The Future of the WTO
and the
International Trading System

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Discussion Paper No. 17

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Discussion Paper Series
APEC Study Center
Columbia Business School
February 2002

Keynote address given on 26 February 2002 by Dr. Supachai, the Spring 2002 Distinguished Speaker in International Economic Policy. Event co-sponsored by the APEC Study Center and the Program in International Economic Policy, School for International and Public Affairs, Columbia University.
This is, of course, not the first time that I'm going to talk about the future of the World Trade Organization and the future of the international trading system, but I don't get to talk to academic institutions very often, so today I will organize my presentation so that it can be easily understood and back it up with some realistic arguments appropriate for this institution of higher learning.

When I entered the race for this position of Director General of the World Trade Organization, we were not meant to be sharing this term of each three years; first Mr. Mike Moore, three years, and then I would have the second term of three years. I meant to join in the race because I thought that after fifty odd years of the GATT there must come a time when an institution that has the global responsibility of the GATT, should also have a global kind of governance. We need global governance at the major international institutions, because if we're going to get our act together, if we are going to manage the process of globalization so that each and every one can benefit in the future, I think we need to not only globalize the way we do business but globalize also the way international organizations, particularly the major ones, manage their policies.

The World Trade Organization appeared to many of us and particularly to myself as an institution with deep implications, serious implications for countries throughout the world. Of course, The World Bank has a lot of influence, but the World Bank would just distribute funds, do only the good things, like Santa Claus distributing all the goodies.

The International Monetary Fund would be taking on a special role in the case of the meltdown in Asia a couple of years ago. When countries were in deep difficulties, having continuous imbalances on their current accounts, for example, the Fund was involved with back-up lending/stand-by assistance under conditionalities. An organization like the World Trade Organization (WTO), however, is going to be involved with economies around the world all the time. We now have 144 members and there are about 28 countries waiting in the wings to join the WTO. If we can facilitate the accession procedures and make it a bit less complicated, the membership of the WTO could be expanded to cover more than 170 countries in a few years time. This is actually one of the goals that we should have, and it is actually one of my goals, anyway - with all these global institutions, we should have as many member countries as possible. So, you can imagine this global institution – the WTO -- with the responsibility of looking after the rules of the trade game, like trade policeman, trying to watch out for any violation by those who try to avoid their past commitments, trying to think of ways and means to strengthen the rules so that we can nurture trade expansion in a way that is as free and frictionless and as fair as possible for each and everyone concerned. We talk always about a level playing field. You will hear a lot of talk about the field not being very level at all. If this is the case, then it is the WTO that will have to see to it that we level the field as much as we can.

So, I saw for myself the challenging task that the WTO would become even more important in the future because we have come to involve many more new issues with trade. Some are trade-related and some are not so trade-related. Some are the so-called new issues. I’d rather not call them new issues because they are old issues, maybe cloaked in different manners, maybe they are new issues for the trade negotiators, because they have never dealt with these
issues before, but they are old issues related to economic conditions and, of course, trade would be involved in most of the factors determining economic conditions of any particular country.

The WTO is different from any other organization and culturally different from the GATT for two major reasons. One is that every agreement with regard to the WTO, under the auspices of the WTO, is legally binding. All commitments will have to be put into legal terms. So governments, when they sign on to any agreement with the World Trade Organization, back home, they would have to set up new laws if they want to follow up on the Agreement, for example, on Trade-Related Intellectual Property Rights Protection (TRIPs) and then there would be six, seven or eight laws that they would have to put into practice on patents, trademarks, copyrights, geographical indications, trade secrets, all these sorts of thing. So, it commits countries legally when we have agreements bound under the auspices of the World Trade Organization.

The second major point that differentiates the WTO from the GATT is the set up of the so-called Dispute Settlement Mechanism (DSM). Under the GATT, countries could have round after round of difficulties, disputes, conflicts. The GATT would try to intervene, to mediate and try to solve these disputes, but countries are not legally bound to follow up on what has been ruled as the final word by the GATT, whereas, under the DSM at the WTO, when you reach the final panel -- the appellate body -- and it agrees on any wording, countries (no matter how large or small) have to put that wording into practice, have to implement it. If they do not implement it, the WTO allows countries that have endured the violations to retaliate by putting up some quotas against goods from those countries or by imposing higher tariffs or surcharges, which normally would be in violation of the WTO rules, but if they compensate for an injury that has been agreed upon by the appellate body, then these become legitimized.

So, gradually, the WTO is really becoming a very significant organization with all kinds of old and new responsibilities. Of course, if you look into the body of the WTO, it's a very small office. We have around about 530 or 540 staff members. If you compare that with 6,000 or 7,000 people at the World Bank, a few thousand at the IMF, this is a very small unit with, again, a very small budget of around US$100 million a year, which is only part of the travel budget of the World Bank. I have to tell you this right from the beginning because my plea would be if you could support some increase in resources before I get to the WTO, I would greatly appreciate this.

My friend, Mr. Mike Moore, who is the present director general, has been going around with his hands open for more donations for the WTO. You'd be surprised to hear that he's not getting additional contributions from member countries in spite of the fact that they're all asking the WTO Secretariat to do more and more every year with every municipal conference -- and we meet once every two years. There will be more assignments, more mandates for the WTO to be working on -- technical assistance, capacity building, training courses. Look only at China's entry into the WTO! With China's entry into the WTO, there will be at least twenty subsidiary committees at the WTO that will have to work on all commitments of China in all areas -- on cultural services, industry, intellectual property rights, environment, market access, legal infrastructure, all sorts of things -- about twenty subsidiary committees. This would involve hundreds of people. On the Chinese side it will involve thousands of people because they have
to come and explain to us all the time what they've been doing, what sort of things have been executed according to the commitment to the WTO. With only China's entry, we'll need to put in place more people to look after the commitments of China. Aside from that, China would need a lot of training courses. They need to train thousands of people every year. Of course, they would do this on their own and with the collaboration of institutions around the world, but of course, the WTO would have to help a lot and, again, there are the new commitments of the Doha Declaration, which also mandates the WTO look into various aspects of trade. One that you would not imagine would be to look into the special issues of the small economies. Have you ever thought of that? Small economies have special issues and they need to discuss that fact. Small Caribbean economies are asking for this, particularly. They have particular problems. I don't mean small economies like some of the existing Pacific countries that are trading anyway, but small economies in the way that there are only a small number of people trading and a few goods traded -- coffee, cacao or some minerals. Part of the Doha mandate is, again, to look into special treatment for small economies.

Another new assignment is to look into the possible interplay between trade finance and debt relief programs. This is something new. This is something that we have asked for, because we've seen in the past few years that in spite of the fact that we have created a lot of room for more trade through hard negotiation, in a couple of months time all those gains would be wiped out because of the failure to meet financial commitments. Some countries have not been adopting rational kinds of macroeconomic policies and so they have become an easy victim for the predators -- the so-called hedge fund managers. Currencies would be attacked and then with currency adjustments that sometimes can be blown out of proportion, all trade can contract as we've seen in Asia.

Of all countries in the world, Asia used to be a place where trade expansion was just something that you took for granted, but during the financial meltdown, the financial implication for trade was a contraction of around 30% to 35% per year for intra-Asian trade. It has destroyed a lot of traders and trading nations in Asia because of mainly the lack of attention paid on financial policies and so, again, the WTO has been tasked to look into the nexus of finance, trade and debt and so on and so forth.

So, there have been quite a number of demands placed on the shoulders of the WTO. If you look into the future of the WTO, I can see that there is a trend that this institution might be evolving into a world economic organization, not a world trade organization. If you're not careful enough, it might become a world economic organization which, I don't think, is something that we all would like it to be because, of course, the WTO cannot aspire to have the competence to handle all kinds of economic issues, issues in environment or in the areas of labor rights, or even in the areas of health, or the areas of TRIPS. We can be a guardian of some of the rules, but to evolve this kind of competence, we have to be working with the relevant, competent authorities. I would like to try to list some of the things that we shall be doing and the kind of things that we may have to try to work on with other international organizations in the future. Of course, some of the demands that have been placed on the WTO are not always easy to reconcile with one another.
Look at the demands coming mainly from the industrialized countries. Of course, industrialized countries look at trade with different angles, if you compare them with the developing countries. The tariffs in industrial sectors -- mainly for industrialized countries -- have already been reduced to a very low level, around three to four percent on average. So if you talk about market access in the industrial sector for industrialized countries, there's not much to do in that area of markets because from three or four percent you can go down to two, to one, to zero, but that is only a small change. The developing countries, of course, have different sets of tariffs in the industrial sectors. Tariffs in the developing countries would range from ten to fifteen, sometimes twenty percent, so these are still quite substantial and should be reduced in due time.

The interests of the advanced countries lie not only in the area of negotiations to improve market access for industrial goods. They will be looking at new areas like services, banking, finance, telecommunications, transportation, express delivery, management consultancy, things that, of course, are at a more advanced stage and can be delivered more efficiently by the industrialized countries. Of course, advanced countries would be more interested also in having trade be more mindful of its consequences on the environment. The European union, for example, will be looking not only at trade per se but also asking, “What kind of consequences does trade have on pollution in the air, the water, the forests? They even have looked into the trade consequences on their culture. The term “cultural diversity” has been used many times to block international trade. Cultural diversity is something to be preserved, but in the case of the European Union and it can be used as a pretext to block trade in certain areas; motion pictures, for example, and in various services industries.

The demands coming from the less advanced economies -- from the poor countries -- are more simple, down to earth. The main thing these countries want is market access. They want market access for their labor-intensive industrial products. They want market access for their agricultural products. They want the advanced countries to be kind to them, in not using non-tariff barriers on products coming from the less advanced, poorer economies. You'd be surprised to see that if you look at the non-tariff barriers that are being applied these days, they are applied to a larger degree on goods coming from the developing countries rather than on goods coming from the more advanced countries. Goods coming from the developing countries are to be found mainly in the more sensitive areas of agriculture and textiles and clothing. In spite of the fact that most of the mature economies have outgrown the need to be nurturing the textiles and clothing industry, this is still one of the most sensitive areas. So even simple demands from developing countries to see more market access extended to agriculture and labor-intensive products like textile and clothing, has not met the expectations of the developing countries.

Anti-dumping is supposed to be a trade remedy measure, meaning that you apply it only when you find that another country is hurting your economy by selling goods below the cost of production. Then, you retaliate and use anti-dumping. If you look into the hundreds of cases of anti-dumping that have been applied in the last few years, however, they extend from steel to steel pipe, to videotapes, to television sets, microwaves, even. In the eyes of the developing countries this has become a guise for NTBs. The new rules on sanitary and phyto-sanitary measures (SPS) are now becoming very useful in blocking trade because, of course, you can find some residue of some chemicals in nearly any fruit or vegetable, if you look carefully enough.
Without certain controls or international criteria so that we can have a simple standard for all of us, we’ll see a proliferation of NTBs to which developing countries will be subject. Simple things are being demanded by developing countries: market access, treatment along the same lines as more advanced countries, and as little application as possible of the so-called non-tariff barriers.

Now, you have different entities, not countries but the so-called civil societies and the non-governmental organizations (NGOs). These are actually the rest of us, we are also part of the civil society. If you work in the private sector, here at University, my colleagues here are also the NGOs and they are now forming a grand alliance around the world. Wherever you go with international organization meetings (the ones that we've seen in Seattle have become a nice example, a nice model for other meetings to copy), wherever I went: Melbourne, Chiang Mai in Thailand . . . Doha was different. It was hard to get into Doha, into Qatar. Getting into the Middle East and getting out was not a simple thing and we got some flak coming from the NGOs who were saying that the WTO targeted Doha as a municipal meeting mainly because we thought that the NGOs would have a hard time in getting into Doha. This was not actually the reason why -- the main reason was that international meetings these days can hardly find a country who would like to take on the responsibility, the fear of the destruction that can be created or induced by different protest marchers and people who chain themselves to the lampposts and use bricks to throw into window panes of hamburger joints or into some coffee shops and things like that. In any case, the voices of civil society and the NGOs need to be heard and we need to not only hear, but we need to sit down and have decent discussions to which the WTO would have to listen and I think it's rightly so.

I used to chair the UNCTAD meeting in Bangkok a few years ago wherein we had a daily so-called encounter with the NGOs. In the big meeting hall we had meetings with the ministers and they come up and read us speeches. Outside the meeting room we had another side meeting with NGOs and here there's no reading of speeches so everyone can come in and criticize us as much as they can. This has evolved, you know, so that the NGOs can really vent their anger and their complaints. They can throw anything at us. Now, they've been throwing all sorts of things, brickbats at the WTO, in the website, outside on the street. Wherever you go, consumer unions are not satisfied, the environmental lobby is not satisfied, OXFAM is not satisfied, Medisong is not satisfied with health care, and then there are the TRIPS and all these other things. I think we need to listen and we need to discuss how we're going to structure the way the WTO will have to operate in the future so that we can take care of trade and at the same time take care of those who are part of our society. The mantra of the WTO is to deal with member countries. This is a member-driven organization. They keep repeating this message ad nauseam to my hearing. I think I'm trying to change that a bit. Of course, I think that the WTO is member-driven but, of course, sometimes the members need to be told what to do and what not to do by somebody who is supposedly neutral like myself. When I sit in the chair of the Director General, I think I will be seeing things around the world more so than any particular country would see. So, I would try to change the concept a bit; it would still be member-driven but members can be driven by the secretariat as well. We will be opening up, having dialogue with civil society, but it will have to be on an informal basis. Gradually, of course, there would be more structured dialogue.
Now, these are demands, as you would see it, coming from different parts of the world, from different parts of the society, but if you add to all this demand, evolving environments around the world trading system you would see how difficult and how complex it is to operate this institution. I'm not trying to complain to you or find some excuse so when I fail in the future you cannot blame me. You can blame me anytime because when I put my neck on the block, it's my neck that I'm risking and I used to say that unlike when I have to go back and have elections once every four years in Thailand (which, normally, is once every year or two because they cut short the life of the government), for the WTO it will be a three year term. I don't need to seek popularity to come back after three years; I can leave after three years. So, I will do my best and you can criticize me if I fail. There are some other, additional demands placed on the WTO and pressure coming from different parts.

Firstly, there is a demand on the WTO to look into some of our competition. The WTO works on multilateral agreement but these days you are seeing a proliferation of bilateral and regional agreements, the so-called regional trading agreements (RTAs). Informally, there are about 250. I've lost count; it might be 260 or 270 RTAs in existence. Some of them are working, some of them are not working. Roughly 150 have been notified officially to the WTO.

The WTO has for many years had a council on RTA's, supposedly to review them, as we have been reviewing individual countries’ trade policies and steer them toward being building blocks, not stumbling blocks to multilateral agreements. But, of course, the council could not operate so effectively, mainly, because most of the RTA's do not want their own performance to be reviewed. The council cannot operate very effectively, mainly, because most RTAs do not want their performance reviewed. If you look at some of the advanced regional groupings like the European union, ASEAN in Asia, NAFTA, MERCOSUR -- they don't want their own policies to be reviewed. They don't want others, least of all an international organization like the WTO, to tell them what to do and not do. I used to call the European Union the mother of all RTAs; it's really one of the oldest and most advanced. Of course, this proliferation of regional groupings, bilateral trade agreements, sometimes takes away interest from the multi-lateral assignments that are supposed to be in the hands of the WTO. Personally, I have no objection to regional groupings. If they want to advance the course of free trade by reducing impediments among themselves, why not - if they do not discriminate against the rest who do not participate in this grouping? By all means, go ahead and do that. We may need to devise a system to review the regional and bilateral trade agreements, so that they are consistent with the multi-lateral agreement, but this will be difficult as it may conflict with some of the multi-lateral trade goals of the RTA's.

The second pressure on the WTO comes from the non-member side. You know how long and arduous the Chinese session has been in the last fifteen years. They have gone through trials and tribulations. Premier Zhu Rongji went to the United States with the thought of having wrapped everything up in 1999, but was told to go home empty-handed. If he had known this would happen, I don't know whether he would have decided to come to the United States, because back home he was criticized harshly for his failure. The commitments he showed the United States in 1999 were quite wide-ranging - very, very serious commitments. The Chinese government has been determined to accede to the WTO, mainly, of course, for their own good, to drive their own domestic reforms forward. The pressure to rationalize the accession procedures
is something that the WTO may have to work on in the future and I find it delightful that in this Doha meeting we have had some discussion on that. I hope that we translate this into action, because among the 28 aspiring countries, some big countries like Russia and Saudi Arabia are still waiting in the wings. Of course, Russia, having looked at China's entry into the WTO, they are more than anxious to be part of this international organization. Mr. Putin has been totally committed and trying to do his best, really, to carry out domestic reforms, particularly in the areas of agricultural services and telecommunications so that Russia would qualify for accession. Of course, Russia will still need some to make adjustments.

We at the WTO --actually, Mr. Mike Moore and myself, we are in the same line of thinking -- need to get Russia and the rest into the WTO as soon as possible and so we will be trying to find ways to expedite the process of accession. Of course, we cannot say that Russia can come in and not abide by the international trade rules, as every one of the 144 members have to do. Russia will have to abide by the same rules, although some rules that would involve large scale adjustment of the trade laws may have to be balanced against how long it will take Russia before they can actually handle those rules. For China, a special concession has been given in that they need not go through the 2,000 trade laws. The Ministry of Foreign Trade and Economic Cooperation in China has about 2,000 trade laws that they have to abrogate, to amend, to throw away and to merge together and that will take years. Now, at least, they are out to work in the direction that we can monitor them all the time. So, Russia will have to take that up with their bilateral trading partners and ultimately with the WTO itself for the multilateral commitment.

Demand is strong on the WTO to rationalize these accession procedures, particularly for the poorest countries of the world. There are about fifteen to twenty poor countries that are waiting to join. On them, I don't think we should place so many demands because they have nothing to offer. The least developed countries (LDCs), 49 all together, have a hold on something like 0.4% of the total volume of world trade. The ten or fifteen LDC's that have not yet joined the WTO would have a very small, almost meaningless trading volume. They should be allowed to join as soon as possible so they can make use of their membership of the WTO to advance their trade regime. This is the second type of demand that puts a lot of pressure on the process in the WTO.

The third pressure on the WTO is the strain on our dispute settlement mechanism. The DSM has been functioning very well but it is under a lot of strain because in the last few years there have been close to 100 cases presented to the DSM, more than in the whole 50 years of the GATT system. Unlike when the GATT was around (GATT could not make its final judgments stick - it had no enforcing power) and no one wanted to refer their dispute to the GATT, the WTO’s dispute settlement body does require member countries follow up on its verdicts.

So many cases are being sent to the DSM that this is creating problems, not only for the system itself (because you have to find experts in all areas), but because it's not only trade rules that are being disputed. For example, the interpretation of the Multilateral Environment Agreements (MEAs) is not always in harmony with WTO rules. So, when people resort to MEA rules (saying they are allowed to do so as signatories to the MEA), sometimes they violate the trade rules under the GATT regime. We also have disputes in the area of TRIPS involving
public health and the accessibility of drugs. All these issues are coming to a head more so than in the past.

When disputes involve developed economies, it is not so bad because they can take care of themselves; they have officials who know their way out of legal entanglements, but when disputes involve developing countries it becomes a very costly affair. Developing countries do not have the kind of legal know, the legal officials who are really well-versed enough to know how to take a case to the DSM and finish successfully there. It’s a strain on the developing countries. We need to take a good look at this and ask for more restraint from the advanced countries in taking these disputes to the WTO. Moreover, we should not refer all disputes to the DSM, particularly when developing countries are concerned.

Written into the DSM rules is a role for the Office of Director General. Normally, however, the Office of the Director General will try to stay away from some disputes. When you look into the beef hormone issue, the banana issue, these involve major economies and sometimes you risk a lot by being part of this dispute. I think in the future, the Director General may have to get himself more involved, mediating between countries before the dispute comes to a head in the panels, in order to avoid unnecessary delay, unnecessary injuries, unnecessary compensation and retaliation.

The fourth strain on the future of the WTO is the decision-making process. The WTO at the moment, with 144 member countries is quite manageable, but if you have to go to the general council having 144 -- not always 1444 because a number of countries do not have offices representing them in Geneva, so let's say, 130-something -- members convening to decide on all sorts of things: new negotiation, old negotiation, procedural matters, membership and all these other things, you can imagine how cumbersome it is to have a decision-making process which is always based on consensus. Now, I'm not saying this to conclude, "let's do away with the consensus process." I think we need to keep consensus a basis for our final decision-making, because it involves legally binding countries that will have to put into play all these agreements within their own legal systems. We need consensus, but the way we build consensus will have to be different. We cannot always refer to the general council because in 100-odd countries meeting you will always have someone who says, "I don't like this. I object to this. I object to that." Consensus is a majority agreement with no one having any serious objection to a particular resolution. You always have somebody who is feeling uncomfortable with something.

We have to find new ways, and of course, when I talk about having an executive body to look after the consensus building process, no one agrees, because it takes away the rights of the countries themselves to negotiate. I find that in due time, however, we will need to work with this kind of a system; maybe not an executive board but a representative board that will be able to represent constituencies of countries that can agree among themselves to appoint some representative in rotation. Then, we can have a group that is not too numerous, maybe 20-30 countries, like the current green room process. The green room process is under heavy criticism now, particularly from developing countries, mainly due to the fact that it is an unofficial, informal process. The Director General can invite some countries to attend and choose not to invite other countries to attend and so you always create problems. You cannot invite all 144 countries into a green room which can accommodate only thirty countries. My suggestion is
that we find a way to rationalize this process, not do away with the process of building a consensus, but make it more efficient.

I would end by saying that, of course, we have a new round. We have all sorts of pressures and demands on the WTO. In the meantime, I would like to see a “New World Trade Order.” We need free and fair trade, that is one element. The second element is a trading system that is related to the development process of countries, not isolated from it. A trade order should serve developmental goals.

Lastly, while trying to advance the trade frontier, we should be mindful of other consequences that result, knowingly or unknowingly, from trade. While we cannot use trade as a means to intervene all the time, we should, at a minimum, be well informed of the consequences of trade on society, on our forests, our water, etc.

One thing we are seeing in this Doha Development Round is that there are a lot of references to all these issues that I talked about, a lot of references to capacity building, development assistance, technical assistance, to trying to modify TRIPS in a way that doesn't help only the drug firms, but also enhances accessibility to essential drugs, to enhance transfer of technology and things like that. There are all sorts of provisions in the Doha Declaration that we need to translate from words into action. My conclusion, again, is that we need advanced countries to be mindful of these problems. After all, developing countries are more numerous. Of the 144 WTO member countries, more than 100 are developing countries. The core countries, among them, United States, Canada, and Japan, together comprise more than 70% of world trade. They carry the kind of weight that can be fully, finally decisive on almost any issue. They need to be more mindful of that in order to achieve a balanced world trade system. We need to do more for those who have not benefited enough from past trade rounds.

Of course, we should not be mindful only of issues coming from the third world. We have to be mindful, too, of opening up new frontiers. E-commerce should be in the new round, services should be there, too. Still, all this should be beneficial to developing countries, not only to the advanced countries. We need to close the gap as we go along, because if you go quickly into e-commerce activities the gap of the so-called digital world will be enlarging all the time. We need to do technical assistance, to tie in programs of the World Bank, of the UNDP, of UNCTAD with the WTO.

I have been assigned to finish this in my term. At Doha, they agreed that this is going to be a three-year straight round and you know, trade rounds rarely last three years; they last eight years, if not eighty years. This trade round is supposed to last three years and I am in full agreement with this mandate because trade rounds can only be useful when they have a short end, when they do not go on forever. It's not an open-ended round, it has a closed end. That, I agree with, but with the WTO operating on a new basis from the GATT, we have the opportunity to continue with round after round. So, the idea that I have tried to suggest, again, is to make this round as useful as possible, is that we have a para-round going alongside the Doha development round. One round, a single undertaking, may be completed within three year's time and deal mainly with market access, but another round could go on because we need to discuss the rules, the new rules that will involve investment competition. These are rules that are very new to a
majority of the countries around the world. Many developing countries do not have competition laws. They have investment laws, but these are targeted for their own use, for their own economic management. They are not targeted to be harmonized on an international basis. It will take some time before you harmonize all these rules and laws.

It might be useful to have one rule for all kinds of activities that serve trade. (on investment, on technology transfer, etc.), but the rules will have to be adjusted in a way that countries will know that they are not going to yield all their sovereign rights to these new rules. Remember how hard it was to negotiate the Multilateral Investment Agreement (MIA) process in the OECD a few years ago. It broke down after six or seven years of discussion. Now, similar treatment of MIAs is going to be introduced into the WTO caucus. Things will have to be simplified and rationalized, focused so that the poorer countries of the world can join. Key to all this is for the advanced countries to be mindful that technical assistance for members of the developing world should have highest priority. If we have a good set of technical assistance programs and projects before we go to the conference next year, then we would probably have a good round. We would probably be seeing the kind of effort that would serve the purposes of the things that I’ve discussed, ranging from new membership, to new rules, to old rules, to improvement of the existing rules and whatever other kinds of issues they may throw at the World Trade Organization.