



International Centre for Trade
and Sustainable Development

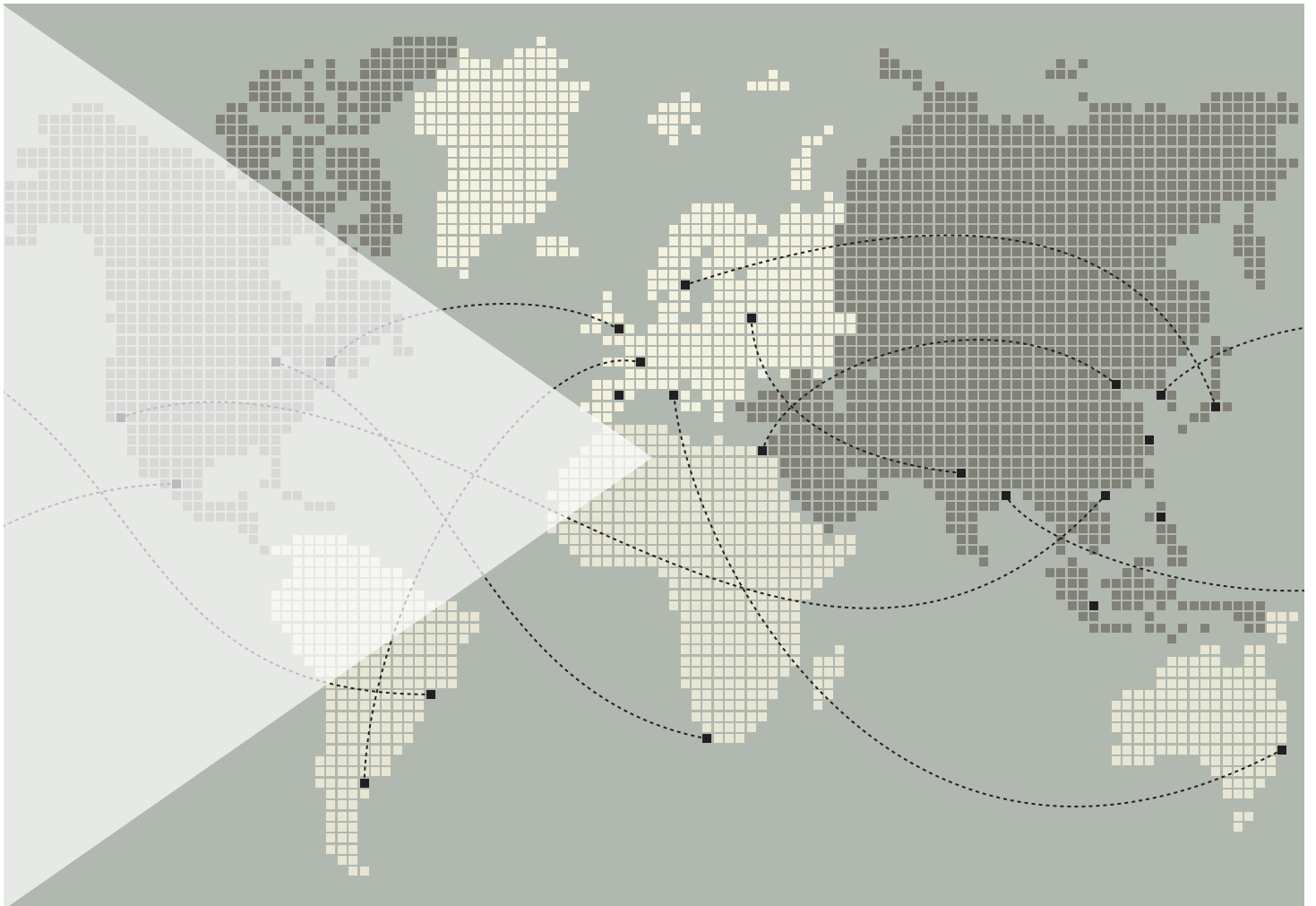


COMMITTED TO
IMPROVING THE STATE
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Global Agenda

International Trade and Investment E15 Initiative Interim Update

January 2015



A significant window of opportunity to shape trade and investment policy for the next decade is opening. Though the way forward is not yet clear, strong public-private alignment exists on the need for trade and investment to drive jobs and prosperity. There is global momentum for commercially meaningful reform even though geopolitical threats to trade persist. Some of the necessary changes are global in nature, others regional, domestic or business-led. At each level a clear narrative and roadmap for change is sought.

Through sustained and in-depth engagement of trade, economy and finance ministers and other policy-makers, the business community has helped to shift global attention to practical trade facilitation priorities. The global deal reached in Bali was the first breakthrough in the Doha agenda. Supporting implementation of the crucial practical reforms agreed in Bali, ushering in a trillion-dollar boost to the global economy, remains an imperative.

World attention is now turning to further, deeper harmonization, 21st century challenges and ensuring global well-being.

Steering, partnership and insight

- Contribute to detailed policy planning
- Explore systemic links and future developments
- Engage in high-level policy-maker outreach

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REF 130115



E15 initiative

The E15 initiative is building a platform for delivery on long-term trade and investment priorities.

This document gives a preliminary overview of the challenges being considered and potential responses being detailed and tested.

E15 working groups

New Economy	Global Supply Networks	Resources	Sustainable Development	System Reform
Services	Global Value Chains	Agriculture & Food Security	Finance & Development	Global Trade Architecture
Data & Digital Economy	Investment Policy	Oceans & Fisheries	New Industrial Policy	Regional Trade Agreements
Innovation	Competition Policy	Extractive Industries	Subsidies	Functioning of the WTO
Clean Energy Technologies	Regulatory Coherence		Climate Change	



Creating a robust, multistakeholder set of trade and investment policy opportunities ready for implementation.



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New Economy

Services

- Servification
- Digitalization
- Value addition and statistics
- Movement of people
- Intangibles

Services account for around two-thirds of world output, employment and FDI flows, and half of world trade as measured on a value-added basis. Services tend to be more regulation-intensive than goods yet more elusive and harder for lawmakers to grasp. Digitization and servification of the economy renders an updated treatment of services more urgent. Services offer an attractive proposition for SMEs to engage in international value chains.

Slow progress in multilateral fora has prompted 50 economies to try to negotiate a Trade in Services Agreement (TISA) while investment treaties covering services have proliferated. For business, a less fragmented approach to the goods and services components of commerce would be preferable, while a major priority is easing movement of skilled labour.

Potential responses

- Explore ramifications of the fusion of goods and services in international investment and trade
- Assess current regulatory disciplines for services and define priorities for regulatory coherence
- Adapt services trade agreements to respond to changes in technology and business models
- Propose soft law approaches to advance dialogue and services liberalization
- Support services value chains as a driver for development and opportunity for SMEs

Data and Digital Economy

- E-commerce
- Data flows and hosting
- Digital market access
- Cyber governance

Digitalization accounts for 20% of global GDP growth and supports trade creation, efficiency and access. Digital solutions are used to sell and deliver products and services, while businesses need to move data across borders as an intrinsic part of their daily operations.

International trade and investment face new or newly evident obstacles in a digital economy. Market access restrictions,

localization requirements, intellectual property rights, data privacy, taxation and jurisdictional uncertainties, censorship and poorly adapted customs services are frequently cited. Several of these overlap with a broader debate about regulatory frameworks for cyber and internet governance. Definitional questions about the location of digital activities or the treatment of digital copies remain unclear.

Other issues are more familiar but brought into clearer focus by increased SME participation in international trade, empowered by online visibility. Customs regimes are often not prepared to deal with large numbers of independently processed small-value items while customs information interfaces are inappropriate for small businesses. In parallel, service delivery and investment models are revolutionized by digital global value chains. A further set of issues are linked to concerns about cybersecurity and data privacy. Resolving these would likely help advance a more traditional debate about market access and localization requirements.

While the WTO's E-Commerce Programme, and the inclusion of digital issues in regional trade agreements, signals the importance of trade in digital goods and services for the trading system, the full implications of the ongoing technological shift are still unclear.

Innovation

- Standards and innovation
- Innovation in LDCs
- Patent systems
- ITA negotiations

Promoting innovation is a high priority policy objective for many governments, especially in a global economy in which global value chains have become a key conduit for technology diffusion. Innovation is an important driver of business growth, and intellectual property is a strategic asset for achieving a competitive edge in global markets.

Trade liberalization and investment flows aid diffusion of ideas and innovation, yet absorptive capacity remains a prerequisite. Renewed progress in the Information Technology Agreement II negotiations is whetting appetites to advance broadly supported developments to technical standards and tackle perceived abuses of innovation frameworks.

Potential responses

- Liberalize R&D services, ease movement of researchers and agree on a framework for public research grants
- Re-design international standards system for greater openness and reactivity

- Extend WTO work on e-commerce, telecommunications and Services; create a stand-alone digital economy agreement
- Increase cooperation on data, classifications and statistics to promote policy coherence
- Create a WTO agreement on access to basic science and technology

Clean Energy Technologies

- Standards for clean energy technologies
- Procurement rules and practices
- Innovation and IPR
- Subsidies

Growing demand for energy access, security and emissions reduction is driving interest in technological advances in the supply and use of energy. The lack of a supportive international framework is seen to hinder the scale up of cleaner and renewable energy. Increasing recourse to litigation suggests it would be valuable to provide clarity and coherence to existing rules. Stronger development of the sector would be facilitated through reform of tariffs, standards, incentives and government procurement norms.

Potential responses

- Subsidies
 - Enhance transparency and notification processes for clean energy subsidies and measures
 - Clarify allowable exemptions for clean energy subsidies, and provide for time-limited exceptions

- Classification and tariffication
 - Refine customs classifications to more clearly identify green products
 - Reduce tariffs on a clear list of environmental goods
 - Improve classification of environmental services and advance broader services negotiations
- Procurement
 - Revise the Government Procurement Agreement to allow green procurement and contribute to market access for green goods and services
- Standards
 - Harmonize technical standards and ease certification requirements
 - Create a WTO/ISO Standards Information System
 - Review impact of private and local standards
- Enforcement
 - Enforce existing law to prevent abuse of anti-dumping/countervailing duties on green goods
 - Speed up dispute resolution; introduce a public interest test and binding review for safeguards



Global Supply Networks

Global Value Chains

- Trade facilitation
- Global value chains and development
- Supply chain information
- Behind the border issues

The new structures of production and service delivery in global value chains can boost growth and development opportunities. Trade facilitation enables workers and consumers around the world to access global value chains. To ensure the developmental utility of global value chains, countries need to be able to develop high value-added activities, through domestic upgrading and the removal of external barriers. Both low and high income countries have concerns about value concentration.

Information gaps, administrative inefficiencies and infrastructural inadequacies are key barriers to enhancing participation in global value chains. Overcoming these will require not only procedural and institutional reform and infrastructure investment, but also better information exchanges, coaching and certification.

Potential responses

- Implement the WTO's Trade Facilitation Agreement and complete the Trade in Services negotiations, the Information Technology negotiations, and, eventually, the Doha round of negotiations
- Expand global value chain expertise via coverage from the OECD/WTO Trade in Value Added database, WTO reports and Trade Policy Reviews
- Establish a set of supply chain councils, building on credible and industry-trusted bodies, as repositories of supply chain research and mapping of constraints
- Bring private sector voices into the WTO and create a WTO working group on global value chains
- Negotiate a multilateral agreement on investment, coordinate aid-for-trade work with global value chain needs, and adopt a supply chain focus in future negotiations.



Investment Policy

- Investment facilitation
- Establishment and market access
- Investment protection
- Investment incentives
- Business and human rights
- Dispute settlement

Trade and foreign direct investment are two sides of the same coin; sales by foreign-owned firms are roughly 50% higher than world merchandise trade. As with trade, FDI enables economies of scale, competition and transfer of knowledge, acting as an engine of economic growth. However, there has been no success in agreeing multilateral rules for investment, and over 4,000 bilateral investment treaties and provisions have sprung up. However, today this regime has come under criticism and its dispute-settlement mechanism is mired in controversy. Long-term policy options are needed to define the role of FDI policies in contributing to the global trade system in general, and the growth and development of countries and communities.



Competition Policy

- Competition policy coherence
- International enforcement
- Transparency
- State aid and SOEs
- Cartels and market sharing

Despite distinct legal traditions, trade and competition policies are broadly complementary in that they both aim to foster consumer welfare, growth and development. Pro-competitive regulatory frameworks that increase market efficiency promote the productivity and competitiveness of tradable sectors. Convergence between policies could facilitate market access by removing non-border barriers to trade, create increased transparency for multinational businesses, and reduce complex bureaucratic and legal hurdles to international trade and investment. Interactions between international trade policy and regional state aid control regimes can support an international framework for shaping competition policy.

Regulatory Coherence

- Compatibility and convergence
- Mutual recognition
- Testing and certification
- Standards
- Deregulation and modernization

The cost of regulatory differences, misalignments and incompatibilities clearly varies wildly, but typical estimates are of the order of 20% or more. Sovereign nations naturally wish to maintain policy space and regulatory authority. Nonetheless a spectrum of options can be considered to ease the burden of sometimes unnecessary differences.

The development of the European Common Market shows successful examples, ranging from adoption of common standards and coherency and compatibility arrangements, to mutual recognition and deregulation. Procedural cooperation such as through mutual reliance for conformity assessment can reduce burdensome testing and reporting requirements. The growth of private standards provides both an opportunity and a challenge in addressing regulatory compatibility.

This group considers regulatory issues unnecessarily impeding the modularization and harmonization of business practices, products and services, and proposes policy options for the medium to long term.

Resources

Agriculture and Food Security

- Resource security and shortage
- Sustainable development
- Seed and fertilizer markets
- Market restrictions and distortions
- Agricultural Standards

The current global shift from a situation of food surplus to one of food shortage highlights the need for reform in the world's agricultural trade and investment system.

Demand for biofuel feedstock, water shortages, climate change challenges and land acquisition conflicts place further stress on the system, which is easily weakened by export restrictions and other trade policy actions. Crucial input markets for seeds and fertilizers are harmed by intellectual property concerns. Easing conditions for developing country producers and consumers, in particular, requires both supply chain improvements and deep policy adjustments.

Potential responses

- Agreement on agriculture and SPS agreement
 - Establish a financial solidarity link between agricultural support and development assistance
 - Provide transparency on food export restrictions and the actual extent of shortages
 - Exclude food aid from export restrictions
 - Provide transparency and disciplines for government support to biofuels
 - Improve monitoring and surveillance, with support and incentives for meeting deadlines
 - Provide support for establishing effective SPS regimes
 - Bind export taxes
 - Clarify green box rules
 - Improve administration and transparency of SPS rulings
- Broader international cooperation
 - Clarify permissibility of border carbon adjustments
 - Encourage a WTO compatible approach to regional trade agreements with regards to agriculture provisions
 - Improve food market transparency, support emergency reserves, strengthen social safety nets and foster agricultural productivity

Oceans and Fisheries

- Resource security and shortage
- Sustainable development
- Market restrictions and distortions

Oceans and fisheries play a crucial role in supporting the nutrition, employment and livelihoods of hundreds of millions of people around the world. Fish is one of the world's most highly traded commodities and a major source of export revenue for low-income countries. The rapidly declining state of many fish stocks has prompted private sector efforts to build markets for sustainable fisheries products, and to reduce demand for the products of illegal, unreported and unregulated (IUU) fishing.

IUU fishing undermines sustainability efforts and government revenue streams. Capacity-enhancing subsidies worth an estimated \$20 billion per year incentivize overfishing. These and broader issues related to the health of the world's oceans, including ocean acidification, require cooperative policy responses. Trade policy frameworks need to support traceable and sustainable fisheries production to enhance the environmental, social and economic aspects of oceans and fisheries.

Extractive Industries

- Mobilizing investment in LDCs
- Export restrictions
- Private responsibility initiatives
- Resource security and depletion

The geographical concentration of scarce natural resources can provide an opportunity for resource-rich countries. Over-reliance on commodity exports, however, poses a risk to balanced development.

Various private sector initiatives attempt to guide responsible natural resource extraction, but no single global framework exists. Export restrictions or beneficiation requirements have been used in many cases motivated by domestic public policy objectives, environmental concerns or other reasons, but discipline is needed to achieve optimum outcomes both globally and locally. Extraction, processing and transport of fossil fuel and raw materials require significant investments, including in adequate infrastructure. Many developing countries are not able to domestically mobilize the significant long-term investments required. Trade and investment policy rules need to evolve through multilateral, regional and bilateral agreements to tackle these issues.

Sustainable Development

Finance and Development

- Financial services
- Capacity building and aid for trade
- Investment facilitation
- Global value chains and development
- Preferential treatment
- Role of SMEs

Financial services, foreign investment and international aid are essential for trade growth and long-term development in low-income and emerging countries. The closer integration of global value chains has only strengthened the links between trade, finance and sustainable development while the increased importance of services and SMEs drives further change.

Improvement of local financial services, capital markets and institutional financial capacity are fundamental. Project finance is needed to build the hard infrastructure and skills base required to serve global markets while a large proportion of trade is financed by letters of credit, guarantees and other instruments of trade finance.

Official Development Assistance (ODA) remains a major source of revenue for LDCs. Encouraged by the WTO-led Aid for Trade (Aft) initiative to mobilize resources to address trade-related constraints, ODA agencies increasingly focus and coordinate their support to local trade and finance reform programmes. Yet reporting burdens to receive ODA from multiple funders can be significant.

Preferential agreements provide both procedural and substantive benefits to developing countries, yet often do not extend to the commodities which matter most to LDCs, inflexible rules of origin reduce their value, and expiration dates discourage investment. Meanwhile, negotiations over reducing margins of preference slow down broader liberalization efforts.

Bridging the gap between aid and commerce requires support in building a favourable policy environment, creating public-private partnerships, marketable investments and growing competitive businesses able to connect to global markets. The lack of multilateral disciplines for investment reduces the spread of robust best practices necessary to encourage investment and protect both investors and citizens.

New Industrial Policy

- Market-enhancing policies
- Industrial cooperation
- Competitiveness
- Fostering private investment
- Structured development

To foster competitiveness in a globalized market, today's new industrial policies are predominantly focused on market-enhancing actions focused on horizontal attributes such as skills, innovation, information and infrastructure. Competition plays a critical role in the implementation of these policies.

The menu of appropriate policy options varies by level of development and whether the goal is catch-up or expansion of technological frontiers in the aim of global objectives, such as healthcare or climate action. In particular, the level of flexibility available to governments is a central issue. To what extent should multilateral rules help governments resist pressure for poor policy rather than focusing purely on preventing beggar-thy-neighbour actions?

Looking to the future, are industrial policy steps needed to adapt to new standards and the mega-regional FTAs? What aspects of financing tie-ins, exchange rate policy and tax competition require new thinking and transparency?

This group works to identify well-founded options for building sustained market opportunities and domestic capacities.

Subsidies

- Subsidies system reform
- Trade remedies
- Environmental exceptions
- Soft law

Since the WTO Agreement on Subsidies and Countervailing Measures (SCM) entered into force, the world has evolved, prompting a growing number of stakeholders to question the adequacy of current subsidies disciplines. After the 2008 financial crisis, governments from developed and emerging economies re-established allegedly discriminatory measures, such as local content requirements or government aids for infant industry in key sectors. Likewise, aggressive use of trade remedies on clean energy products or the notion of non-actionable subsidies on programmes tackling resource scarcity, deserve comprehensive reassessment. As tensions between current disciplines and government practices continue to grow, the time is ripe for a review of subsidies disciplines.

Climate Change

- Climate change policy space
- Green protectionism
- Incentives and standards
- Trade and efficiency

Responding to a quintessentially global challenge, climate change mitigation efforts are inevitably intertwined with international trade and investment. Trade and investment rules and practices can enable or frustrate the plethora of climate measures being considered or implemented around the world. Fragmented global climate policies risk generating trade tensions, yet if well-designed can provide green space for national policies, while benefiting from trade-driven efficiency and innovation.

Potential responses

- Consumption
 - Support labelling and private standards
 - Support green government procurement
 - Explore consumption-based incentives
- Standards and market access
 - Harmonize standards and technical regulations
 - Reform cabotage and investment restrictions
 - Eliminate tariffs on green goods and services
- Subsidies
 - Legalize green tech R&D subsidies
 - Decisively tackle fossil fuel subsidies
- Clubs and border measures
 - Create plurilateral carbon-market clubs
 - Resolve free allocation, process and production measures requirements, and border tax adjustment measures
- Carbon pricing
 - Introduce at least some form of a carbon price in each nation, even symbolic
 - Extend tax or open emissions trading to bunker fuels



System Reform

Global Trade Architecture

- Global trade system reform
- Institutions
- Political narratives

What trade and investment narrative is needed for the 21st century? The centrality of the WTO is diminishing yet it remains an anchor institution. What is the best way to govern new issues? How can investment treaties and regional agreements fit into a streamlined structure? What links are needed to taxation, mobility and other areas of cross-border cooperation? The historical impetus for international trade and investment law as a force to avert extremism, fostered by destructive policies, remains valid. Can an open and pluralistic system, with a place for non-governmental voices develop?

Regional Trade Agreements

- Proliferation of RTAs
- Trade creation and diversion
- Incubation of new trade rules
- Multilateralization of innovations
- Ensuring inclusivity

Regional trade agreements (RTAs) and investment agreements now account for 90% and 60%, respectively, of cross border trade in goods and services. Today, RTAs cover a comprehensive negotiation package including services, competition policy, investment, technical barriers, regulatory compatibility, intellectual property protection and custom cooperation, among many other standards. The multilateral trading system needs to reinforce the best innovations of the regional agreements while maintaining its own inclusivity and efficiency. In the meantime, RTAs will keep setting standards at a sub-multilateral level.

Potential responses

- Establish an RTA information exchange knowledge platform
- Adopt a WTO Code of Conduct to govern plurilateral approaches
- Suggest global value chain-friendly plurilateral negotiations and a sustainable energy trade initiative
- Implement Multilateral Impact Statements for regional trade agreements
- Use a conditional most favoured nation and critical mass plurilateral agreement basis for WTO negotiations
- Multilateralize the gains from RTAs

Functioning of the WTO

- Overcoming deadlock
- Consensus and single undertaking
- Effectiveness of WTO bodies
- Enhancing private sector and public engagement

After 10 years of complex negotiations, with few substantive dividends, critics have argued that the WTO-established rules, principles and practices – carried over from the General Agreement on Tariffs and Trade (GATT) – are simply ill-suited to the fast changing challenges of our times. Strengthening of the functioning of the multilateral trading system and rethinking principles like the single undertaking while guaranteeing the fairness, predictability and effectiveness of the trade system are central to this group's mandate.

Potential responses

- Create an intermediary consultative body below the WTO General Council
- Reform the work of committees and other bodies to improve governance
- Create a business forum and a WTO Business Advisory Council
- Establish criteria for plurilateral agreements within or outside the WTO
- Harvest current texts and launch simultaneous plurilateral negotiations



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