside the deal. Disciplines on fisheries subsidies are also under discussion in the TTIP agreement (NOAA 2015).

- **Establish effective measures to address IUU.** Large import markets appear to be leading the way in using trade measures to address IUU fishing. The European Union’s IUU fishing regulation, which entered into force in 2010, establishes requirements, building on catch documentation, for imports of fish into the community. The measure has already resulted in sanctions on fisheries imports being imposed on Cambodia, Belize, Guinea and Sri Lanka and improvements in fisheries governance in other target countries (EC 2015). The Action Plan of the Presidential Task Force on IUU Fishing indicates the United States will pursue both cooperative and unilateral measures, including around the traceability of fish products, in an effort to reduce the amount of illegal imports.
- **Build from the plurilateral disciplines on subsidies agreed in the TPP.** TPP established a prohibition of subsidies to fishing that harms overfished stocks (with stock status determined by a national government, Regional Fisheries Management Organization (RFMO), or “best scientific evidence available”) and a prohibition of subsidies to vessels engaged in IUU fishing (as listed by flag states or RFMOs). Very similar prohibitions have been tabled in the WTO negotiations in the last few months, but the scope of the TPP prohibitions is narrower and arguably subject to greater Party control than what is being proposed in the WTO. There is also an obligation to phase out these subsidies within 3 years (2 extra for Viet Nam) and a ‘best endeavours’ stand-still on other harmful subsidies. Additionally, there is an obligation to notify fishery subsidies, including information about the fish stock and capacity in the fishery for which the subsidy is provided.
- Establish **a cooperative networking of unilateral IUU trade schemes**, to support cooperative approaches. As large fisheries markets take the lead in addressing trade in IUU fish, **strengthening and linking these unilateral measures, through trade agreements** or otherwise, could help to gradually close off the global market for illegally caught fish. Furthermore, **create a network of regional measures** to address IUU fish trade, linking mutual recognition systems for standards applicable to fish products.
- Support expansion of private sector scheme and ensure coherence between private standards and TBT Code.

Other Environmental Challenges

As the supporting governance body for global trade, and the source of most of its principles and fundamental norms, the WTO and its dispute settlement system have often been called upon to define, case by case, the balance between the benefits of fair and open trade with the imperative of environmental protection. Put very briefly, the WTO’s foundation system, drawn from the GATT is based on two overarching principles: transparent and predictable trade openness; and non-discrimination between similar (or “like”) products whether imported or domestically produced. WTO Members commit not to impose new quantitative restrictions on traded products and are required to file, and abide by, schedules of commitments to market access for goods and services. They are also required to provide the same “national treatment” to imported as to “like” domestic goods and the same “most-favoured-nation” treatment to goods or services regardless of origin.

There are several qualified exceptions to these basic rules, including better treatment (e.g. lower tariffs) negotiated under RTAs and exceptions for measures taken to meet other policy objectives, including, under GATT Article XX b) and g), measures “necessary to protect human, animal or plant life or health” and those “relating to the conservation of exhaustible natural resources”. To avail themselves of these exceptions, measures must meet the requirements of the chapeau of Article XX, including not being applied so as to create “arbitrary or unjustifiable discrimination” between WTO Members, or being a “disguised restriction on international trade”. The evolving WTO jurisprudence around GATT Article XX suggests that while governments retain the right to use trade-restrictive measures to protect the environment, they must design and implement measures carefully. For example, to fit under Article XX b) a trade measure must be “necessary” in the sense that it: i) is suitable for the policy objective; ii) is the least-trade-restrictive measure reasonably available to meet that objective, and iii) passes what some might call a proportionality test, judged by weighing the measure’s contribution to the policy objective, its trade-restrictiveness, and the importance of the policy objective itself (see Cottier et al., 2012).

As tariffs, particularly in developed countries, have fallen, WTO Members have increasingly turned to non-tariff measures to address environmental objectives. The WTO Agreement on Technical Barriers to Trade (TBT) governs the use of technical regulations (with which compliance is mandatory) and standards (with which compliance is not mandatory). Technical regulations may be imposed to pursue a legitimate policy objective, but must be no more trade restrictive than necessary to achieve that objective. A suite of recent cases about the TBT Agreement has provided some clarification about the agreement’s standards. In particular, technical regulations should treat domestic and imported products “even-handedly” and be “calibrated” to address different levels of risk presented by different products (see for example the Appellate Body Report in *US-Tuna II*, WT/DS381/AB/R of 16 May 2012).

Regional trade and investment agreements, often the fora for experimentation in trade rules, increasingly include provisions relating to the protection of the environment (Gehring et al., 2013). In many agreements these provisions establish exceptions, similar to GATT Article XX, for environmental measures or provide for cooperation around environmental issues. More recent agreements, particularly those involving the United States and the European Union, include commitments not to weaken environmental standards in ways that affect trade and investment, or to address particular environmental issues. The US-Peru Trade Promotion Agreement, for example, includes an Annex on Forest Sector Governance containing substantial obligations that are being implemented progressively to improve Peru’s forest governance and address illegal timber trade. (USTR).

Conclusion

The transition to a prosperous, low-carbon economy will be part and parcel of the broader shift to a sustainable, resource-efficient and green economy. A transformation of such magnitude requires an active adaptation of policies concerning all economic activity, from agriculture to manufacturing and services. Towards this end, efforts and policy tools have been creatively devised and successfully introduced over the past 20 years, including fees, taxes, standards, certification and behaviour-shifting incentives. Still, the scale of change achieved thus far is suboptimal, and worthy schemes such as those concerning fair trade, fisheries or timber – even though highly sophisticated – continue to reach only a modest, segment of global or domestic markets. In the future, sustainable trade policies will need to reach a level that triggers full-fledged market transformation. This is where trade and investment frameworks can do the job.

Ensuring Food Security

Ensuring that food is available, accessible and affordable to all is a primary challenge for any society.⁹⁷ In a world of heterogeneous agro-ecological conditions and economic and technological capabilities, some countries are able to produce their domestic food requirements to satisfaction, while others simply cannot, which is a fundamental reason why a reliable international market for food is needed. Moreover, the expected impacts from global warming and climatic disruptions, as well as water stress and changing demographics, dictate that the current regulatory frameworks must be adapted over the next 15 years to make them conducive to governance during rapid and massive changes in supply, demand and the ways in which food production and trade are organized.

Indeed, global agricultural markets have evolved significantly since the turn of the century. In the last 15 years, global agricultural trade flows, excluding trade between European Union (EU) Member States, have grown almost threefold to reach \$1 trillion.⁹⁸ This trend is likely to continue in the next few decades as income and urban populations grow, which is often accompanied by changes in diet. By 2020, estimates show the middle class will reach 2.8 billion people, compared to about 1.8 billion in 2010, with most of that growth originating in emerging economies.⁹⁹ Developing countries' markets now represent a significant portion of agricultural trade and an overwhelming share of its growth. Developing countries (least developed countries excluded) account for more than 40% of world imports compared to 26% in 2000, and for over 45% of world exports compared to 34% in 2000.¹⁰⁰ In the years ahead, the greatest demand will come from Asia, where a trade deficit is expected in all commodities except rice, vegetable oils and fish in 2023. In Africa, a rapidly growing population will also result in increased food imports.¹⁰¹

These forecasts confirm the critical contribution of trade as a builder of bridges between food surplus and food deficit countries. They also suggest growth in trade flows – particularly imports – in emerging economies, regardless of market access conditions. At the same time, the “Agricultural Outlook 2015-2024” of the Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO) predicts that exports of agricultural commodities will become more concentrated among fewer countries, whereas imports will spread over a large number of countries. This increased reliance on relatively few countries to supply global markets with certain key commodities will result in higher market risks, including those associated with natural disasters or the adoption of disruptive trade measures.

Beyond these changes in trade flows, five main trends have characterized the global agricultural system in recent years:

- The emergence of a new normal in agricultural prices. Historically, markets have been characterized by abundant supplies exerting downward pressure on food prices and, ultimately, farm incomes. As a response, policy-makers, particularly in OECD countries, had recourse to various forms of support, such as income and price support and other forms of subsidies often combined with prohibitive tariff barriers on sensitive commodities. These measures induced surpluses that had to be disposed of in international markets, often with the help of export subsidies, whose effect contributed to further lowering world prices and providing disincentives to invest in agriculture in developing countries, ultimately affecting the livelihoods of small farmers and food security.¹⁰² Between 2008 and 2011, however, several agricultural commodities experienced significant price spikes, reflecting the immediate impact of weather-related production shortfalls, against a backdrop of high energy prices, the increased use of crops for the production of biofuels, and low rates of productivity growth in many world regions. The extent to which these events mark a permanent transition towards higher prices, reflecting changes in demand patterns, remains hotly debated, however, particularly in light of recent price declines for several commodities and fossil fuel.¹⁰³
- Extreme price volatility and insulating policies that erode confidence in global markets. The 2008-2011 price spikes were largely exacerbated by insulating trade policy measures, such as export restrictions or the removal of tariff protection, fuelling volatility on global markets and directly affecting low-income food deficit countries.¹⁰⁴ As food import bills increased, confidence in global markets as reliable sources of affordable food diminished, and attention turned to support for domestic food production in an attempt to enhance self-sufficiency.¹⁰⁵
- Climate change as a factor influencing production and trade. The biophysical impacts of climate change, including long-term changes in temperatures and precipitation and the increased likelihood of extreme weather events, will further alter crop and livestock productivity and, ultimately, the geography and intensity of trade flows. The best models available predict major disruptions in agriculture caused by climate in four subregions of Asia and the African continent, precisely where rapid population growth is expected to concentrate in the next three decades. Many countries, already net food importers, will see their food bills surge, and several food exporters are expected to lose their ability to grow food.¹⁰⁶ Assessing the scope and magnitude of these changes is challenging but, overall, international trade is likely to play an increased role in offsetting climate-induced production shortfalls in certain regions and making food available in countries that cannot produce it themselves.¹⁰⁷

- The resurgence of domestic support. In the absence of coordinated action at the World Trade Organization (WTO), nationally focused agricultural policies have taken the lead in shaping land use, production patterns and, ultimately, international trade flows. Responding to the rapidly changing environment, large producing and consuming countries are reforming their agricultural policies, exploring new instruments. Such national policies often pursue critical systemic objectives, such as food security, poverty reduction or environmental sustainability. However, they remain largely informed by domestic interests, and their potential negative spillover effects on other countries are often considered as an afterthought. For example, emerging economies such as India or China have massively increased their support to agriculture, in an attempt to boost domestic production, raise rural incomes and tackle food insecurity. They provide support through diverse approaches and with different policy objectives. Domestic policies in developed countries have also evolved, but overall the shift towards less trade-distorting support initiated by previous reforms has slowed down or even reversed.¹⁰⁸

- The proliferation of regional trade agreements. Regional trade agreements (RTAs) have proliferated over the last few decades. Concerning agriculture, RTAs mostly focused on market access and, while sensitive products are often excluded from RTA coverage, Bureau and Jean (2013) estimate that, on average, RTAs increase agricultural and food exports between signatories by 32% to 48% when fully phased in. Ongoing negotiations, notably under the so-called mega-regional trade agreements, are likely to result in further market opening. The three largest “mega” initiatives – the Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) in Asia and the Pacific – currently involve 49 countries and represent over three-quarters of global GDP and two-thirds of world trade. While some of these negotiations have not yet concluded, the initial ambitions are certainly high. As such, these initiatives are likely to define the roadmap for trade regulation regimes of the future, with results that involve deeper integration and WTO-plus disciplines or liberalization. However, these agreements essentially focus on reducing tariff and non-tariff barriers and have generally failed to address agricultural subsidies, highlighting the need for action at the multilateral level.

These new trends and associated policy changes have revealed critical loopholes in international economic governance frameworks. While some could be addressed through ongoing negotiations in the WTO, others would require new disciplines or action outside of the multilateral trading system. The proposals developed by the E15 Expert Groups in this area aim at addressing both old and new challenges in agricultural trade from a food security perspective.

Four sets of proposals developed by E15 Expert Groups have particularly strong potential to respond to these new food security challenges over the next 10 years by:

- Establishing an equitable and predictable multilateral trade system;
- Ensuring stable food availability and accessibility in times of high and volatile prices;
- Delivering public goods while addressing trade distortions;
- Promoting value addition and export opportunities.

Establishing Equitable and Predictable Multilateral Rules

WTO negotiations on agriculture have languished for nearly 15 years. At the heart of the matter is a disagreement among large industrialized countries and emerging economies over their respective level of concessions. Important steps were taken in Nairobi in December of 2015 with respect to some of the persistently evasive elements, namely establishing a special safeguard mechanism for developing countries and dealing with export subsidies and other “export competition” practices. Specifically, the Nairobi decision states that developing countries will “have the right to have recourse” to a special safeguard mechanism based on import quantity and price triggers. With respect to export competition, the Nairobi decision groups together export subsidies with other types of instruments which can provide similar types of support and makes decisions for the staggered phase out of all forms, with significant differentiation in terms and conditions for countries at different levels of development and countries with particular sensitivities. These elements include export credits, export credit guarantees and other types of export financing; exporting state trading enterprises; and food aid. On export subsidies, the most egregious type of agricultural trade distortion, developed countries will immediately eliminate their remaining agricultural export subsidies, and developing countries must also eliminate their export subsidies by the end of 2018. Notwithstanding these advances, progress is needed on the other two pillars of the talks, market access and domestic support, to ensure that agricultural trade effectively performs its function of building bridges between deficit and surplus countries and so that international markets ensure the optimal use of scarce resources for the provision of food supplies. A first priority in this respect therefore consists in reviving multilateral talks. Two possible options are suggested, assuming a business-as-usual stance is unlikely to generate major progress:

- **The need for confidence building measures.** A first step consists in rebuilding trust among WTO Members by taking a series of small steps, following the ideas presented by the former chairperson of the agricultural negotiations under the Doha Round, Ambassador Crawford Falconer from New Zealand, at a November 2015 dialogue organized by the International Centre for Trade and Sustainable Development (ICTSD).¹⁰⁹ This could be done through a series of confidence-building commitments applicable initially over a one- or two-

year period. Such **non-binding commitments could be undertaken by individual WTO Members along the lines of what is currently envisaged in the draft negotiating texts** of the Doha Round. Such commitments could go only partially towards the reduction goals envisaged in those texts while WTO Members continue negotiating. **They could start with domestic support – an area where the gap between applied and bound levels is enormous – and progressively move to market access.** While not a binding commitment, it would be a serious undertaking by the participants, not to exceed a certain level during the life of the undertaking. An approach like this would be politically more palatable and would enable Members to show goodwill by initiating small concrete steps towards future reform. It would also help reinject confidence in the negotiations as a necessary condition for reviving a multilateral approach.

- **A plurilateral agreement on agriculture.** Another approach consists in initiating a plurilateral negotiation on agriculture market access and domestic support. Two variables have been suggested. The first is a club approach as proposed by Aluisio de Lima-Campos.¹¹⁰ Such a plurilateral agreement would bring together like-minded partners to remove trade barriers in agriculture or at least in a set of core commodities and reduce domestic support, with rights and obligations accruing only to the signatories. Discussions should start with a core group, which could be formed from the main exporting countries with other Members being invited to join the discussions if they like what they see. The agreement itself would follow the model of the Government Procurement Agreement and would therefore **require a waiver to the Most Favoured Nation clause as envisaged under Article IX.3 of the General Agreement on Tariffs and Trade (GATT) 1994.** If consensus for such a waiver cannot be reached, it would have to be achieved through a three-quarter majority vote as envisaged under GATT Article IX.3. The second approach is “**Open plurilateralism**”, a variant proposed by other observers, most notably Peter Gallagher and Andrew Stoler¹¹¹ who, based on calculations made by academics from Australia, Brazil, China, India and Indonesia, estimated that gains from **a critical-mass plurilateral on most-favoured-nation basis** could be equivalent to gains eventually obtained from the Doha Round negotiations following the principle of *single undertaking*. Such a framework, in which the benefits of the agreement will equally accrue to signatories and non-signatories, has been followed within the WTO for other sectors, most notably the International Technologies Agreement and the ongoing negotiations towards an Environmental Goods Agreement, both limited to market access. An example of a plurilateral covering rules, which would be needed to tackle the critical issues of agricultural domestic support (subsidies), is found in the Basic Telecommunications Agreement. A successful effort would **require the identification of a set of key commodities and of respective countries participating in its trade so as to constitute critical mass**, a self-defining concept dependent on the minimization of freeriding by non-signatories. Theoretically, in time, other countries would join and the arrangements would eventually result in a universal agreement.

Ensuring Stable Food Availability and Accessibility in Times of High and Volatile Prices

While agricultural markets have arguably always been exposed to some price volatility, the magnitude and frequency of recent price spikes have hit low-income food-deficit countries particularly hard, with significant effects on nutrition, thereby pushing food security back to the top of the political agenda. Several options are suggested to protect both poor consumers and producers from short-term price fluctuations.

Disciplining Export Restrictions

As seen during the 2008-2011 food crisis, export restrictions can significantly contribute to exacerbating the negative effects of price spikes on food security, by reducing the ability of poor consumers in food-importing countries to access adequate food at affordable prices. These restrictions also undermine confidence in international markets as a reliable source of food and lower incentives to invest in agriculture, where a competitive advantage in production exists. Finally, in the absence of international cooperation, their competing effects partially offset each other, significantly lowering the effectiveness of these policy instruments in keeping domestic prices low. **Agricultural export restrictions are a policy area that is “under-regulated” in the WTO.** At the same time, it is an area where achieving political consensus remains particularly challenging. Bearing in mind this reality, changes could be introduced in the rules, even in a relatively low-ambition WTO agreement. Under this scenario, three incremental options could be envisaged.

- Exempting humanitarian aid. A first step could consist in ensuring that food is exempted from export restrictions or taxes in those cases where it is purchased by international organizations to be distributed on a non-commercial basis for humanitarian purposes. The impact on volumes traded and market prices would be marginal, while benefits in terms of the amount of food such organizations would be able to distribute under their relatively rigid financial constraints would be sizeable.
- Clarifying the disciplines. A second, relatively more ambitious option would leave current disciplines unmodified, but would **make them enforceable** by clarifying some of the key terms used, such as “temporarily”, “prevent”, “relieve”, “critical shortage” or “essential”, supported by stricter transparency and notification obligations.
- Disciplining export restrictions in a flexible way. In the longer term, more ambitious reforms could **simply prohibit export restrictions and taxes** and then define a set of exceptions limited to developing countries, circumscribed in terms of duration and product coverage and based on transparent triggers. This

could include a “taxification” (tariffication) of existing restrictions other than taxes, i.e. their replacement with “equivalent” export taxes, combined with reduction commitments. A special safeguard clause would make it possible to introduce an export tax above the maximum level otherwise allowed, for a limited time and under special circumstances. To guarantee minimum export volumes, export quotas at reduced tax rates could be introduced. Finally, special and differential treatment would apply to developing countries (exemption from tax reduction commitments and the introduction of bound tax rates instead, and smaller tax rate quotas).

Updating Public Stockholding for Food Security Purposes

Price support schemes implemented as part of public stockholding programmes for food security purposes have focused a lot of attention in WTO circles as some countries were reportedly about to breach their domestic support ceiling under WTO rules. In practice, most of these schemes tend to provide a minimum guaranteed price to farmers supported by government purchases. At the heart of the matter is the fact that the subsidy provided by the price support is calculated on the basis of a fixed external reference price. This fixed reference price was established at the end of the Uruguay Round and does not capture the large increase in food prices over the last few decades. It therefore grossly overstates the economic subsidy provided. From an economic perspective, a simple solution to this largely political debate would consist in **updating the 1986-1988 fixed reference** price used as the benchmark for calculating the level of price support, by using either a more recent period or alternatively a rolling average of world prices based on the most recent three to five years. A similar way of addressing this concern was suggested by Diaz-Bonilla.¹¹² It starts from the realization that in many cases administered prices have consistently been below the world market price. This means that in pure economic terms, there has been no trade distortion created by the administered price. Diaz-Bonilla therefore suggests that **if the administered price is at or below the market price, it should not be considered as providing price support and therefore could be considered green box compatible.**

Creating More Market Transparency

Global food security is under serious strain when prices increase suddenly and importing countries face unexpected difficulties in obtaining access to supplies. Market transparency, by allowing governments and private agents to prepare for changing market conditions, can greatly help to avoid such situations. Following the 2008-2011 episode with food price spikes, an international Agricultural Market Information System (AMIS) for major food crops was initiated by the G20 Agricultural Ministerial in 2011. The effective functioning of AMIS depends

critically on the willingness and capacity of all nations to supply the system with comprehensive, timely and accurate data. Of particular importance are data on stockholding, both public and private, which are notoriously deficient in many countries or are not made available publicly. **Governments must ensure that they provide this crucial data, including information on stock levels on farms and in commercial enterprises.** A firm commitment by as many countries as possible to cooperate closely with AMIS and provide full access to data could make an important contribution to strengthening global food security through improved transparency.

Supporting Emergency Reserves

Attempts at taming the volatility of global food markets through internationally agreed buffer stocks have largely failed in the past. Large-scale national stock policies are equally ineffective and their cost-benefit ratio is highly doubtful. Targeted humanitarian emergency stocks of food, however, are a different matter. Their purpose is to guard against a breakdown of physical supplies (e.g. because of warfare, natural catastrophes, the interruption of transport channels, or export bans) and the resulting threat to food security. In situations of this sort, the only effective remedy to guard against a breakdown of physical supplies is stockholding, preferably not too distant from where the food is needed. The size of these emergency stocks can be limited as alternative sources of supply can typically be mustered after a while. It is the poor who suffer in such a situation: they should therefore be the target population for emergency reserves. Depending on conditions in the territory concerned, emergency stocks may be most effective either at the national or regional level. Designing, setting up and maintaining emergency reserves is costly. Also, systems must be created and implemented to distribute food from the reserve promptly, efficiently and in a fair manner. None of this is cheap. **The international community can help improve food security in times of crisis by supporting the establishment of emergency humanitarian food reserves.**

Creating a System of Global Food Stamps

Risk management schemes for consumers can also play a critical role in ensuring food security. As experienced during the food price spikes, the access to food of poor families, who can spend 70% or more of their income on food, is threatened when food prices suddenly spike. Managing that risk should be considered one of the most important elements of any strategy to improve global food security. Social safety nets are an effective approach to managing risks for vulnerable people, including the risk of rocketing food prices. They serve to make purchasing power available to those in need without distorting trade. Several variants in design have been applied or tested, and overall experiences are positive. A **system of global food stamps** or similar approaches, **such as the “transfers to cover the poverty gap”** proposed by the FAO, the International Fund for Agricultural Development

(IFAD) and the World Food Programme (WFP), **are policies worthy of particular attention in this respect.** Establishing and financing social safety nets, including the institutional and physical infrastructure required for their successful operation, is a demanding task for developing country governments. Moreover, funding the operation of a safety net over a potentially extended period during which protection against exploding food prices is needed may well be beyond a government's capacity. International assistance in both the design and funding of social safety nets can therefore make a helpful contribution to improving food security.

Delivering Public Goods While Addressing Trade Distortions

Beyond export subsidies and trade distorting domestic support currently addressed under ongoing negotiations, large subsidizing countries have increasingly had recourse to less trade distorting measures (i.e. green box subsidies) in an attempt to provide income support or the delivery of essential public goods. As these become the most prevalent form of support, ensuring that such measures achieve their stated objective while limiting potential distorting effects on trade and production has gained importance. Furthermore, in recent years, several new issues, such as biofuels mandates or trade measures designed to address climate change, have also emerged. Most of these were not in the minds of policy-makers when they launched the Doha negotiations in 2001 but have significant potential for creating negative externalities.

Providing Public Money for Public Goods: The Need for Green Box Subsidies Reform

Since the end of the Uruguay Round, traditional providers of farm support have indeed reduced their trade-distorting aid. However, this move has often been accompanied by a proportionate increase in green box subsidies (i.e. subsidies with no or minimal trade distorting effects, in the WTO jargon). At the same time, green box support has been steadily growing in a number of emerging economies, such as China or India. As a result, green box payments today represent by far the largest share of global agricultural support. As an ever-greater proportion of subsidies are notified as "green box", ensuring that such measures do not cause more than minimal trade distortion becomes critical. In practice, this is essentially an empirical issue that can hardly be assessed *ex ante*.¹¹³ The draft Modalities of 2008 contain a number of suggested refinements to policy-specific criteria, typically derived from experiences in implementing the green box subsidies since the Uruguay Round. One of the suggested changes that would appear to be important is that the basis of certain payments should be a "fixed and unchanging historical base period". Other options could include the following:

- Enhancing transparency. A first step could consist in improving transparency, and helping to monitor policy development, by requiring that notifications provide more detail on the implementation of measures to be covered by the green box

so that their potential trade impact can be more effectively assessed and their green box status can be challenged if necessary.

- Capping income support measures. A more ambitious approach could consist in making a **distinction between “payments for public goods” and “income support”**. Measures that aim at correcting persistent market failures or ensuring the delivery of public goods, such as biodiversity conservation, climate change mitigation, infrastructure development, or research and development might require long-term government intervention. Even if some limited production and trade impacts were to result from these policies, there would be no clear logic for constraining them as long as those market failures persist. On the other hand, measures primarily aimed at providing income support to farmers might need some form of limitation or cap. Although these may play a critical role in facilitating reforms by compensating negative income effects resulting from cuts in the more trade-distorting measures, they arguably ought not to be provided on a permanent basis and should therefore be time-limited. Limiting such payments would alleviate concerns around their potential trade distorting effect and would provide greater parity between governments with high fiscal revenues and those without.

Assessing Support to Biofuels

As in the case of barriers to food exports, government support for the production and use of biofuels was not considered an important issue for international trade relations as long as international market prices for agricultural products were depressed. However, when global food prices began to rise, thereby placing a growing burden on consumers, support to biofuels appeared in a new light.

- Notifying biofuel support. A first and rather fundamental option would be to create more transparency regarding the types and levels of government support to biofuels. **So far, notifications are far from comprehensive and where they occur they do not provide sufficient detail to allow an analysis of their trade implications.** Transparency would be greatly improved if clear rules were developed as to how and where support to biofuels has to be notified and which forms of support are to be covered.
- Disciplining biofuel subsidies. Considerably more demanding would be an option that aims at establishing effective and comprehensive disciplines on the magnitude and use of the support to biofuels. This would require some innovation in legal approaches, for example regarding the use mandates as a form of subsidy. Given the close relationship between biofuels and the food and agriculture sector, it might make sense to consider the option of adapting existing rules such that biofuel support falls under the realm of the WTO Agreement on Agriculture (AoA). Introducing disciplines for support to biofuels under the AoA would be in line with the suggestion to establish constraints on product-specific support as foreseen in the 2008 draft Modalities.

Addressing Climate Change

It is now widely recognized that the biophysical impacts of climate change, including long-term changes in temperatures and precipitation and the increased likelihood of extreme weather events, will alter crop and animal productivity and ultimately modify trade flows. These changes will affect individual countries differently depending on the effect of climate change on their agricultural productivity and their trade exposure. At the same time, agriculture is a significant source of global greenhouse gas emissions, although it can also contribute to carbon sequestration. From a food security and trade perspective, a key issue is whether policy measures that are emerging to promote mitigation or adaptation in the sector are consistent with frameworks aimed at ensuring the availability of food, including in the GATT/WTO.

In this respect, the pursuit of climate change policies for agriculture opens up the requirement for an international consensus on the domestic policy measures that are likely to be effective in tackling the effects of climate change in agriculture and that are also the least distorting of markets. Enhanced monitoring and scrutiny of the measures used are also needed. In this context, some important priorities relating to climate change measures could be addressed. These include:

- Avoiding trade distorting measures. The clarification of criteria to be applied under the green box in Annex 2 of the AoA, to ensure that these exempt policies have clear climate change objectives, combined with enhanced transparency and scrutiny of such policies to ensure that they are minimally production and trade distorting;
- Supporting agricultural productivity in least developed countries. The provision of special exemptions for the least developed countries for measures used to increase agricultural productivity and resilience in the face of climate change, to enable adaptation to climate;
- Defining a framework for carbon adjustment measures. A clarification of the conditions under which the WTO permits the use of border measures designed to prevent trade from undermining the effectiveness (and political acceptability) of domestic policies in this domain – i.e. to avoid “carbon leakage” and equivalent impacts.

Promoting Value Addition and Export Opportunities

The economic context in which agriculture operates is changing rapidly. The same processes driving the emergence of global value chains in other sectors are also at work in the agri-food sector, notably technological change, and transport and logistics innovation. Changes in food retailing are leading to the private sector’s greater involvement in agriculture. Initially motivated by export market opportunities, value chains are also extending their reach into domestic markets as retail markets evolve to meet the needs of urban consumers. Integration and

upgrading in such value chains has become a priority for governments seeking to promote diversification, value addition, technology diffusion and better employment opportunities in the agricultural sector. Several challenges, however, are affecting the development of such value chains, including the cost of production, but also transport and storage, cold chain management, or certification. The ability to meet standards and product specifications also plays an increasingly prominent role in the sourcing and investment decisions of lead firms. Finally, access to finance and the lack of infrastructure are also major sources of concern for suppliers in developing countries. Several policy options have been identified through the E15 Initiative to make progress in ensuring that food gets from the farms to the tables of consumers.

Facilitating Trade in Agriculture

In a global agricultural system increasingly dominated by global value chains, viability and efficiency are significantly increased from simplified customs procedures and lower transaction costs. In developing economies, significant benefits can also be derived from a possible boost in intraregional trade where a considerable growth potential remains untapped. While some products might be directly exported internationally, in a number of cases products are sent from one country to another for further processing and packaging before eventual export to further destinations. In other cases, goods are moved in transit to different ports, and some are directly shipped from various ports in the subregion. In most cases, agricultural products cross borders and are therefore subject to border formalities. At the regional level, integrated trade facilitation procedures would contribute to improving systems of permit issuances, product certifications and inspection procedures through cooperation, compatible systems and information exchange. To address this concern, a first step will consist in developing **regional trade facilitation plans for food and agriculture**. Such approaches would go beyond the fairly narrow approach envisaged under the WTO Trade Facilitation Agreement. It could rather focus on the development of regional infrastructures and trade financing facilities, but also on the development of databases and data exchanges of agricultural products, the formulation of import and export permits, the issuance of permits and mutual recognition, sanitary inspection facilitation, linkages with certification bodies, capacity building and training for national agencies. This could contribute significantly to the movement of food staples, inputs and processed foods, effectively enabling the functioning of regional value chains in the agri-food sector and considerably improving the supply of food while at the same time generating opportunities for poverty reduction, employment creation and export earnings.

Harmonizing Standards and Supporting Regulatory Coherence

As tariffs applied in agricultural trade have declined in recent decades, non-tariff measures (NTM) have gained in importance. In trade in agricultural and food products, sanitary and phytosanitary (SPS) measures are the most prominent

NTM and often affect developing countries' ability to integrate supply chains and promote value addition. Their use is regulated through the SPS Agreement. One of the key aims of the SPS Agreement is the greater harmonization of health and safety standards.

- Improving the use of international standards. A major improvement in this regard would be more ample **use of international standards in national SPS regimes**, as advocated by the SPS Agreement. So far, the use of international standards is fairly limited, with substantial variations across countries, products and regulatory objectives. Developed economies have tended to use international standards less than developing countries. More comprehensive and accurate information on the extent to which individual countries have adopted international standards (and publication of that information) might pave the way towards greater use of international standards. Countries, in their notifications of SPS measures to the WTO, should explain conclusively why they do not apply international standards when that is the case.
- Multilateralizing transparency provisions existing in RTAs. RTAs can be credited for introducing WTO-plus obligations that strengthen the *ex-ante* and *ex post* transparency requirements related to the design and application of standards and for establishing improved web-based information systems and consultation processes that include interested foreign parties. Since transparency displays the characteristics of public goods, the multilateral extension of these commitments would come at no additional economic cost for countries that have already implemented them unilaterally or regionally.
- Providing support for effective SPS regimes. Because of capacity constraints, developing countries face particular difficulties in establishing effective SPS regimes. Assistance to build the capacity to implement international SPS standards, guidelines and recommendations is urgently needed, not only for trade-related issues but also to improve the quality of domestically produced food in developing countries and to protect their productive capacity from pests and diseases.

Examining Private Standards and Certification Schemes

The road to diversification, value addition and industrialization in a modern economy involves linking up effectively with global supply chains. In some of these, important purchasing firms act together and establish industry-wide standards (e.g. EurepGAP or GlobalGAP, where the "GAP" stands for Good Agricultural Practices, required by big supermarket chains). This type of industry-wide private standard affects a large number of suppliers. They may be conflicting or even contradictory and difficult to comply with for many firms, especially small and medium-sized enterprises (SMEs) in developing countries. Moreover, the justification for their existence may not always be sound. For many developing country exporters, private standards are more significant constraints than official SPS standards and

technical barriers to trade (TBT). Fair trade and organic standards, for example, which sometimes provide export opportunities and value added, would be more effective if they were harmonized. While these difficulties with privately determined standards are akin to those associated with the SPS and TBT Agreements of the WTO, important differences exist. The latter are subject to WTO disciplines and can be challenged, albeit not always effectively. Private standards, on the other hand, are self-regulated by the big firms. Assistance to understand and comply with private standards is left to the goodwill of the dominant firms in the supply chain. For private industry-wide standards not to be a constraint but rather a conduit for effective participation in global supply chains, particularly for SMEs, existing limitations can be tackled through:

- Scrutiny and oversight, as well as information dissemination and guidelines concerning private standards, particularly industry-wide ones, that affect large numbers of suppliers; these activities could be undertaken by public bodies (national and international), private sector representatives from developed and developing countries, and civil society; they could involve examining whether they are compatible with the requirements of the SPS and TBT Agreements of the WTO and other international agreements;
- The application of public pressure and the provision of guidelines on harmonizing multiple, rival or conflicting standards employed by large firms or industry-wide standards, including fair trade and organic standards;
- The development of model contracts for selected sectors (e.g. agriculture, fishery, forestry) and the identification of possible “honest brokers” to assist in the formulation of contracts in which developing country firms enter with large established firms;
- The inclusion of compliance with private standards in Aid for Trade programmes.

Promoting an Integrated Agri-Food Value Chain Approach to Future Negotiations¹¹⁴

Current trade negotiations under the WTO or in the context of regional trade agreements continue to take a fairly traditional approach to “agriculture” by focusing on agricultural goods and nothing else. But the reality of farming is quite different. Farmers need inputs from seeds to fertilizer to capital equipment and extension services. They also need storage and transportation. They may even want to extend their own operations further up the value chain into processing by joining a cooperative. To accomplish that, farmers do not simply need a reduction in tariff barriers affecting their exports in particular markets or cuts in domestic support. They also need to reduce the cost of their inputs and their storage, handling and transport. They would also benefit from access to communications technology that would offer them greater efficiencies through access to state-of-the-art knowledge on, for example, agronomy and soil science, and up-to-date market information that would help them with planting and harvesting decisions. In

short, what they need is to address all tariff and non-tariff measures that impede their ability to raise their productivity and connect to markets in a coherent way. **An agri-food value chain approach to trade negotiations would provide an opportunity to address all these aspects in an integrated manner, ranging from tariffs and non-tariff barriers, services related to agriculture (e.g. storage, handling, shipping or processing), seeds, pesticides and fertilizers, trade facilitation, transport and logistics, innovation, ITC, etc.** Negotiating in “clusters” has not yet been attempted on a significant scale in the WTO or in other negotiating fora, but this arguably represents a promising route for adapting global trade and investment governance to a world characterized by global value chains. Doing so would also create a broader range of opportunities for trade-offs that would facilitate the conclusion of an agreement.

Conclusion

The E15 Expert Groups have developed an ambitious yet practical agenda of changes in the international trade regime that would deliver major benefits in ensuring that international governance frameworks are supportive of food security concerns. If implemented, such an agenda would help revive ongoing multilateral negotiations on agriculture and design relevant disciplines in areas such as export restrictions, biofuels or climate change, while ensuring a fair, predictable and more stable trading system. Priorities for policy orientation are shaped by the most pressing challenges of the time. The changing conditions on agricultural markets since the turn of the century have brought to the fore the need to focus more on food security. Hunger and malnutrition are by no means a new phenomenon and have long been a top priority for the international community. Yet the specific food security problems resulting from conditions in international markets for food and agricultural products have come sharply into focus as a result of the dramatic price peaks experienced in recent years. For this reason, the measures proposed here, many of which can be implemented in the short run, deserve to be a central element of international economic cooperation over the years ahead.

Preserving National Policy Space to Make Societal Choices

International trade agreements and arrangements inherently entail a reduction in national policy autonomy. States created the General Agreement on Tariffs and Trade in 1947 with the collective damage caused by the self-defeating, beggar-thy-neighbour unilateral protectionist measures of the 1920s uppermost in mind. Similarly, the international trading system is replete with bilateral and plurilateral trade and investment agreements in which signatories reduce or impose a cost on their freedom to impose tariff and non-tariff barriers in a legally binding fashion. International trade negotiations are fundamentally exercises in which governments offer to selectively cede national policy space in return for the prospect of broader, mutual welfare gains.

Nevertheless, there is rising concern among some countries and constituencies that international trade and investment liberalization have gone too far in the sense of unduly restricting the ability of governments to pursue critical national objectives that their societies may value as much as or more highly than the facilitation of cross-border trade and investment. This concern tends to be expressed in two primary ways:

- 1) Industrial development. Developing countries today have less latitude than their advanced country counterparts did decades ago to pursue active industrial development policies by virtue of their membership in the World Trade Organization (WTO) and regional free trade agreements (FTAs);
- 2) Societal values. International investment treaties and agreements and certain behind-the-border provisions of FTAs are unduly constraining the latitude governments have to set regulations that give effect to their societies' values and choices in such areas as public health, environmental protection, labour and human rights, consumer protection and cultural heritage.

Industrial Development

The Expert Group on Reinvigorating Manufacturing examined the industrial policy experience of a wide range of countries, particularly the successes enjoyed by a number of middle-income countries in recent decades.¹¹⁵ Based on this review, it considered whether the modern trading system has in fact “kicked away the ladder” climbed by advanced countries in their earlier pursuit of industrialization and if a corresponding modification of trade and investment rules to restore policy space is therefore justified.

The Group generally concluded that for the most part current international trade disciplines did not and still do not pose a significant barrier to the kinds of strategies that have proved effective in places such as South Korea, Taiwan, China and India. This is principally because:

- While multilateral disciplines do exist and have been tightened in some respects in recent years regarding “vertical” or industry-specific policies (notably, intellectual property rights), most such strategies are still available to developing countries on either a *de jure* or *de facto* basis;¹¹⁶
- The most effective policies for spurring industrial development have in fact proved to be “horizontal” (not industry specific) in nature, and these measures are essentially unconstrained by international trade and investment disciplines.

Vertical Policies

- Tariffs. Most developing countries have WTO tariff bindings well above their applied rates, affording them some room for infant industry protection (for example through tariff escalation on finished product imports) if they believe such a strategy would be beneficial.
- Subsidies. General subsidies are freely allowed by the WTO Agreement on Subsidies and Countervailing Measures, and even most narrower domestic subsidies (e.g. for industrial production or research) are not prohibited, although they could be challenged if adverse effects can be demonstrated in what is often a lengthy and demanding WTO adjudicatory process. As a result, such challenges seldom occur except in the case of the largest players. Even export subsidies, which are generally prohibited, are allowed for non-agricultural products of poorer developing countries (i.e. those that have yet to surpass \$1,000 per capita income in 1990 dollars for three consecutive years).
- Government procurement. Governments are freely permitted to procure locally, provided there is no link to a domestic subsidy, and to impose offset requirements in defence procurements from foreign suppliers.
- Local content requirements. Local content requirements are generally prohibited for non-governmental procurement by the WTO Trade-Related Investment Measures (TRIMs) agreement; however, they have proliferated across countries and industries and gone largely unchallenged.¹¹⁷
- Intellectual property. The one area in which current international disciplines have noticeably constrained practices that were used to considerable effect from the 1960s to 1990s is that of intellectual property rights. Many of today’s newly industrialized countries made extensive use of reverse engineering in their early industrialization, the scope for which has been greatly narrowed by the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement.

However, many countries have adapted by encouraging joint ventures with or purchases of foreign firms possessing technology considered important for the development of a targeted domestic industrial capability, often in concert with state-sponsored public-private research, development and diffusion (RD&D) activities, which also remain effectively unconstrained by international law.

- State-owned enterprises. SOEs remain largely unconstrained by multilateral and even most regional FTA rules even though they often enjoy considerable tax, financial and regulatory advantages vis-à-vis their privately held counterparts. SOEs represent an estimated 60% of world merchandise and 21% of services trade.¹¹⁸

Horizontal Policies

The evidence on industrial development during the past 50 years suggests that horizontal policies to improve the enabling environment are ultimately more important to success than vertical ones, and these are not limited by the multilateral trade and investment regime. Specifically:

- Improvements in **infrastructure, education and training, enterprise development, entrepreneurship, innovation, finance and social policies** create the potential for positive spillover effects from early manufacturing successes to take root and spread locally.¹¹⁹
- In particular, by combining **parallel improvements in the enabling environment for the private sector and skills development with openness to hosting foreign direct investment** in key sectors, countries create the possibility for technology and know-how from those foreign firms to be transferred more widely and organically through the bottom-up creation of forward and backward linkages. These linkages can build over time into clusters of industrial capabilities that propagate local production, investment and innovation.¹²⁰
- These clusters can be reinforced and accelerated through efforts to attract investments by lead firms in global or regional value chains by maintaining a hospitable tariff and non-tariff barrier environment for the importation of key inputs, including improvements in trade facilitation (particularly customs and logistics). In this sense, **modern industrial policy emphasizes the promotion rather than restriction of trade and investment**.
- This brand of industrial policy, which has been employed with considerable success in many of today's upper-middle-income countries, **requires a systems approach** – i.e. a recognition that successful industrial development is a process involving the ongoing upgrading particularly of skills, infrastructure and economic institutions, not least the professionalism and insulation from rent-seeking behaviour of vested interests of economic policy-making and regulatory institutions.

- This approach can be usefully combined with vertical policies such as some of those highlighted above. But these more targeted initiatives are more likely to be effective and cost-efficient when they are executed within a robust horizontal enabling environment and determined through a **rigorous and dynamic evaluation of the country's latent competitive advantages** in the ever shifting international economic context.¹²¹

Societal Values

The other major question increasingly raised about policy space is whether the international trade and investment regime is unduly usurping the traditional role of national governments to give effect to social values and choices determined through democratic decision-making processes in such areas as public health and safety, environmental protection, worker and human rights, cultural heritage and rural livelihoods.

This concern has surfaced most prominently in criticism of the investor-state dispute settlement procedures of many bilateral investment agreements and some FTAs, including in the recent case of the Transatlantic Trade and Investment Partnership (TTIP) negotiations between the United States and European Union. But the investor-state dispute resolution debate is a manifestation of a wider question about the appropriate limits of international economic integration, in particular of a new generation of FTAs that are aiming at much deeper integration of economies through an expansion of cross-border investment and trade in services (e.g. the Trans-Pacific Partnership (TPP), Pacific Alliance, TTIP and recent bilateral FTAs, particularly among Organisation for Economic Co-operation and Development (OECD) countries).

By virtue of their emphasis on investment and services, these new trade initiatives are increasingly focused on improving regulatory coordination, sometimes on topics for which societies have differing or still-evolving underlying value systems (e.g. precaution, privacy, industrial relations, etc.). The question therefore is: what is the right balance between investor and citizen rights, between investment certainty and democratic due process, as well as between regulatory coherence in a highly integrated world economy and deference to legitimate national values and choices?

Notwithstanding the public debate and controversy on this topic, there have been relatively few specific cases in which there was a demonstrable failure to reconcile these interests satisfactorily. Nevertheless, the perception that this is a legitimate problem has taken hold and is growing due to the proliferation of negotiations on deep-integration agreements. The issue therefore merits consideration in a strategic review of opportunities to strengthen the long-term prospects of the global trading system as an engine of economic and social progress.

E15 Expert Groups identified several opportunities to address these concerns and help strike a better balance:

Modernize and strengthen the coherence of investment agreements

The Expert Group on Investment Policy has developed a multi-tiered set of recommendations for improving the international investment regime and striking a better balance among investor, host government and citizen interests therein. The regime now consists of about 3,300 bilateral and plurilateral agreements – up tenfold in the last 25 years. The Group suggests building on the recent changes that have been incorporated in model investment agreements of countries as diverse as Norway and India, as well as the work under way and mandated by the United Nations Financing for Development conference in Addis Ababa at the United Nations Conference on Trade and Development (UNCTAD), in the following manner:

- A consultative process to develop an **updated articulation of the overall purpose** of international investment agreements (IIAs) could be created that would encompass not only investor protection against arbitrary measures but also the facilitation of sustained investment in sustainable development and the preservation of a certain degree of domestic policy space to protect public safety and health.
- The Investment Policy Framework for Sustainable Development recently issued by UNCTAD could serve as a starting point for this process, which would seek to build common ground on not only the articulation of and set of definitions for this restatement of the purpose of IIAs but also the **design of the main elements of a 21st century international model agreement**, using as building blocks a few of the more recently concluded bilateral agreements and perhaps the prospective US-China bilateral investment treaty that is under negotiation.
- This new model framework, formulated as a best practice open for voluntary adoption, would be a bottom-up way to spur the modernization and harmonization of an international investment regime that has become highly complex and in some cases out of date. It could include a number of specific additional innovations that would help negotiating parties to **strike a better balance regarding the preservation of essential national policy space**, including:
 - An articulation of **fundamental investor obligations**, including with respect to responsible business conduct in areas like corruption, human rights and taxation (i.e. for example, the new OECD Base Erosion and Profit Shifting framework). Supplemental sector-specific responsible investment frameworks could be developed through public-private dialogue, such as in the area of responsible mineral and natural resource development.^{121a}

- A new **international appeals framework** that states could choose to opt into as part of their bilateral or FTA agreements. This mechanism would provide recourse for either party of an arbitral judgment to an ad hoc appellate body composed of members from a pool of investment adjudication specialists accredited by the international framework.
- A new **dimension of citizen participation** modelled on the OECD Guidelines for Multilateral Enterprises. Specifically, a Consultative Committee for the new model framework could be established for the purpose of providing input into not only the elaboration of the framework but also its implementation. Various stakeholders could be accorded consultative status to identify and offer analysis of specific dispute settlement cases that they believe illustrate the need for further clarification or the evolution of the framework going forward.
- To help level the playing field for developing country governments that lack the legal expertise to defend themselves adequately, an **Advisory Centre on International Investment Law** could be established, modelled on the Advisory Centre on WTO Law. Created in 2001, this provides services to developing countries through its own staff or outside counsel at reduced rates.
- Donor countries could also provide assistance and support for **capacity building to developing countries** in the implementation of the new model framework by extending the WTO Aid for Trade initiative to cover investment-related as well as trade-related capacity building. These programmes of assistance could be shaped by the Investment Policy Reviews of UNCTAD or relevant reviews by OECD or the WTO.
- Finally, if constructed pragmatically through the incorporation of the best, overlapping practices of a number of existing agreements, the new model international investment framework could create the basis for a **plurilateral agreement** among interested states. In this way, it could help to rationalize the current, highly fragmented regime and spread a more modern and balanced approach to the preservation of policy space through the international community by a process of open accession. Indeed, it is not inconceivable that, over time, such a bottom-up dynamic could result in a critical mass agreement in which parties indicate that they would be prepared to offer the benefits of the framework, including those related to the rebalancing of policy space itemized above, to all countries on a Most Favoured Nation (MFN) basis.

Create a safe harbour for subsidies to address market failures

The E15 Initiative Task Force on Subsidies made a set of additional proposals that would clarify (and thereby increase) the latitude governments have to address market failures or create public goods. They propose reinstating a modified version of Article 8 of the Agreement on Subsidies and Countervailing Measures concerning Non-Actionable Subsidies that expired in 2000. This would create a safe harbour for the use of subsidies that address four social objectives on the grounds that these are problems of the commons or other market failures whose remediation would have positive externalities. This expanded certainty under WTO law would have the effect of modestly enhancing the policy space of countries to pursue these societal priorities:

- Combat and adapt to climate change. The Task Force proposes to provide **safe harbour treatment for subsidies** encouraging the consumption of certain environmental goods deemed to be helpful in the reduction of or adaptation to global warming, irrespective of where they are produced. A starting point could be the list of goods targeted for the elimination of tariffs by the group of 17 countries negotiating an Environmental Goods Agreement in the WTO.
- Promote the economic and social inclusion of marginalized regions. Many countries, especially developing countries but also more advanced countries with disproportionately poor rural regions and urban slums, experience very high domestic disparities in the cost of investment in different regions and extreme variations in income and employment opportunities. A degree of subsidization may be justified to overcome these obstacles and widen social inclusion in the aggregate benefits that trade and other reforms may produce. Some form of safe harbour for regional development subsidies should thus be considered (as well as a *de minimis* level). To prevent abuse, such subsidies should be limited to doing no more than offsetting the additional cost of investment in that region. The safe harbour would also need to be limited to those regions of a country where the costs of investment and doing business were a defined percentage above the norm for the country at issue (other metrics could be considered, such as regional unemployment rates).
- Encourage research and development. Much research and development (R&D) entails short-term cost for benefits that are highly uncertain and often not specific to the sponsoring company. As a result, companies tend to invest less in R&D than is desirable for society as a whole. A safe harbour should thus be established for certain R&D subsidies. Any safe harbour, however, would need to be carefully crafted to avoid subsidizing R&D that would occur without the subsidies. Moreover, since the public would be funding such R&D (through the subsidies), the safe harbour could require that the results of the R&D be made publicly available to any agent who seeks to use it. While this requirement may act as a disincentive, there may still be an advantage to the firm conducting the research. Such a requirement would also serve as an incentive to companies to fund through commercial mechanisms some R&D they would otherwise fund with a subsidy, lest they be unable to retain the results of the R&D for their exclusive use.

- Recover from natural disasters and conflict. In recent years, the world has experienced natural disasters of such magnitude that recovery from them requires extraordinary investment. In these instances, there should be a safe harbour for subsidies provided to allow the industry or economy affected to return to its pre-disaster state. Any such safe harbour would need to be time restricted, with metrics established to determine when the recovery period has ended (perhaps using pre- and post-disaster employment and output levels as baselines). The safe-harbour would also need to be very specific on the magnitude of the natural disaster that would qualify for such treatment. The difficulty lies in narrowly crafting the safe harbour to permit subsidies to restore what was destroyed, without covering the cost of expanding or modernizing production. Metrics could possibly be developed by drawing on the experience and efforts of the UN Office for Disaster Risk Reduction with respect to risk reduction in determining when the disaster is of sufficient magnitude to qualify for a safe harbour on recovery assistance. This safe harbour could also be extended to recovery from acute man-made disasters such as war.

Preventing a Race to the Bottom on Social and Environmental Standards

One of the popular concerns about the trading system often voiced in advanced countries is that trade liberalization has placed downward pressure on employment, wages, working conditions and public health and safety due to the large disparity between the level of labour, environmental and other social standards of advanced countries and those in most developing countries. In particular, the proliferation of FTAs between countries at vastly different levels of institutional development has fuelled fears of a race to the bottom in social conditions.

These constituencies are concerned that legal standards and protections that took decades to create through the political process and then implement through the administrative and judicial processes of their countries are being eroded for all intents and purposes as investors and managers respond naturally to lower costs of production and compliance in jurisdictions with weaker standards and enforcement. This implies not just a limitation of policy space, the reasoning goes, but an outright reversal of it.

Whatever the extent of empirical evidence of this phenomenon, concern about it is sufficiently widespread in some advanced countries that it has significantly undermined political support for trade agreements. However, attempts to address the problem in the WTO have met with stiff opposition from developing countries, who consider efforts to link improvements in their social standards and institutions to trade privileges as an intrusion into *their* domestic policy space.

Two proposals to break through this dilemma have emerged from the E15 deliberations, one structural and the other immediate and practical. Together, they have the potential to stimulate significant progress, **levelling up standards over time through regulatory cooperation among self-associating clubs of countries and the parallel scaling of responsible supply chain practices by multinational and other companies.**

Expanding Plurilateral Regulatory Cooperation

There is ample precedent for groups of countries to negotiate regulatory coordination arrangements both within and outside the trade regime, and as for the latter, both within and outside the WTO. These can take the form of separate, specialized accords or chapters within more comprehensive agreements, like FTAs. Indeed, several bilateral FTAs among OECD countries and the recently concluded TPP have labour, environmental and other regulatory coordination provisions that extend well beyond existing WTO disciplines.

A pragmatic way for advanced countries to alleviate the real and perceived pressure placed by global economic integration on their policy space in respect of social standards would be to engage like-minded countries in open clubs that establish a common floor for such standards and encourage other countries to join by extending trade and investment preferences and substantial capacity-building assistance to them. This is at least in part the stated logic of the TPP – to set a somewhat higher set of standards in a variety of regulatory domains among a substantial group of like-minded countries that confer upon each other preferential market access.

The E15 Initiative Task Force on Regulatory Coherence viewed this dynamic – self-associating plurilateral coalitions or clubs of countries – as the most promising pathway for reconciling the interests of developed and developing countries on a range of regulatory coordination challenges, including those discussed in this chapter. There is nothing currently preventing the formation of plurilateral agreements of this nature. But in order for them to be part of the WTO and therefore accountable to it, they must be authorized (in advance) by unanimous consent of the WTO membership. This condition creates a significant disincentive to the creation of such agreements and attaches a certain stigma to them.

For this reason, the Task Force proposes to relax the unanimous consent requirement for the negotiation of WTO plurilateral agreements, permitting them to go forward and become part of the WTO oversight process and have access to its dispute settlement procedures unless 20% of the membership objects. It recommends that the WTO even *encourage* two particular types of plurilateral regulatory cooperation:

- Agreements that deal with issues outside of its existing mandate (which applies to most specialized areas of regulation, including those dealing with social and environmental matters), thereby creating a variable geometry that is more responsive to the heterogeneity of interests in its membership;
- Agreements that link similar provisions in different RTAs and preferential agreements together in a mega-plurilateral or even multilateral or “critical mass” MFN arrangement, strengthening the coherence of the regime and simplifying the efforts of companies to navigate it.

Scaling Responsible Supply Chain Practices

Global and regional supply chains have expanded in recent decades to the point where they now account for roughly 80% of world trade.¹²² The lead firms in these supply chains set many product standards and specifications for their contract suppliers. Many are increasingly setting process standards and specifications in line with a range of international norms, including official ones like the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, and others that are informal, such as the Marine Stewardship Council standards, Ethical Trading Initiative, Publish What You Pay campaign and Apparel Production Certification Program.

However, this activity is highly variable across firms, industries and host countries. In the aftermath of the 2013 Rana Plaza disaster, in which 1,134 people perished in a sweat shop factory collapse in Bangladesh,¹²³ the international community has begun to marshal a more concerted approach that has considerable potential to contribute to the improvement of working conditions in developing countries if pursued in earnest, notwithstanding the underdevelopment of labour and environmental regulatory frameworks and institutional capacity common therein.

In 1993, eminent Indian-American economist and free trade advocate Jagdish Bhagwati proposed a straightforward solution to this problem. He suggested that multinational enterprises be encouraged and even expected by their home governments and shareholders to apply to their operations abroad the basic worker rights and pollution control rules to which they are subject in their home country. Establishing this informal norm, he argued, would go a long way towards addressing the concern in advanced countries about the implicit subsidy or artificial advantage represented by weaker standards in poor countries, and it would do so without prescribing legal and institutional changes that would impinge on domestic policy autonomy.¹²⁴

In June 2015, under the leadership of Germany, the G7 agreed to a multifaceted initiative to spread responsible labour and environmental practices throughout the worldwide supply chains of companies headquartered in their countries,¹²⁵ including:

- Creating a Vision Zero Fund to support measures for improving labour, social, environmental and safety standards in cooperation with the International Labour Organization;
- Committing to strengthening the use of the OECD Guidelines for Multinational Enterprises to promote supply chain sustainability and to support the development of National Action Plans to give effect to the UN Guiding Principles on Business and Human Rights;

- Committing to strengthening relevant multistakeholder initiatives in their countries and partner countries, including in the textile and ready-made garment sector, building upon good practices learned from the Rana Plaza aftermath;
- Improving the coordination of bilateral development cooperation to support developing countries in taking advantage of responsible global supply chains to foster their sustainable economic development.

The G7 Initiative should become a rallying point for public-private cooperation to scale the voluntary application of best practices in such standards throughout global supply chains through a combination of governmental jawboning and funding of developing country technical assistance and intergovernmental organization and non-governmental organization advice and support, as well as CEO and trade association engagement and outreach. A concentrated effort over the next two to three years could build a critical mass of corporate adherence within most key industrial sectors.

Corporate social responsibility initiatives, such as Social Accountability International,^{125a} the Business Social Compliance Initiative (BSCI),¹²⁶ the Ethical Trading Initiative (ETI)¹²⁷ and the Fair Labor Association (FLA),¹²⁸ have been working for decades to support decent working conditions in global supply chains. The social auditing industry has also evolved. The Global Social Compliance Programme (GSCP),¹²⁹ for instance, was created by global brands and retailers in an attempt to improve sustainability along supply chains through harmonization and the sharing of best practices.

Conclusion

Striking an appropriate balance between the preservation of national policy prerogatives and the promotion of international trade liberalization and regulatory coherence promises to be one of the most difficult challenges the global trade regime will face over the next 10 years. But while little progress has been made in this area over the past 10 to 15 years, the E15's work suggests that a productive way forward is possible. Several specific improvements could be made in hard and soft law that, in combination, would significantly improve the economics and politics of trade in developing and developed countries alike. But this will require moving beyond a narrow focus on the multilateral negotiating arena and making use of a wider set of cooperative tools.

Strengthening the Legitimacy of the Global Trading System

Over the past 25 years, most governments have been shifting policies to encourage the integration of their national economies into global markets. They have done so in line with rules established by the multilateral system in the General Agreement on Tariffs and Trade and World Trade Organization as well as those of relevant regional free trade agreements or bilateral accords. Domestic institutions have been positioned to support this process and help businesses and consumers capitalize on the corresponding opportunities and benefits.

In many regions of the world, trade and investment have channelled industrial and technological developments supporting specialization and scale into rapid export-led or value-chain-driven growth. This has helped lift millions out of poverty, dramatically improving the quality of lives as well as facilitating access to education, medicine, skills and knowledge. Trade and investment are primary drivers behind today's hyperconnected world, built on technological improvements in transportation and communications. From smartphones to cars, food, energy or banking services, our everyday experiences are populated by the outcomes of international exchange. So goes one narrative of today's globalized world.

For others, the trade and investment story is rather different. For them, the integration of national economies into global markets is a phenomenon frequently accompanied by a range of ills from unemployment to migration, anticompetitive practices, pollution, environmental degradation and climate change, exploitation and threats to the national regulatory process. The gains from trade and foreign direct investment (FDI) have been too narrowly diffused, and global financial instability has generated unwelcome volatility. This sceptical counter-narrative about the net benefits of liberalization is on the rise in countries rich and poor.

John Rawls's seminal writings on fairness frame the legitimacy of a system in terms of its ability to deliver for the least advantaged.¹³⁰ The current public debate favours the view that globalization, and the multilateral trade system, have exacerbated inequality and challenged governments' abilities to address social inclusion. The poor and least advantaged have often been marginalized from the global economy. Even though in the immense majority of cases the cause is found in deficiencies in domestic institutions and shortcomings in flanking policies, the institutions of the global trade system are commonly used as a scapegoat. In those instances where the norms and the institutions that govern trade are insufficient or perverse in delivering for the least advantaged, corrections must be cooperatively made.

Inclusion implies the ability of small players, such as small and medium sized enterprises (SMEs), to benefit equally from global markets alongside big companies and investors, as well as the ability of smaller and disadvantaged economies to harness the opportunities the system offers. Amartya Sen reminds us that the evaluation of justice need not be binary but instead a matter of degree.¹³¹ While the

global trading system needs to ensure fair outcomes for all to maintain legitimacy, interpretations of fairness may vary. In today's fragmented trade landscape, questions abound on the ability of the system to integrate all interested players into global markets and to deliver on some key services – including rule-making, strategic oversight, monitoring and compliance, standard setting, stakeholder engagement, among others.

These challenges are complicated by the rapid transformation of what is being traded and how over the last few decades. Annual services trade growth now far outpaces that of manufactured goods. The Internet has empowered the explosion of a digital economy, giving rise to new content, entrepreneurs and markets. There is an increasing fragmentation of production of goods and services in global supply chains. As coordination and trade costs have plummeted, firms have built sophisticated collaborative operational models by outsourcing stages of production in various locations such that business-to-business intermediate trade now accounts for over two-thirds of the goods and nearly three-quarters of the services traded worldwide.¹³² Still, world trade expansion has slowed dramatically in the last few years to around 2.5% in 2014, below GDP growth, causing concern about whether the trading system remains capable of being a driving force for global growth as it was in the last half of the 20th century.¹³³

Indeed, as mapped by the E15 Initiative,¹³⁴ the institutions and rules governing international trade and investment are complex and, in some cases, outmoded. Negotiations in the World Trade Organization (WTO) have been stymied, as its quasi-universal membership advances divergent visions for its modernization, leaving multilateral arrangements to lag behind market and business realities. As a result, countries have been taking their negotiating strategies and energies elsewhere, leading to a proliferation of bilateral, regional and now mega-regional trade negotiations. While potentially positive for those involved, smaller, poorer and more vulnerable countries often feel left out and unable to access the opportunities presented by an open world economy.

In sum, the international trade and investment system faces a growing challenge of legitimacy. Its primary institutions appear stuck and fragmented; core norms intended to guide its operation are perceived as being disregarded or undermined; and the services it provides are increasingly perceived as not up to the task of facilitating desired economic, social and environmental outcomes.

Three features in particular that have historically underpinned the system's legitimacy are widely perceived as being eroded within the shifting landscape described above. First is the bedrock principle of *non-discrimination*, which has guided the construction of a rules-based multilateral framework open to broad participation, ensuring the system has the character of a global public good. Second is the notion that the system is a *means serving larger ends*, in particular the objective of sustainable development but also other societal priorities determined by national polities. Third, the long Doha Round stalemate during a

period of dramatic transformation of the world economy has called into question whether the system remains sufficiently *adaptive and fit for purpose*.

The proposals developed by E15 Expert Groups and Task Forces would go a long way toward reinforcing these three pillars of the system's legitimacy, bolstering its **inclusiveness, synergy with other priorities and effectiveness**:

Inclusiveness

Four sets of proposals have emerged that would particularly help to reinforce the universality or inclusiveness of the system's benefits. These would help to ensure that the variable geometry made necessary by the complex economic and political landscape of the 21st century evolves in a way that encourages the widest possible inclusion of countries in such "clubs" (or key elements thereof) in the near term as well as the progressive integration of such regional and plurilateral arrangements (or key elements thereof) into a growing corpus of non-discriminatory multilateral norms over the medium to long term.

- **RTA Exchange.** The Expert Group on Regional Agreements and Plurilateral Approaches has proposed creation of a comprehensive open analytical and dialogue platform to enhance understanding about RTAs and encourage a dynamic of learning, sharing of best practices and ultimately cooperation among them that can lead to the harmonization and even multilateralization of subsets of their rules over time.¹³⁵ RTAs offer a vast reservoir of tested and tried rules that can help advance multilateral rulemaking in critical areas. However, so far, RTA disciplines have not been multilateralized, and typically they extend only to RTA members. They are also not covered by the WTO's dispute settlement system. Expanding the number of countries that apply rules negotiated and applied in the major RTAs would most likely yield great new efficiencies and expand world trade. Plurilateral agreements can be just the right vehicle for enabling a larger number of countries to sign onto tested and tried sets of rules incubated in RTAs. However, it is not yet clear which plurilaterals should be negotiated or how plurilateral talks should be structured so as to enable all countries in the multilateral trading system to benefit from them.

The Inter-American Development Bank, in collaboration with the Asian Development Bank and International Centre for Trade and Sustainable Development are in the process of implementing the RTA Exchange proposal as a dynamic online platform and forum to share information, ideas, experiences and good practices on RTAs; further capacity-building of negotiators to negotiate and implement RTAs and companies to apply RTAs globally; regularly take stock of the general public's views on policies related to RTAs; survey private sector's views on the functioning of RTAs; and further idea-generation to advance convergence and coherence with the multilateral system.

- **Model Investment Agreement.** The Expert Group on Investment has proposed a multi-tiered set of recommendations to streamline and modernize the patchwork quilt of investment agreements around the world. The Group suggests building on the recent changes that have been incorporated in model investment agreements of countries as diverse as Norway and India, as well as the work underway and mandated by the United Nations Financing for Development Conference in Addis Ababa at UNCTAD. Specifically, a consultative process would be launched to develop an updated articulation of the overall purpose of international investment agreements (IIAs). UNCTAD’s recently issued Investment Policy Framework for Sustainable Development could serve as a starting point for this process, which would seek to build common ground on not only the articulation of and set of definitions for this restatement of the purpose of IIAs but also the design of the main elements of a 21st century international model agreement, using as building blocks a few of the more recently concluded bilateral agreements and perhaps the prospective US-China bilateral investment treaty that is under negotiation. This new model framework, framed as a best practice open for voluntary adoption, would be a bottom-up way to spur modernization and harmonization of an international investment regime that has become highly complex and in some cases out of date. It could be coupled with an open information exchange platform analogous to that proposed above to stimulate the streamlining of RTAs. Or this “International Investment Agreement Exchange” concept could be incorporated into that platform.

- **WTO Code of Conduct for Plurilaterals.** The Expert Group on Regional Trade Agreements and Plurilateral Approaches^{136 137} proposed initiating a formal process of negotiations on a “code of conduct” to govern plurilaterals, as proposed a few years ago by the World Economic Forum’s Global Agenda Council on the Global Trade System¹³⁸. Such a code could reassure developing countries that are nervous of having plurilateral agreements foisted on them, and could include several principles and rules:
 - *Principles:* 1. membership is voluntary; 2. the subject of the plurilateral is a core trade-related issue; 3. those participating in plurilateral negotiations should have the means, or be provided with the means, as part of the agreement, to implement the outcomes through capacity building assistance;⁶ 4. the issue under negotiation should enjoy substantial support from the WTO’s membership in order for it to be authorized as a WTO agreement benefiting from the organization’s dispute settlement system and other resources; and 5. the “subsidiarity” principle should apply in order to minimize the intrusion of “club rules” on national autonomy.

 - *Rules:* 1. only parties to the agreement can participate in WTO dispute settlement and, consequently, cross-agreement retaliation should not be allowed, since it would reduce the incentives to join the agreement; 2. Any WTO Member can participate in the negotiations voluntarily, subject to

demonstrating sufficient capacity to implement the outcomes; 3. the provision of benefits to non-members should not be required, since that would reduce the incentives to negotiate the plurilateral, but should be allowed and encouraged. 4. transparency mechanisms should be built into the negotiations so that exclusiveness could be minimized in order to build trust and interest in it.

- **RTA Multilateral Impact Statements.** The Group also proposed the development of multilateral Impact Statements¹³⁹ to encourage the negotiators of regional arrangements to design agreements that would (a) create contestable markets that provide benefits to outsiders as well as participants, and (b) serve as the modular components of a more integrated global trading system. One mechanism for doing this would be for an independent authoritative body—either a think tank or distinguished panel of trade authorities perhaps commissioned by the RTA Exchange described above or the WTO—first to lay out a set of relevant criteria and then to apply these to an analysis of RTAs. Ideally, suitable methodologies and criteria would be widely available, and it should become standard practice for drafts of agreements to be analysed prior to being finalized so that negotiators would be given opportunities to correct major deficiencies.

- **Regulatory Transparency.** Transparency alone is a factor that decisively contributes to reducing the magnitude of trade friction. Transparency obligations in the TBT and SPS Agreements are the most far-reaching in the WTO regime. One-stop shops, enquiry points, intervals between the preparation and adoption of measures coming under the aegis of the two agreements constitute important innovations. Regulation, however, extends to areas not covered by the TBT and SPS Agreements. A new, consolidated framework on regulatory transparency should be agreed in the WTO in which:
 - (i) there should be a “mapping” of national mechanisms that are intended to provide transparency with respect to national regulatory processes;
 - (ii) WTO members should notify all adopted measures, whether based on international standards or not;
 - (iii) they should explain the rationale behind their measures (“reasoned transparency”);
 - (iv) they should involve affected parties at an early stage in the process;
 - (v) they should use the reasonable interval between publication and entry into force of a measure to fine-tune regulation so that it represents a balanced trade-off between genuine regulatory concerns and an effort to minimize the resulting trade impact. It bears repetition that this proposal is not limited to trade in goods.

These reforms would have the combined effect of carving a constructive path for the system out of the current “spaghetti bowl” of fragmentation. They could set in motion a self-reinforcing dynamic of **modular multilateralization** in which individual

regional and plurilateral rules are progressively reintegrated at the international level over the next 10 to 20 years, spurred by the parallel forces of bottom-up demand by international business for greater simplicity and top-down spotting of opportunities for progress by trade officials and experts based on structured analysis and dialogue.

Synergy

The world faces a raft of economic, social and environmental challenges both new and old. Climate change poses a severe, even existential, threat, environmental degradation on land and sea is rampant, 1.3 billion people around the world continue to lack access to energy, another billion do not have access to safe drinking water, 702 million live below the poverty line, unemployment is rising, while hunger, poor health, inadequate access to education, and gender discrimination are among the persistent crippling factors that continue to haunt many.¹⁴⁰ For many commercial actors, moreover, the realities of slowing growth, commodity scarcity and shocks, fragmented labour markets and skill shortages abound. The E15 Initiative has proposed many ways in which the global trading system could be strengthened to maximize its contribution to and minimize the complications it creates for this wider sustainable development agenda. These have been summarized in three of the preceding chapters:

- Boosting global growth and employment
- Accelerating sustainable development in least developed countries
- Combating climate change and other environmental degradation

If the international community were to adopt the reforms outlined in these chapters, it would render the international trade and investment regime a much more potent force for progress on three of the most pressing global challenges of our times. Well beyond promoting coherence in the international bureaucratic sense, these three sets of proposals would enlist the global trading system as a full partner---an accelerator of action---on each, in so doing enhancing the system's relevance and legitimacy for all countries.

Finally, the agenda summarized in the chapter on *Preserving national policy space to make societal choices* would provide a serious response to growing concerns about the political legitimacy of trade accords and institutions among some constituencies and countries concerned about the tension between democratic participation and supranational decision making in general and in the international trade and investment domain in particular. The trading system has moved since the dawn of the Uruguay Round from a process of negative regulation, prescribing what governments must not do vis-à-vis tariffs, to positive regulation around services, intellectual property, investment and so on that spill further and further into the national political space. This has given rise to questions around regulatory

legitimacy in various publics expressing concern around the need to safeguard national preferences, ranging from public health and safety, to workers' rights and the environment, from international trade decision-making. Simultaneously, some developing countries worry that they now have less room than industrialized economies did to pursue active industrial development policies due to the strictures set by the WTO and other FTAs to ensure fair competition outcomes and non-discrimination. The trade regime ignores or downplays these concerns at its peril, and the E15 Expert Group suggestions offer a balanced and constructive path forward.

Effectiveness

In addition to these concerns about inclusivity and fairness, on the one hand, and synergy and relevance, on the other, perceptions of the system's legitimacy are also hampered by a growing sense that it is no longer up to the task of delivering new rules that reflect the profound economic, technological and political shifts taking place. This perception has been exacerbated by the demise of the Doha Round, which has consumed political attention and energy for the past fifteen years. Policy options have been proposed across a range of E15 Initiative Expert Groups that would boost the delivery and effectiveness of the global trade system by expanding the array of negotiating approaches at the disposal of governments within the WTO as well as widening the set of tools available to generate forward progress beyond such norm-setting negotiations, per se.

Plurilateral Clubs. In particular, multiple Expert Groups and Task Forces envisioned self-associating coalitions or clubs of countries coming together to advance specific policy objectives, such as standards, new rules or additional liberalization, arguing that these could advance progress among consenting countries in the near term while being structured to invite multilateralization on a modular, as opposed to single undertaking, basis over time.

Under WTO rules, such "plurilateral" deals are either "closed" or "open." Prominent examples are the Government Procurement Agreement and Information Technology Agreement, respectively. A closed club requires unanimous consent of the WTO membership for it to be subject to WTO dispute settlement and oversight, while an open club can achieve this status only if it extends its benefits to all nations, even those outside the club, on a most favoured nation (MFN) basis. These requirements have had the effect of limiting the WTO as a platform for action by like-minded coalitions of countries on new issues posed by economic, technological or political shifts.

To advance recourse to plurilateral deals, the E15 Task Force on Regulatory Coherence, the Expert Group on the Functioning of the WTO, and the Expert Group on Regional Trade Agreements and Plurilateral Approaches identified the following options:

- **Relax the unanimous consent requirement for the negotiation of closed plurilateral agreements to a threshold of 80% approval of WTO membership.** This approach could then be used to deal with regulatory cooperation issues that are beyond the global trade body’s existing mandate in order to answer the variable demands and needs of its membership in a rapidly evolving trade landscape. Where appropriate, provisions found in RTAs could be transformed into an open plurilateral, providing a “critical mass” of members involved to avoid freeriding.¹⁴¹
- **Create a plurilaterals council to monitor and guide these types of deals.** The council would be tasked with elaborating the rules for different types of plurilateral agreements. The council could also pay particular attention to potential impacts for market access on those choosing not to participate.¹⁴²

Informal or “Soft Law” Approaches. On many challenges, considerable progress can be achieved without the negotiation of formal norms. The trading system could make much wider use of dialogue, analysis and capacity building to expand effective market access.

- **Advance trade facilitation and customs modernization via RTAs.** RTA participants can expand trade with outsiders through trade facilitation, customs modernization and improvements to trade-relevant infrastructure. Such measures have the potential to realize significant global trade gains and represent low hanging fruit in political terms.
- **Boost the use of best endeavour arrangements.** To ensure that “best endeavour” provisions play a positive role in international agreements, the nature of the economic or other conditions justifying a soft law approach should be spelled out, and in appropriate cases technical assistance should be a component in a transition away from soft law towards hard law. Best endeavour commitments should be accompanied by accountability duties, involving specific notification and monitoring provisions, especially if they risk creating misaligned expectations as to the effect of commitments contained in soft law texts.
- **Create a Global Value Chain Partnership.** The E15 Global Value Chain Expert Group has made concrete proposals that could be combined in a **new international public-private platform to improve the efficiency and inclusiveness of global supply chains.** This platform would be aimed fundamentally at helping to increase practical cooperation between countries seeking to integrate their economies into international supply chains and the

companies and experts who could be their partners. The action orientation of the partnership would be underpinned by important new analytical efforts to map existing value chains and impediments to their expansion in new geographies as well as to assemble evidence and examples of good practice that can inform countries of how to maximize the contribution to sustainable development of their participation in global and regional value chains. The global trading system does not currently have a platform dedicated to gathering insights on how GVCs might offer a path to economic development. The platform could be a major focal point of a new Aid for Trade initiative plank targeting funding and technical assistance for improving countries' institutional aspects of enabling environments to help effectively function and integrate into global supply chains. In this context, a Research Center on Global Value Chains (RCGVC) in Beijing was launched in the fall of 2015 with participation and support from a wide international set of academic and international institutions, including the OECD and ICTSD.¹⁴³

- **Develop a digital dispute settlement mechanism.** The digital economy offers strong growth potential. A World Bank study found that a 10% increase in broadband penetration resulted in a 1.38 increase in growth in developing countries and a 1.21% increase in growth in developed countries.¹⁴⁴ But the barriers to digital trade in the context of the current global trade system are many and, from a systemic perspective, particularly include the difficulty of legal redress for digital trade disputes. Digital commerce is expected to increase trade in low-value goods, over which lengthy legal battles in existing national courts or the WTO's dispute settlement mechanism do not make economic sense. Some players have already responded to this challenge, such as EBay's dispute settlement process that resolves more than 60 million online disputes annually, or the OECD's 2007 Recommendations on Consumer Dispute Resolution and Redress. A potential digital dispute settlement mechanism could be established at the WTO to consolidate approaches or, alternatively, WTO members could focus on national efforts and coordinating policies where needed.

Scale domestic economic institution building assistance. An assertion of the E15 Initiative Expert Group on Finance and Development is that economic institutions are the key determinant of economic growth and development, and that policy-makers and developing country governments dealing with trade and finance must concentrate on "getting the institutions right". E15 Initiative Expert Groups outline a number of options where the system could and should be reoriented to integrate trade and institutional capacity building assistance on a much greater scale. This is one of the most important shifts that needs to take place within the system in order for it to meet expectations. Examples include:

- **Use Aid for Trade funding for services.** Given the significant economic importance of services, WTO members should emphasize the need to use multistakeholder initiative Aid for Trade funds towards country-specific studies in order to address policy and regulatory failures around services trade in recipient countries. Dedicated sessions within the WTO should focus on this topic. Diagnostic studies by the Enhanced Integrated Framework should concentrate on services policy and regulatory studies.

- **Improve technical advice on international economic agreements, including public-private partnerships and sovereign debt contracts.** This would go a long way to addressing some of the key infrastructure funding gaps needed to better link low-income countries to markets. E15 Initiative Expert Groups therefore propose expanding, including through financial support, the access of developing country governments to world-class, independent and low-cost advisory legal resource to help negotiate and design public-private partnerships (PPPs); develop an internationally recognized model PPP framework; and provide technical resources to support the development of a clear general legal framework.
- **Ensure correspondent-banking availability.** Banks have dramatically cut down on correspondent-banking networks as the costs of regulatory checks have outpaced business growth potential. As a result, it is feared that some nations are on the verge of exclusion from international financial networks.
- **Enhance institutional monitoring.** Alternative indicators, beyond those already used by institutions such as the World Bank, could be constructed to measure countries' "enabling environments". Based on the weaknesses in country-specific trade and finance characteristics identified by the E15 Initiative in this area as relevant to trade and investment, the constituent elements of this new index could be the following: a Herfindahl index of concentration in the banking sector; the existence of a functioning antitrust authority; an indicator of fluidity of visa policy, including the ease of obtaining a short-term visa; the number of correspondent foreign banks; the existence of a national or regional credit bureau and/or a rating agency; the legal system under which sovereign bond issuance takes place.

Bolster transparency. Another suite of policy options addresses issues related to improving both internal and external transparency:

- **Ensure more systemic data management.** One of the challenges is how to organize, present and disseminate the wealth of available trade-relevant information. The WTO should serve as a key information hub on regulatory matters and more resources should be devoted to data compilation, statistics and data management.
- **Generate better data on subsidies through a consortium of universities/independent think tanks and improve agriculture monitoring.** At present, data on subsidies is sparse, ad hoc and unreliable. Subsidies have a significant trade-distorting potential and information asymmetries in this area seriously complicate the efficient functioning of markets. A coalition of universities and independent think tanks around the world could help to obtain additional information on national subsidies using common standards and definitions with graduate students and researchers seeking out data. Improvements to

monitoring agriculture subsidies, in particular, have been proposed during the Doha Round trade talks. One option that would require little in the way of formal negotiations would be to expand the amount of information included in the TPRM's regular country Trade Policy Reviews.¹⁴⁵

- **Establish a Transparency Agreement.** Transparency is discussed in various agreements in a scattered manner and should instead be consolidated into one agreement including new efforts to bring together the trade and regulatory communities. WTO members should be required to provide *ex ante* evaluations of the trade impact of their regulation and explanations about measures to be adopted.

Reduce the deliberative deficit. A key way to tackle difficulties encountered in the multilateral negotiations is to deepen dialogue as a way to build trust and understanding. The WTO secretariat could contribute to reducing a “deliberative deficit” by addressing current topics, suggesting areas for discussion, proposing approaches, analysis and dialogue with other relevant international organizations and within its own Committees as a place for ongoing dialogue among governments and other stakeholders.

- **Engage business and civil society directly.** As the main actors behind international trade, commercial players have an important stake in the global trade body's performance, and the support of the business community is important for the legitimacy of the system. Although processes sometimes exist at the national level for stakeholder input, more engagement at the multilateral level is needed, which could be achieved through the continuation of a formal Business Forum or the creation of a Business Advisory Council. Should the latter approach be adopted, a similar body could be envisaged to channel different civil society voices on key trade-relevant issues.¹⁴⁶
- **Improve knowledge tools and focus.** The global trading system has suffered from a dearth of empirical methodology around value added in international supply chains. Efforts are under way to correct this information shortfall, with the WTO and OECD collaborating to create a Trade in Value Added (TiVA) database, which allows governments and analysts to better understand trade linkages in an interdependent globalized economy and the real value added that various countries actually generate in trade flows. The TiVA database should be continued on a permanent basis and efforts made to improve the quality of national data. A horizontal work programme on GVCs could also be established at the WTO to explore areas where trade disciplines might be adjusted.¹⁴⁷

The Future of the WTO

The foregoing analysis and agenda has major implications for the future role of the WTO, which is in something of an existential crisis as a result of the Doha Round's failure. In agreeing to disagree at the Nairobi ministerial meeting, member governments officially recognized the reality that the terms of reference of those negotiations---the particular combination of topics mandated by the Round---do not command a consensus. But they reaffirmed that the various *individual* Doha Round issues remain open for discussion and possible agreement in other ways and in possible combination with other issues.

Many have speculated that the Doha stalemate means the WTO's negotiating arm is broken and consequently the institution is destined to fade slowly into irrelevance as regional and plurilateral arrangements proliferate. However, the E15 proposals imply an alternative future for the WTO, one in which it plays a more strategic and vital role for the international economic order than ever.

In this alternative future, trade ministers and WTO ambassadors as well as the institution's secretariat embrace the wider global trade and investment ecosystem of rules and institutions. Rather than seeing this complex variable geometry as an intrinsic threat or even rival, they conceive of the WTO as fundamentally embedded in rather existing above or apart from it. They see the institution *servicing* the wider ecosystem, assuming a greater sense of responsibility for its positive evolution through the execution of an expanded array of leadership functions.

Partly because of its origins in the GATT as a framework of negotiated concessions, the WTO's institutional mandate and capacities are focused fairly narrowly on those formal norms. By design, its institutional culture is inward looking – it is the custodian of multilateral rules arrived at through multilateral negotiations. This remains a critical function, but the international community requires more from the WTO in the 21st century given the transformation in the world economy and political economy of trade over the past generation.

With the growing fragmentation of the global trade and investment system, the WTO must see itself at least as much as the custodian of these underlying principles as it is of the multilateral norms for which it has formal negotiating and adjudicatory responsibility. Only if the institution's role is broadened from that of a framework for negotiations of reciprocal concessions and the settlement of disputes thereunder to *an enabler of the wider system's contribution to cross-border trade- and investment-related economic development* will the comprehensive set of opportunities for global trade summarized in the preceding chapters be realized and the fundamental legitimacy of the system be assured.

This larger purpose will require the WTO itself to cultivate a wider and more capable geometry of functions in two domains: informal normative and facilitative cooperation; and formal norm creation.

Informal cooperation. There is much more the WTO could and should be doing in the areas of data, transparency, analysis, dialogue and facilitation of both normative coherence and expanded trade and investment flows in the service of economic development. It is through the enhanced exercise of these informal or “soft law” functions that the WTO has the most immediate opportunity to further its principles and buttress the legitimacy of the system. For example, the Functioning of the WTO and other E15 Expert Groups have proposed:

- *Strengthening the role of WTO Committees*, making them active platforms for deeper analysis and more productive *informal* dialogue. This would entail extending the terms of Chairs and Vice Chairs from one to two or three years and empowering the corresponding secretariat directorates to be more proactive and independent in the structuring of their research agendas. There are multiple opportunities for the WTO to influence the course of national policy and even regional and plurilateral arrangements in this way. The Trade in Value Added (TiVA) project is a promising example on which to build. Research and informal dialogue on servification, the development impact of value chains and new issues raised by digital trade could help to build understanding and trust among member governments in ways that translate into better and more coherent policies even in the absence of these issues finding their way into formal WTO negotiating mandates.
- *Leading or otherwise participating actively in informal facilitation initiatives*, such as the Global Value Chain Partnership and possible Services and Investment Facilitation frameworks as summarized above. These initiatives and others like them would combine evidence-based dialogue among governments, businesses and experts with the possibility of institutional capacity building assistance for developing countries that spot opportunities for progress and wish to capitalize on them. As such, they have the potential to be just as catalytic of trade and investment flows as formal new trade agreements.
- *Leading or participating actively in informal coherence (anti-fragmentation) initiatives*, such as the RTA and Investment Agreement Exchanges as well as the enhanced regulatory transparency platform described above. These exercises and others like them seek to create an open-source dynamic of transparency, peer exchange, learning and reform. They can be a powerful force for improved consistency, convergence and ultimately the integration of regional and plurilateral arrangement rules into an ever-expanding core of multilateral disciplines. As the guardian of non-discrimination and the global trading system’s fundamental character as a public good, the WTO must become more creative, pragmatic and proactive in advancing this aspect of its mission. This is the kind of institutional leadership that could pay dividends in a decade’s time in the form of a steady, modular multilateralization of rules first negotiated in regional FTAs and sectoral plurilateral agreements.

Formal norm creation. The WTO would stand a better chance of catalysing the progressive reintegration of the system over the next 10 to 20 years through the modular multilateralization of specific features of RTA and plurilaterals if it was similarly creative and pragmatic about its negotiating function. Specific E15 Expert Group ideas in this respect include:

- Encouraging the creation of plurilateral clubs that are consistent with this long term objective, in particular by making them eligible for WTO dispute settlement if approved by only 80% of members (rather than the usual consensus) if they are:
 - Open to participation by all members during the negotiating process.
 - Extend their benefits to least developed economies on an unconditional MFN basis.
 - Allow for the extension of benefits to other countries on a conditional MFN basis (i.e., they are open to accession by all countries).
 - Include an institutional capacity building assistance feature to assist interested developing countries.
- Adopting a general code of conduct for plurilaterals.
- Conducting a Multilateral Impact Statement on all proposed and negotiated plurilateral agreements.
- Proactively identifying and proposing for negotiation as a result of its own analysis specific best practice features of RTAs and plurilaterals that may be ripe for broader integration, whether through adoption by other RTAs or a global plurilateral.

By embracing and adapting itself in these ways to a world of variable geometry, the WTO could help to steer the evolution of trade and investment liberalization, most of which now occurs outside the WTO, in a direction that ultimately strengthens the global trading system's legitimacy, rather than undermines it. In view of the system's current trajectory, a more creative and assertive WTO along these lines is what could make the difference between a world of competing, trade-diverting blocs in which many developing countries fall further behind, and one in which the essential MFN nature of the system is rejuvenated and a virtuous circle of balanced integration across advanced and developing countries leads to mutually reinforcing progress in broad living standards for all.

The trade community and WTO would do well to learn from the recent experience of their climate change counterparts. It took the failure of negotiations in Copenhagen in 2009 for the UNFCCC to recognize that a near-exclusive focus on its own formal normative machinery was handicapping its effectiveness as an agent of progress. The negotiations in Paris in 2015 succeeded because the organization and key constituent governments embraced a wider, variable geometry of

opportunities for progress –formal and informal, public and private—and steered them toward an integrated contribution. While the results were only partial, they nevertheless were significant. And they created a blueprint for the construction of future, additional progress.

The first step on this journey was for the UN system to acknowledge that it was just part, albeit an important part, of a wider ecosystem or cooperative architecture. The second was for it to think carefully through how it could exert leadership even on the aspects that were outside its formal competence (e.g., finance, innovation, private sector initiatives, etc.). Through the Durban and Lima ministerials, it put in place the building blocks of this wider cooperative geometry, much of it informal (voluntary national commitments, voluntary private commitments, peer review and verification, etc.).

The agenda outlined above, derived through an extensive process of multistakeholder consultation and ideation, is an analogous blueprint for adapting the WTO and the global trade and investment system to changed circumstances. By embracing the wider trade and investment cooperative ecosystem, assuming a broader role for enabling balanced progress within it, the WTO has a similar opportunity during its forthcoming “period of reflection” to develop a long-term plan to restore its relevance and safeguard the system’s legitimacy. The international community is counting on it to succeed.

Table of Policy Options

Note: Policy Options may be important for several primary macro-policy objectives, and discussed in more than one chapter. This table reports several repeated options only once.

Boosting Global Growth and Employment

Diffusing Technological Progress

Services Single Windows	Create comprehensive, online, single points of enquiry for cross-border services providers to learn about host country regulatory, licensing and other administrative requirements.
Liberalized Data Flow	Allow the free flow of data across borders subject to an exceptions provision based on GATS Article XIV (right of countries to protect the privacy of personal data); include an explicit commitment to eschew data localization requirements.
Digital Best Practices	Adopt best practices regarding intermediary liability, privacy, intellectual property, consumer protection, electronic signature and dispute settlement.
Moratorium on Duties for Electronic Transmission	Make permanent the moratorium on customs duties on the electronic transmission of products.
Digital Trade Agreement	Initiate negotiations to establish a Plurilateral Digital Trade Agreement or “eWTO”.
ITA Expansion	Expand the Information Technology Agreement
Digital Trade Working Group	Create a WTO Working Group on Digital Trade supported by a technical advisory committee of private sector and academic experts.
GATS Clarifications	Clarify GATS commitments given the convergence in basic and value added telecommunications services.
Telecoms Reference Paper	Clarify the terms of the WTO Telecoms Reference Paper especially in reference to the internet.
Work Programme on Electronic Commerce	Provide direction to the Work Programme on Electronic Commerce if that process does not yield progress at the Nairobi ministerial meeting.
Digital Trade Policy Review	Create a Trade Policy Review Mechanism (TPRM) framework to analyse the consistency of country measures affecting digital trade with their WTO commitments.

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R&D Services Liberalisation	Include research & development services in GATS
Basic Science & Technology Agreement	Establish a WTO Agreement on Access to Basic Science and Technology to strengthen the global commons in science and technology without unduly restricting private rights.
<i>Improving the global efficiency of capital & skills allocation</i>	
Financial Services Cooperation	Deepen regional regulatory cooperation in financial services by: 1) creating regional mechanisms, such as regional credit bureaus and rating agencies; 2) facilitating free data flows and offshoring; 3) standardising documents and documentation requirements.
Temporary Movement of People	Allow the temporary movement of natural persons across frontiers to provide services by streamlining processes related to visas and work permits by: 1) clarifying how GATS provisions apply to visas and work permits procedures; 2) Improving transparency; 3) Strengthening regulatory cooperation for managing the entry and stay of natural persons for the supply of services.
Innovation Zone Plurilateral	Establish a plurilateral but open “innovation zone” through GATS within which skilled researchers and technical personnel can migrate freely for up to 10 years.
<i>Expanding Trade & Investment in Employment-Intensive Industries</i>	
Services Facilitation	Develop a comprehensive WTO Framework for Trade Facilitation in Services with: 1) intensified temporary and short stay visa facilitation; 2) enhanced access to finance for trade in services; 3) common guidelines for the governance of electronic trade and cross-border data flows; 4) benchmarking of best practices and development of regulatory principles to address cross-border market failures in services sectors.
Reducing Commercial Friction and Investment Uncertainty	
<i>Global Value Chain Partnership</i>	
GVC Platform	Create a new international public-private platform to improve the efficiency and inclusiveness of global supply chains comprising: 1) Supply chain councils to carry out mapping studies of supply chains and their constraints, 2) Development implications analysis to assist national strategies, 3) Informed capacity building and interactions to strengthen the enabling environment.

Rationalizing preferential trade agreements and investment agreements

RTA Exchange	Create an RTA Exchange, a comprehensive open information platform to enhance understanding of RTAs, sharing of best practices and ultimately harmonization/multilateralization.
Model Investment Agreement	Create a model investment agreement, formulated as a best practice open for voluntary adoption to help modernise and harmonise the international investment regime; create an International Investment Exchange

Coordinating services, competition, data transmission, IP and other aspects of regulatory cooperation

Services Soft Law	Utilize best-endeavour clauses, accompanied by monitoring and assistance, to create momentum in services trade agreements where hard law commitments may not be feasible in the near term
Services Trade Restrictiveness Index	Continue and expand the OECD Services Trade Restrictiveness Index.
Goods/Services Integration	Integrate goods, services and investment in trade policy by deepening the Trade in Value Added research of the OECD and WTO and establishing a WTO Working Group to recommend ways to reduce distortions resulting from the separate rules for goods and services
Regulatory Transparency	Strengthen the transparency of national regulations: 1) map national transparency mechanisms; 2) have WTO members notify all adopted measures, whether based on international standards or not and explain the rationale behind them (reasoned transparency); 3) have a reasonable interval between publication and entry into force of a measure to fine-tune regulation.
Common Regulatory Objectives	Expand the use of the Common Regulatory Objectives model as advanced by Recommendation L of the UN Economic Commission for Europe
Business Participation	Provide observer status to business in the WTO TBT, SPS and other Committees.
Competitive Neutrality	Build upon the competitive neutrality principles for state-owned enterprises included in the Trans-Pacific Partnership and EU-Canada CETA agreements
Competition and Trade Cooperation	Improve cooperation among competition and trade policy authorities.

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Digital Single Windows and APIs	Adopt interoperable, digitally-enabled single windows for customs and border compliance, and release open application program interfaces (APIs) to allow developers to create digital platforms to services to link SMEs to large numbers of country single windows. Help finance in developing countries through Aid for Trade.
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Customs de-minimis	Establish higher, standardized de-minimis customs levels to facilitate cross-border flows of small packages supplied by internet-enabled retail services providers, especially SMEs.
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Postal Services Integration	Explore the integration of national postal services into an interoperable, global, package-shipping network.
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Accelerating Sustainable Development in Least Developed Countries

Maximising preferential market access

Duty-Free, Quota-Free	Developed countries should extend full DFQF market access for all LDCs. Middle-income countries should implement DFQF programmes that attain 97% tariff line coverage. Both groups should implement rules of origin for these preference arrangements using an extended cumulation approach, forming a broad cumulation zone.
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Agricultural Solidarity Fund	Create a solidarity fund to which financial contributions would be made in proportion to the magnitude of Official Trade Distorting Support for agriculture.
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Improving the terms of foreign investment

Regional Platforms for Excellence.	Create regional platforms to clarify global regulatory initiatives and market developments and help with value-chain upgrading efforts.
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Increasing the volume of financing for trade-related development

Correspondent Banking	Ensure correspondent-banking availability in developing countries by: 1) Mentoring by the Bank for International Settlements (BIS), the Financial Stability Board (FSB) or the Wolfsberg Group to improve local banks' governance structure; 2) Have the mentor validate the "Know your Customer" process at the local bank; 3) Compel a minimum service correspondent-banking network for each enabled country and chosen banks.
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Aid for Trade Expansion	Increase aid directed to investment-climate institution building. Target aid to the development of rules and administrative and adjudicatory capacity in the areas of services, legal and regulatory reform, investment frameworks, private standards adherence, responsible supply chain practices, global value chain mapping against domestic capabilities and anti-corruption.
Tax Reforms	Increase domestic resource mobilization in developing countries through capacity-building assistance for stronger domestic tax institutions and a more transparent international tax system.

Ensuring inclusivity of norm setting and adoption

Standards Capacity-Building	Provide assistance to apply SPS & TBT conformity testing. Scrutinize private standards. Support the Standards and Trade Development Facility.
Regional & Plurilateral Inclusivity	Devise principles by which the emerging mega-regional regime can connect more easily with the multilateral system. Extend benefits from mega-regional agreements to LDCs.
Institutional Readiness Index	Create an Institutional Readiness Index to guide LDCs and development partners in setting priorities for the support of economic institution building.

Increasing Economic Diversification and Competitiveness in Middle-Income Countries

Supporting Investment

Investment Transparency	Host countries, home countries and MNCs to share information on legislation, incentives, contracts, etc.
Strengthen IPAs	Investment Promotion Agencies increase their role in policy benchmarking and advocacy, partnership facilitation, process simplification.

Establishing a Global Value Chain Partnership

GVC platform	Create a new international public-private platform to improve the efficiency and inclusiveness of global supply chains comprising: 1) Supply chain councils to carry out mapping studies of supply chains and their constraints, 2) Development implications analysis to assist national strategies, 3) Informed capacity building and interactions to strengthen the enabling environment.
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Expanding Services & SME Trade

SME-Friendly Policies	Provide digital single windows for goods and services trade with reduced administrative burdens for low-value trade.
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Strengthening Regulation & Standards

Competition Monitoring	Set up a Global Competition Alert. Empower domestic competition agencies to evaluate their governments trade regulations.
Competition Best Practice & Advocacy	Increase interactions between competition agencies. Provide technical assistance and best practice strategies.
Soften LCRS	Soften local content rules via broadening to regional economic communities. Require WTO monitoring and conduct analysis of their effects.
Skills & Learning	Invest in human capital and develop centres of excellence to foster learning and quality improvements.
Non-actionable subsidies	Allow subsidies related to R&D, regional development, environmental protection and disaster recovery

Combating Climate Change and Environmental Degradation

Climate Change

Regime coherence	Arrange systematic coordination between the UNFCCC & WTO. Define “climate measures” for the purpose of trade dispute settlement. Promote dispute settlement under the UNFCCC. Uphold IMO & ICAO climate agreements in the WTO.
Enabling Frameworks	Establish carbon accounting standards. Allow for WTO-plus climate clubs. Clarify WTO treatment of emissions trading systems. Address consumption-based carbon accounting.
Energy Transition	Eliminate fossil fuel subsidies. Cut tariffs on environmental goods and services. Limit antidumping actions against clean energy technologies. Allow for clean energy subsidies. Clarify trade rules for electricity transmission.

Natural Resources & Extractives

Sectorial agreement	Develop a stand-alone trade agreement on finite natural resources. Improve investment agreements in the sector, targeting transparency and environmental standards.
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Fisheries and Oceans

Fisheries Management	Discipline fisheries subsidies. Tackle IUU fishing through traceability requirements, stock reporting and private sector schemes.
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Ensuring Food Security

Establishing an equitable and predictable multilateral trade system;

Confidence Building	Rebuild trust through non-binding measures, particularly on domestic support.
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Agriculture Plurilateral	Initiate negotiations on a plurilateral agreement on agriculture.
<i>Ensuring stable food availability and accessibility in times of high and volatile prices;</i>	
Disciplining export restrictions	Progressively, exempt humanitarian aid from export restrictions, clarify current disciplines, and ultimately, with exceptions, prohibit export restrictions and taxes.
Public Stockholding	Update price references for public stockholding schemes
Food Market Transparency	Provide stockholding data to the Agricultural Market Information System
Emergency Reserves	Establish emergency humanitarian food reserves
Global Food Stamps	Provide international help with the design and funding of social safety nets.
<i>Delivering public goods while addressing trade distortions;</i>	
Green box reform	Distinguish between payment for public goods and income support, cap income support and provide more transparency on green box measures.
Biofuels support	Notify biofuels support measures and design disciplines, potentially by expanding the Agreement on Agriculture
Food & Climate	Minimize trade distortion through green box measures, support agricultural productivity in LDCs and clarify the conditions for border carbon adjustments.
<i>Promoting value addition and export opportunities.</i>	
Facilitating Agricultural Trade	Develop regional trade facilitation plans for agriculture, including infrastructure and trade financing.
Harmonization	Increase use of international standards in domestic SPS regimes, multilateralize standards transparency provisions adopted in RTAs and provide SPS capacity building.
Private standards	Use oversight, guidelines and public pressure to drive inclusiveness in private standards and support compliance with such standards via Aid for Trade
Agri-Food negotiations	Address seeds, pesticides, fertilizers, logistics and other inputs in an integrated manner in agricultural negotiations.

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Preserving National Policy Space to Make Societal Choices	
Supporting Industrial Development	
Update IIAs	Modernize and strengthen the coherence of investment agreements through 1) a consultative process to update the overall purpose of IIAs; 2) design a model 21st century investment agreement including investor obligations, appeals framework, public participation; 3) create an Advisory Centre on International Investment Law; 4) extend Aid for Trade to cover investment issues; 5) use the model agreement to create a plurilateral investment agreement
Non-Actionable Subsidies	Create a safe harbour for subsidies to address market failures for climate change, regional development, R&D, natural disasters and conflict
Protecting Societal Values	
Plurilateral Regulatory Cooperation.	Engage like-minded countries in open clubs that establish a common floor for social and environmental standards and encourage other countries to join by extending trade and investment preferences and substantial capacity-building assistance.
Responsible Supply Chain Practices	Marshal a concerted approach to build a critical mass of corporate adherence to sustainable product and supply chain practices.
Strengthening the Legitimacy of the Global Trading System	
Inclusiveness	
RTA Exchange	Create an RTA Exchange, a comprehensive open information platform to enhance understanding of RTAs, sharing of best practices and ultimately harmonization/multilateralization.
Model Investment Agreement	Create a model investment agreement, formulated as a best practice open for voluntary adoption to help modernise and harmonise the international investment regime; create an International Investment Exchange
Plurilateral code of conduct	Negotiate a code of conduct governing plurilaterals in the WTO
RTA Impact Statements	Provide for RTA impact statements to encourage multilateral compatibility and contestable markets.

Transparency of national regulations	Strengthen the transparency of national regulations: 1) map national transparency mechanisms; 2) have WTO members notify all adopted measures, whether based on international standards or not and explain the rationale behind them (reasoned transparency); 3) have a reasonable interval between publication and entry into force of a measure to fine-tune regulation.
<i>Effectiveness</i>	
Plurilateral Clubs	Relax the conditions for plurilateral agreements but provide for monitoring and guidelines.
Informal Approaches	Boost the use of best endeavour approaches, advance practical implementation, create a GVC partnership platform and develop digital dispute settlement mechanisms.
Domestic Institution Building Assistance	Improve technical advice for contracting, enhance institutional monitoring, ensure correspondent banking availability and provide aid for services trade.
Bolster Transparency	Expand the WTO's role as an information and data hub, with stronger reporting requirements on members
Deliberative Deficit	Engage business and civil society more directly in the WTO and improve knowledge tools and focus.

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Endnotes

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- 59a. The current US level of \$200 has not been adjusted since 1993.
- 59b. The index is based on (with equal weight): percentage of the population undernourished, mortality rate of children aged five years or under, gross secondary school enrolment ratio, and adult literacy rate.
- 59c. These eight indicators are combined into two different indices, the Exposure Index and the Shock Index. The Exposure Index includes population size, remoteness, share of population in low elevated coastal zones (all three with one-eighth of total weight), and merchandise export concentration and share of agriculture forestry and fisheries (these two with one-sixteenth weight). The Shock Index includes instability of exports of goods and services (one-fourth weight), and instability of agricultural production and victims of natural disasters (with one-eighth weight for each of the two).
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 78. See Rodrik, 2004, p. 7, available at <https://www.sss.ias.edu/files/pdfs/Rodrik/Research/industrial-policy-twenty-first-century.pdf>; Ciuriak (2015) makes the point that diversification itself will over time also lead to specialization (discussion paper available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2632806)
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85. See Bebczuk and Berrettoni, 2006, available at <http://www.depeco.econo.unlp.edu.ar/doctrab/doc65.pdf>; and Kaulich, 2012, available at https://www.unido.org/fileadmin/user_media/Publications/Research_and_statistics/Branch_publications/Research_and_Policy/Files/Working_Papers/2012/WP032012_Ebook.pdf
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87. De la Torre, Didier and Pinat (2014) note the failure of the Latin American region to harness learning spillovers associated with trade (working paper available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/04/08/000158349_20140408153650/Rendered/PDF/WPS6837.pdf).
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- 88a. The following text draws on that Think Piece.
- 88b. See in this context also the United Nations Sustainable Development Goals (UNGA 2015). Goal 17: “Strengthen the means of implementation and revitalize the global partnership for sustainable development” with target 17.5: “Adopt and Implement investment promotion regimes for least developed countries.”
- 88c. It should be noted, however, that a sustainable investment support programme as advocated here places special emphasis on the promotion of sustainable FDI and maximizing its benefits.
89. Milberg and Winkler, 2013

90. See Singh and Jose, forthcoming. For more details, see the studies referred to therein, such as Agénor and Canuto, 2012; Aiyar et al., 2013; Eichengreen et al., 2013; Harrison and Rodriguez-Claire, 2010; Lin and Treichel, 2014; and Nubler, 2014.
91. For good governance, Salazar-Xirinachs et al. (2014) emphasize the importance of accountability, applied to both private actors and the state, automatic sunset clauses, built-in programme reviews, monitoring and the establishment of clear benchmarks for success or failure, and periodic evaluation exercises (p. 31).
- 91a. In some countries, the trade and investment promotion functions are combined in one agency. Even in the absence of an investment support programme, it would make sense for the trade and investment focal points at the national level to cooperate.
- 91b. See in this context also OECD (2015b).
- 91c. There are also other international organizations that could bring their expertise to such an effort, for example the ILO with its important focus on decent work and inclusive growth, as well as its experience with its Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO 2006); the Office of the High Commissioner for Human Rights with its work on the Guiding Principles for Business and Human Rights (UN OHCHR 2011); and UNEP with its experience in environmental matters.
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98. Laborde, 2014
99. Ernst & Young, 2013
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101. OECD/FAO Agricultural Outlook, 2013
102. Schmidhuber and Meyer, 2014
103. According to the “OECD-FAO Agricultural Outlook 2015-2024”, prices for all agricultural products are expected to decrease over the next 10 years with productivity growth and low input prices outpacing demand increases, but will remain at a higher level than in the years preceding the 2007-2008 price spikes.
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105. See FAO, IFAD and WFP, 2015
106. See Campbell et al., 2011, available at <http://www.merid.org/~media/Files/Projects/CCAg%20microsite/Agriculture%20and%20Climate%20Change%20Scoping%20Report.pdf>
107. According to Nelson et al. (2009) at the International Food Policy Research Institute, developing countries’ agricultural imports might double in 2050 compared to the 2000 baseline, due to climate change.

108. In the European Union, the new Common Agricultural Policy increasingly requires farmers to respect additional environmental requirements as a condition for receiving support. In the United States, the new 2014 Agriculture Act abolishes direct payments to producers – seen by many as impossible to justify politically when prices are high. In their place, Washington has introduced subsidized insurance programmes for price and revenue with significant trade distorting potential (Glauber and Westhoff, 2015).
109. See “Agricultural Trade Outcomes at the Nairobi Ministerial and Beyond”, available at <http://www.ictsd.org/themes/agriculture/events/agricultural-trade-outcomes-at-the-nairobi-ministerial-and-beyond>
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