

Global outlook darkens as Hormuz crisis spreads

The global economy began 2026 with notable resilience driven by trade, stronger industrial output in developing countries and rising AI-related investment. However, with geopolitical risks overtaking traditional trade and policy tensions as the dominant threat, the global economy is entering a more precarious and unpredictable phase that demands heightened vigilance and coordinated responses, according to UN Trade and Development (UNCTAD).

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131 Jalan Macalister

10400 Penang, Malaysia

Tel: (60-4) 2266728/2266159

Email: twm@twnetwork.org

Website: <https://twm.my>

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Founding Editors:

Chakravarthi Raghavan (1925-2021)

Martin Khor (1951-2020)

Editor: Kanaga Raja

Typesetter: Linda Ooi

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Hormuz crisis derails recovery, exposes global economy to new shocks

The global economy began 2026 with solid momentum but this outlook deteriorated sharply after late February tensions in the Middle East disrupted energy markets, tightened financial conditions and obstructed key shipping routes, including the Strait of Hormuz, undermining growth prospects and amplifying uncertainty, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: The global economy entered 2026 on a stronger footing, buoyed by robust trade, rising industrial output in developing economies and artificial intelligence (AI)-driven investment.

However, the outlook deteriorated sharply after the escalation of Middle East tensions in late February disrupted energy markets, tightened financial conditions and choked key shipping routes, including in the Strait of Hormuz, a critical route for global oil and gas trade.

This is one of the main conclusions highlighted by UN Trade and Development (UNCTAD) in an update to its Trade and Development Report 2025, titled "Trade and Development Foresights 2026: Global economy faces a geopolitical challenge."

The report now warns that mounting uncertainty is weighing on trade, investment and supply chains, with world merchandise trade growth projected to slow steeply from 4.7% in 2025 to between 1.5% and 2.5% in real terms in 2026.

According to the report, buoyed by dynamism in trade and technology sectors, the global economy grew 2.9 per cent in 2025, entering 2026 on a firm footing.

The resilience in global growth reflected robust industrial output in developing countries, which outpaced that of developed economies.

"Technology-driven manufacturing, particularly related to artificial intelligence (AI), played a key role in this dynamic, most notably in Asia."

However, the report said since the end of February 2026, the recovery has

faced a set of disruptions stemming from the military escalation in the Middle East.

In the near-term, the economic consequences of the conflict centre on energy markets and shipping routes, it added.

However, it said in the longer run, a protracted escalation is likely to entail system-wide effects on international trade, food systems, financial markets - with global stocks and bonds experiencing in March 2026 their biggest combined sell-off since 2022.

The report identified two specific conditions characterizing the current juncture in the global economy.

First, it said whereas 2025 was shaped by trade policy uncertainty, early 2026 has been dominated by heightened geopolitical risks.

"These tensions trigger additional transmission mechanisms within a global economy marked by evolving trade-finance interdependencies."

Second, the ongoing conflict adds to global structural weaknesses. It intensifies the longer-term trend of rising conflicts globally, many of which undermine the growth prospects of developing countries.

In this regard, UNCTAD highlighted three specific concerns:

- From an economic fundamentals perspective, the worsening fragilities linked to slower growth, increasing inequality, and rising costs of living threaten development prospects.

- Mounting uncertainties affect global investment, with developing countries facing a renewed risk of financial outflows and souring investor sentiment;

- A protracted escalation raises the likelihood of deeper disruptions in global trade and finance, potentially, foreshadowing a cascading crisis.

Turbulent times

In early March 2026, the outbreak of the conflict in the Middle East has affected the global economy through sharp swings in international energy prices, with oil surging more than 60 per cent and gas more than doubling in a matter of days, the report said.

It said more than two months into the distortions, volatility in key markets, including bond, equity and currency markets, remained high, particularly for developing countries.

Higher energy prices increase macroeconomic pressures, with varying impacts on oil exporters and importers, it noted.

According to the report, while in the short run net oil exporters stand to gain from higher oil revenues, consumers are sensitive to increases in gasoline prices.

It said even moderate price rises could therefore undermine consumption and lead to a slowdown in the country's merchandise imports, with adverse consequences for trading partners.

The European Union, as a net importer of oil, will face a higher oil import bill.

While demand for fuels in the region has become more elastic since 2022, making the displacement of other import segments less likely, the energy shock confronts Europe as it prepares for the 2026/2027 heating season, raising the potential of sustained price increases.

Developing countries face more serious consequences, as their energy imports are more inelastic, particularly for those with significant imports of fuels, food and fertilizers, the report cautioned.

A notable exception is China, whose oil reserves appear able to withstand a short-lived increase in international prices.

Yet, many developing countries will likely face a higher energy import bill in 2026 while facing softer import demand.

Even in economies that benefit from significant oil exports, more expensive imports of fuels, food and fertilizers will offset the extra revenues, the report suggested.

Amid instability in currency and

financial markets, this will complicate the management of external accounts and monetary and fiscal policies, adding to food security challenges in the most vulnerable economies, it stressed.

It said that as of early April 2026, numerous developing countries, including Bangladesh, Brazil, Egypt, Ethiopia, India, Indonesia, Mexico, Pakistan, Panama, Philippines, Sri Lanka, Thailand and Viet Nam, have implemented various measures to stretch supply, to increase fuel subsidies (at significant fiscal cost) or to cap prices.

It said as the economic outlook continues to rest on geopolitical uncertainties, the global economy is expected to grow 2.6 per cent in 2026, 0.3 percentage points lower than in 2025, while a more negative scenario of a deeper macroeconomic impact from a prolonged conflict cannot be dismissed.

Search for safety

The outbreak of the conflict has triggered a search for safe financial assets amid increasing uncertainty.

Notably, instead of directing funds into long-term sovereign bonds of the major developed countries – traditionally viewed as “safe havens” – investors appear to demand higher yields for holding these bonds, despite growing demand for dollars, said the report.

Consequently, long-term sovereign bond yields have increased, while the dollar has strengthened. For its part, the price of gold has declined since the outbreak of the conflict, it noted.

As is typical during periods of heightened uncertainty, global investors withdrew from assets perceived as riskier.

While many developing countries proved attractive to international investors in 2025, they now face a renewed threat of capital outflows as investors seek safety amid geopolitical uncertainties, it underlined.

Notably, the report said across all developing countries, the depreciation was widespread, though less severe for frontier-market economies (FMEs) than for emerging-market economies (EMEs).

UNCTAD explained that the differing trajectories respond to a large degree to greater financial integration and predominance of floating-rate regimes among EMEs, whereas managed exchange rate regimes continue to be the norm in FMEs.

In developing regions, currencies depreciated the most in the Americas, followed by Africa and Asia, it said.

According to the report, these differences reflect a variety of factors, including the magnitude of the appreciation prior to the conflict, the exchange rate regime, debt sustainability risks, and the share of non-resident investors in the domestic capital markets, which increased more in countries that received larger portfolio investments during the boom phase from May 2025 to February 2026.

Furthermore, the start of the Middle East conflict triggered a sell-off of developing countries' assets, with equity markets of emerging markets sliding by more than 12 per cent between 28 February and 29 March.

“While the ceasefire declared on 8 April 2026 offers a hope of recovery, volatility remains high, especially in developing countries.”

In this context of heightened risks, external sovereign bond yields of EMEs and FMEs increased, reversing the downward trend that began in May 2025, said the report.

Domestic sovereign bond yields surged, reflecting non-resident portfolio outflows and expectations of tighter monetary policy to tame inflationary pressures from higher energy prices, it added.

It cautioned that in a scenario of a prolonged conflict, global financial conditions are likely to deteriorate further, potentially triggering an accelerated flight to quality and a large-scale sell-off of developing countries' currencies and assets.

“In this scenario, FMEs are particularly vulnerable to portfolio outflows, as their domestic capital markets are shallower and less liquid. These factors typically amplify the effects of foreign investors' sell-offs.”

Global trade

The report also said world merchandise trade started 2026 on a strong footing.

Yet, fragile aggregate demand, compounded by persistent uncertainties and new geopolitical risks, suggests that the momentum observed in 2025 and early 2026 will fade as the year progresses.

Early customs data indicates robust numbers on the back of solid

containerized flows from key Asian and trans-Pacific routes, it noted.

More broadly, it said Chinese exports expanded more than 20 per cent in dollar terms in January-February 2026 compared to the same period a year earlier.

Globally, international air cargo grew 7.2 per cent in January and 11.6 per cent in February in real terms, year-on-year, while global seaborne cargo expanded 5.3 per cent amid double-digit growth rates from some specific segments such as cars, grain and liquefied natural gas (LNG).

Significantly, global manufacturing purchasing managers' index (PMI) – especially two of its components that matter the most for merchandise trade – reached their highest level since 2021.

Quantitatively, the “output” sub-index climbed to 53.1, while “export orders” reached 51.4, marking the first expansion since 2024.

In short, the report concluded that merchandise trade flows have notably improved across major economies over the last quarters.

However, the recent expansion has been relatively concentrated on specific products, particularly AI-related goods like servers, high-performance computing equipment, semiconductors, and components associated with service automation and data centre investment, it said.

Such categories often recorded double or even triple-digit year-on-year growth in East Asia, Northern America, and parts of Europe.

In particular, “automatic data processing machines” contributed about three-quarters of the 4-per cent nominal growth of total imports of the United States in 2025.

In China, the strong contribution of products in this category almost offset the decline registered by all other imported products in 2025.

The dynamism of AI-related products contrasts with more traditional sectors – such as basic consumer goods, textiles, and some intermediate inputs – which recorded modest gains. Commodity-linked trade, for instance, remained subdued through late February, said the report.

It said capital goods outside the digital technology sphere have also shown uneven momentum, reflecting soft investment cycles in several developing

countries.

Amid continued trade policy volatility, several large economies have become more proactive in regional or sectoral trade initiatives, said the report.

In this regard, it cited two specific policy announcements that are important for Africa's export prospects: first being recent legislation in the United States re-authorizing the African Growth and Opportunity Act (AGOA) trade preference programme through 31 December 2026, with retroactive effect to 30 September 2025, and the second being China's announcement that it would remove tariffs on goods from 53 African countries starting in May 2026.

At the same time, these developments are overshadowed by the negative spillover effects of geopolitical tensions in the Middle East, which have begun to impact many African economies, it added.

In particular, the report said the disruptions in the Strait of Hormuz have induced a significant negative shock to trade and maritime transport.

It said due to their heavy reliance on Gulf exports, crude and LNG carriers have faced the strongest impact, with reduced volumes and higher risk premia, prompting a sharp increase of energy

prices worldwide.

While container shipping faces fewer direct risks from the conflict than other maritime sectors, it is not insulated from disruptions or rising costs.

Similarly, the dry bulk market has remained more insulated, facing only indirect operational and insurance pressures.

The relative resilience of merchandise trade in 2025-early 2026 is being tested by the impact of the conflict in the Middle East, the report emphasized.

It said considering a deceleration of global aggregate demand and a likely reversion of the boom in artificial intelligence – growth of world merchandise trade, in real terms, is expected to slow from 4.7 per cent in 2025 to 1.5-2.5 per cent in 2026, even if current estimates for the year 2026 carry wide uncertainty bands.

“Beyond 2026, rising geopolitical tensions are likely to accelerate the re-configuration of global merchandise trade, the contours of which are starting to emerge.”

But for now, the report said that firms and governments will need to accommodate a more volatile landscape. (SUNS #10448)

Regional growth at risk as conflict-driven energy shocks deepen

Regional growth prospects for 2026 are increasingly being shaped by Middle East conflict-driven energy shocks, with developing economies the most exposed, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: Regional growth prospects for 2026 are increasingly being shaped by energy shocks arising from the conflict in the Middle East, according to UN Trade and Development (UNCTAD).

In an update to its Trade and Development Report 2025, UNCTAD said developing economies are especially exposed, with many facing rising bills for fuel, food and fertilizers while also dealing with currency pressure, tighter financing conditions and weaker investor sentiment.

Highlighting some growth trends

at the regional level, the report said GDP growth in Africa is projected to reach 4.2 per cent in 2026, matching the 2025 figure.

It said that major oil and gas exporters, such as Algeria, Angola, Libya and Nigeria, will benefit from stronger external balances and greater fiscal space to navigate the ongoing macroeconomic turbulence, even though higher refining margins will partly offset these gains, as many African oil exporters still rely on foreign refineries.

The situation will be particularly

challenging for net energy importers such as Egypt, Ethiopia, Kenya and South Africa. Irrespective of this distinction, remittance inflows from the Middle East will take a hit, it added.

It also said capital outflows and exchange rate depreciations will increase debt sustainability risks, particularly in the African frontier-market economies (FMEs), and could also force central banks to slow or revert their easing cycles.

In Latin America and the Caribbean, growth will slow down from 2.3 per cent in 2025 to 2.0 per cent in 2026, as growth pickup in Central America and the Caribbean will be insufficient to offset a slowdown in South America.

The report said that although in Mexico, growth will accelerate, it will remain subdued at 1.2 per cent in 2026, supported by consumption, whereas investment and government expenditures are expected to decelerate.

In Brazil, the economic expansion will decrease to 1.6 per cent in 2026 on the back of elevated policy rates and borrowing costs that hinder investment and consumption.

As the government has already adopted fiscal measures to mitigate the effect of higher oil prices on inflation, the central bank still has room to ease monetary policy in 2026, thereby avoiding a stronger economic downturn, the report suggested.

It said in Argentina, growth will decelerate to 3.0 per cent following a sharp rebound in 2025 due to exchange rate pressures, fiscal tightening and sluggish consumption amid high inflation and rising unemployment.

However, the report said an extended conflict in the Middle East could further deepen the region's slowdown through trade and financial channels, including terms-of-trade deterioration, lower foreign exchange revenues from tourism and remittances and higher external borrowing costs.

The report said economic expansion in Northern America may decline by 0.2 points to 1.9 per cent in 2026.

In the United States, growth has been more robust than expected, fuelled by steady AI investment and household services consumption.

The labour market seems to be weakening, and inflation is limiting further monetary easing. Vulnerability may stem from the limited number of dynamic sectors supporting domestic

growth, it cautioned.

Canada started the year facing renewed external headwinds that are expected to limit GDP growth to 1.0 per cent in 2026.

While the soft labour market and subdued domestic demand are likely to limit the passthrough of higher energy costs to core inflation, unemployment is edging up to 6.6 per cent amid falling participation, said UNCTAD.

Early-year data also point to softer manufacturing activity and a still wide trade deficit, though increased energy exports will partially offset this.

Meanwhile, the report said in East Asia, economic growth will slow to 3.7 per cent in 2026, partly owing to strong reliance on energy imports from the Middle East.

China grew at 5 per cent in 2025, amid both domestic and external headwinds. For 2026, the economy started with momentum in January and February, though annual growth is projected at 4.6 per cent, in line with the new lower official growth target band of 4.5-5.0 per cent.

The projection reflects the persistence of domestic concerns such as real estate markets and local government debt, and external challenges.

In January and February, both Chinese merchandise exports (19.2 per cent) and imports (17.1 per cent) recorded double-digit growth, said the report.

The escalation in the Middle East may affect growth performance due to the country's dependence on imported oil (around 70 per cent), it pointed out.

"Against this backdrop, in 2026, macroeconomic policy will remain expansionary aiming to counteract these challenges."

In this context, the report said in March, the government announced that it would maintain a budget deficit of 4 per cent of GDP, issue RMB 1.6 trillion (about \$240 billion) special treasury bonds for targeted sectors and RMB 4.4 trillion (\$640 billion) local government special-purpose bonds.

In Japan, where fossil fuel imports from the Middle East constitute 95 per cent of oil imports, rising prices and supply disruptions are expected to slow economic expansion to 0.9 per cent in 2026, despite robust government spending and business investment. Japan has committed \$550 billion in

investments in the United States over three years.

The Republic of Korea is projected to grow only 1.6 per cent in 2026 due to external volatility and inflation risks from geopolitical tensions.

The report said that South Asia will remain the fastest-growing region. Yet, regional GDP growth is expected to decline from 6.5 per cent in 2025 to 5.8 per cent in 2026.

It said across the region, economic conditions were gradually stabilizing, but rising fossil fuel prices are likely to increase inflation and external financing constraints in several economies.

In India, GDP growth will slow but remain robust at 6.5 per cent in 2026, with economic activity supported by domestic demand, continued public investment in infrastructure, and expansion in services and manufacturing sectors.

The report said government initiatives aimed at improving logistics, digital infrastructure and financial services are also contributing to productivity gains.

Recent trade agreements with the European Union and the United States may support exports, but also imports, on top of more costly oil imports, which represent over 20 per cent of its trade balance, it added.

Meanwhile, South-East Asia's growth will remain robust while decelerating to 4.4 per cent in 2026.

Although Indonesia became a net oil-importing country in 2008 and will be negatively impacted by higher oil prices, GDP growth is expected to slow only marginally to 4.8 per cent in 2026.

The report said expansive fiscal and monetary policies will support short-term domestic demand, adding that the government aims to mobilize investment in strategic sectors, including renewable energy, agriculture, and health, to foster long-term structural transformation.

Externally, the Indonesia-EU Comprehensive Economic Partnership Agreement, the upgraded ASEAN-China Free Trade Agreement and the Indonesia-United States trade deals concluded in 2025 will foster trade, it said.

Western Asia is most directly affected by the regional conflict. Accordingly, regional GDP growth will slow to 2.0 per cent in 2026, said UNCTAD.

Unlike oil exporters from other regions, countries in the Gulf Cooperation

Council have suffered from damage to oil and gas infrastructure, reduced output and a halt to oil exports shipped through the Strait of Hormuz.

Key non-oil sectors, such as tourism, and longer-term investment supporting diversification, will be impacted, it added.

In Saudi Arabia, economic activity will slow to 2.0 in 2026, while in Turkiye, GDP growth will decline to 3.5 per cent in 2026 amid macroeconomic stabilization efforts, including tighter monetary policy and fiscal consolidation aimed at reducing inflation and strengthening external balances.

The report said that the economy of the Russian Federation is projected to expand by around 1.0 per cent in 2026.

It said that the macroeconomic weakening stems from fading fiscal stimulus, high interest rates and slowing domestic demand.

The report further said the economy of the United Kingdom remains sluggish, with growth expected at only 0.9 per cent in 2026.

Employment and wages are unable to sustain consumption and investment growth, while net exports and government net borrowing are shrinking.

The European Union is expected to register a marginal slowdown in its economic expansion, to 1.2 per cent in 2026. Net exports to the United States and China are set to decline, with weak consumption and fiscal restraint dampening demand.

The report said labour income shares and expectations of rising interest rates from the European Central Bank further dim consumption growth prospects.

It pointed out that investment and government spending on goods and services have increased in some countries, notably in Germany, as governments and businesses have begun to expand spending in the defence sector.

Recent budgetary cuts in France and Italy signal that the EU's largest economies will continue relying on exports as the main source of growth, it added.

“On the investment front, the loosening of previously announced emission targets for the manufacturing sector is expected to support businesses' balance sheets in the short term.”

Meanwhile, the report said that economic prospects in Oceania are very

closely linked to developments in the region's largest economy.

In Australia, GDP growth is expected to rise to 2.0 per cent in 2026 as continued population growth, public

infrastructure investment, household incomes and commodity exports, including natural gas, will more than compensate for the tighter monetary policy, it added. (SUNS #10448)

The New Nature Markets Explained to My Grandmother

Written and illustrated by Frederic Hache

Co-published by Third World Network and Green Finance Observatory

As the chainsaws and bulldozers continue to move in on nature, a new market has emerged to facilitate trade in biodiversity credits – financial instruments that represent conservation or restoration schemes intended to offset loss of biological diversity elsewhere. However, the science behind offsetting is dubious, and existing offset projects have mostly not yielded positive outcomes for biodiversity and have even harmed the lives and livelihoods of indigenous and local communities. Even as it rakes in lucrative profits for the financial sector, focus on offsetting diverts attention from the changes in regulation, production and consumption required to protect biodiversity.

Written for a popular readership – including lovable grannies everywhere – this comicbook primer explains why the biodiversity credit market is a false solution and points to the real measures that need to be put in place if nature is to be saved.

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Middle East crisis sending shockwaves through global labour markets

The Middle East crisis is sending broad economic shockwaves through global labour markets, hitting vulnerable workers and sectors hardest, further weakening growth prospects and deepening uncertainty for economies already struggling with high inflation and fragile labour market recoveries, the International Labour Organization (ILO) has warned.

by Kanaga Raja

PENANG: The Middle East crisis is sending economic shockwaves through global labour markets, with higher energy prices, disrupted shipping routes, supply chain bottlenecks, weaker tourism flows and tighter migration channels eroding jobs, incomes and working conditions far beyond the region, according to the International Labour Organization (ILO).

In the May 2026 update to its flagship Employment and Social Trends report, released on 18 May, the ILO said these pressures are hitting vulnerable workers and sectors hardest, dampening growth prospects and increasing uncertainty for economies already grappling with high inflation and fragile labour market recoveries.

The Middle East conflict is expected to affect labour markets for some time, with the scale and duration of its effects depending on how the situation evolves, it added.

While the full consequences will take time to materialize, the ILO warned that the shock is already transmitting through multiple channels, with pressures expected to build gradually in a global economy still marked by weak growth and decent work deficits.

Under an illustrative scenario in which oil prices climb about 50 per cent above their early 2026 average, global working hours are projected to fall by 0.5 per cent in 2026 and 1.1 per cent in 2027, said the ILO.

This is equivalent to 14 million and 38 million full-time equivalent jobs, respectively, while real labour incomes are expected to decline by 1.1 per cent and 3 per cent (USD 1.1 trillion and USD3 trillion), respectively.

Global unemployment would rise more gradually, increasing by 0.1 percentage points in 2026 and 0.5 percentage points in 2027, it suggested.

However, the ILO said that the effects are expected to be highly uneven across regions, sectors and workers, with the Arab States and Asia and the Pacific identified as the most exposed due to their integration with Gulf energy flows, trade routes, supply chains and labour migration.

“Beyond its human toll, the Middle East crisis is not a short-lived disruption. It is a slow-moving and potentially long-lasting shock that will gradually reshape labour markets,” said Sangheon Lee, Chief Economist at the ILO and author of the report.

He said “the world of work is one of the main channels through which global shocks become human shocks.”

“What begins as an external shock eventually reaches workers and enterprises and can leave deeper scars by weakening the conditions that make work decent, secure and protected,” Lee added.

Global overview

According to the report, the Middle East crisis is one of the major sources of downside risk for the world of work in 2026.

It said beyond its immediate human toll, the crisis has disrupted energy markets, transport routes, supply chains, tourism and investment confidence, with effects that extend well beyond the directly affected countries.

These pressures are unfolding

at a time when the global economy was already marked by weak growth prospects, elevated uncertainty and persistent decent work deficits, it noted.

The world of work is one of the main channels through which these shocks affect people’s lives, the report said.

When energy prices rise, transport costs increase, tourism weakens and supply chains are disrupted, workers and enterprises are affected through lower demand, higher operating costs, reduced working hours, pressure on real labour incomes and, in some cases, job losses, it added.

“These effects are likely to be uneven, with greater risks for workers and enterprises in more exposed sectors and for those with limited protection.”

The crisis could further weaken an already fragile global economy. Even before the Middle East crisis, global growth was subdued, uncertainty was elevated, and many countries were facing constrained fiscal space and persistent inflationary pressures, the report noted.

The crisis has added a new layer of risk through higher energy prices, disrupted transport routes, supply-chain pressures and weaker investor confidence, it said.

Recent IMF (International Monetary Fund) scenario analysis points to a deterioration in the global outlook, the report said, pointing out that under IMF’s baseline assessment, global GDP growth is revised down by around 0.3 percentage points, while inflation is revised up by approximately 0.5 points compared with pre-crisis projections.

In a more severe scenario, which assumes more damage to energy infrastructure in the conflict region, the impact could be much larger, with global growth revised down by around 1.3 percentage points and inflation revised up by around 1.9 points, the ILO warned.

It said these scenarios underscore that the crisis is not only a regional shock, but also a potential source of wider macroeconomic instability.

While acknowledging that assessing the global labour market impact is more complex, the report said that direct effects, such as the destruction of workplaces, displacement of workers, disruption of enterprises and immediate income losses, are most visible in the Middle East.

It said at the global level, the

main concern is how the crisis spreads indirectly through energy prices, inflation, production costs, trade and investment.

“These transmission channels take time to work through the economy, which means that labour market impacts are likely to appear with a delay.”

The report said these spillover effects can still be significant for enterprises and workers. Higher energy prices increase production and transport costs, reduce household purchasing power and put pressure on real wages and weaken enterprise revenues.

“Weaker demand and heightened uncertainty can delay investment and hiring. Over time, these pressures can translate into reduced working hours, lower real labour incomes and, eventually, higher unemployment,” the report cautioned.

In this context, focusing its global analysis on the energy price shock and its labour market transmission, the report said that the current simulation assumes an oil price increase equivalent to approximately 50 per cent above the January-February 2026 average spread throughout March-May of this year.

It said that the labour market impact of an oil shock does not materialise all at once.

The shock is transmitted through higher energy prices and lower oil supply, which raise production and transport costs, add to inflation and weaken activity across a broad range of sectors.

“As purchasing power declines and uncertainty rises, firms may postpone investment and households may reduce spending. Monetary policy tightening aimed at containing inflation can further reinforce these effects.”

It said as these pressures work through the economy, labour market impacts become more visible through lower working hours, weaker real labour incomes and, eventually, higher unemployment.

Pointing out that this time lag is reflected in the simulation results, the report said global hours worked and real labour incomes are estimated to decline gradually but significantly.

It said compared with a “no-conflict” scenario, which assumes that the oil shock does not occur, the simulation suggests that hours worked could be lower by approximately 0.5 per cent in 2026 and 1.1 per cent in 2027.

This would be equivalent to a global loss of about 14 million full-time equivalent jobs in 2026, and 38 million in 2027, while real labour income could also decline by 1.1 per cent in 2026 and 3 per cent in 2027, corresponding to losses of around USD1.1 trillion and USD3 trillion, respectively, in 2021 PPP terms, it suggested.

“Increases in the unemployment rate are expected to build more slowly, but could become significant in 2027.”

Before the crisis, the Employment and Social Trends 2026 (January 2026) projected the global unemployment rate to remain stable at 4.9 per cent in 2026 and to decline slightly in 2027.

However, the ILO said under the oil-shock scenario, the unemployment rate would now rise by 0.1 percentage points in 2026 and by 0.5 points in 2027, equivalent to an additional 5 million unemployed people in 2026 and 20 million in 2027.

Hence, if the crisis is not resolved and the shock proves as durable as historical experience of other oil shocks suggests, the resilience of the global labour market would be severely tested, it warned.

The shock does not affect all countries, sectors, enterprises or workers in the same way, the report said, pointing out that the exposure to supply disruptions is highest in regions most closely connected to Gulf energy flows and energy-intensive supply chains.

At the regional level, the Arab States and Asia and the Pacific stand out. Around 40 per cent of employment in the Arab States and 22 per cent in Asia and the Pacific falls into the high-exposure category, with an additional 23 per cent and 62 per cent of employed facing medium exposure, respectively, it said.

This compares to around 15 per cent of global employment in the high-exposure category and 51 per cent facing medium exposure.

On the other hand, it said high exposure is less prevalent in Africa, the Americas, and Europe and Central Asia, pointing out that this does not mean that these regions are unaffected, but that their employment is less directly linked to the specific energy shock captured in the ILO’s analysis.

Transport services is the most exposed sector globally. Around 52 per cent of employment in transport services falls into the high-exposure category,

reflecting the sector’s direct reliance on fuel and its central role in trade and mobility, the report further said.

“Manufacturing also shows significant exposure, with around 23 per cent of employment in high-exposure activities and another 56 per cent in medium-exposure activities, also reflecting its reliance on energy and energy-intensive inputs.”

At least two-thirds of workers globally employed in agriculture, wholesale and retail trade, accommodation and food services face at least medium-exposure profiles, while other services, including many public and social services, are relatively less exposed, said the report.

The Arab States region has been heavily affected by the ongoing crisis. Although a ceasefire took effect on 8 April 2026, uncertainty remains high, with continuing disruption around the Strait of Hormuz, restrictions on airspace and trade routes, and direct damage in several countries in the region, it added.

The crisis is affecting Gulf Cooperation Council (GCC) and non-GCC countries through different channels, it said.

[Gulf Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, while non-GCC countries in the Arab States grouping of the ILO include Iraq, Jordan, Lebanon, Syrian Arab Republic, Yemen and Occupied Palestinian Territory.]

The report said in GCC countries, the main transmission channels include direct security risks, disruption to oil and gas exports, reduced transport and logistics activity, weaker tourism and business confidence, and delays in investment.

It said in non-GCC economies, the effects are generally more likely to be transmitted through higher fuel and food import costs, lower purchasing power, weaker demand from Gulf economies, pressure on remittances and tighter public finances.

It also said the regional economic outlook has deteriorated sharply. The IMF projects real GDP growth in the GCC at around 2 per cent in 2026, about 2.3 percentage points lower than pre-war projections, reflecting direct disruptions in Gulf economies and wider spillover effects.

The UN Development Programme

estimates also suggest sizeable output losses, with GDP in some non-GCC economies projected to decline by between 5.2 and 8.7 per cent compared with a no-conflict scenario.

The ILO underscored that while these estimates are not directly comparable and remain subject to uncertainty, they point in the same direction: slower growth, higher costs, weaker tourism and logistics activity, greater fiscal pressures, and increased uncertainty for enterprises and investors.

These pressures are likely to translate quickly into labour market impacts, it stressed.

Scenario analysis

Against this backdrop, the ILO's analysis examines how the crisis may affect hours worked and employment in the Arab States and which sectors and workers are most exposed, suggesting three scenarios to assess the impact of the crisis in these states.

The scenarios capture three possible crisis paths. Under rapid de-escalation, the initial shock fades relatively quickly and economic activity begins to normalize during the year, it said.

Meanwhile, under a protracted crisis, disruption remains elevated through 2026, affecting business activity, investment, mobility, trade and confidence.

However, under severe escalation, the crisis intensifies to a level of conflict well above the March 2026 situation, leading to deep and persistent disruption to economic activity.

Pointing out that even rapid de-escalation would leave a visible labour market impact, the report said that using high-frequency data to capture early signs of disruption, the simulations suggest that total hours worked in the Arab States would decline by 1.3 per cent and employment by 0.7 per cent in 2026, compared with a no-conflict scenario.

Under a protracted crisis, hours worked are projected to fall by 3.7 per cent and employment by 2.1 per cent; under escalation, the losses could reach 10.2 per cent and 5.9 per cent, respectively.

Given continued uncertainty around energy flows, airspace restrictions, trade routes and security conditions, a protracted crisis – and even renewed escalation – remains a plausible risk, it suggested.

Projected impacts are larger on average in GCC countries than in the non-GCC countries covered by the analysis.

The report said this reflects the GCC's more direct exposure to disruptions in energy, transport, logistics, tourism and business confidence.

In the simulation, the hours worked could fall by 11.5 per cent in the GCC under the severe escalation scenario, compared with 7.7 per cent in non-GCC countries.

Employment could decline by 7.1 per cent in the GCC and 4.4 per cent in non-GCC countries, it added.

The scale of these losses is large by historical standards. During the COVID-19 crisis, hours worked in the Arab States fell by 4.4 per cent in 2020 compared to the prior year, it noted.

The protracted crisis scenario would bring losses close to that scale, while the severe escalation scenario would imply a shock more than twice as large, said the report.

The report said the projected losses in working hours and employment will not be felt evenly across the Arab States. Some sectors are more exposed because they depend on fuel, transport, imported inputs, tourism, trade routes or investment confidence, while others may be less immediately affected.

Around 40 per cent of workers in the Arab States are employed in high-exposure sectors, while a further 23 per cent are in medium-exposure sectors and 37 per cent in low-exposure sectors, it added.

The report said that high-exposure employment is concentrated in sectors directly affected by higher costs, weaker demand and mobility disruptions, including wholesale and retail trade, the largest exposed sector in employment terms (around 17 per cent of total employment), followed by construction (14 per cent share), manufacturing (8 per cent share), agriculture (8 per cent share), transport and storage (6 per cent share), and accommodation and food services, which accounts for a smaller share of employment but is highly sensitive to tourism, travel restrictions and security concerns.

“Across these sectors, the crisis is creating a double squeeze: rising costs are making economic activity more expensive, while uncertainty, mobility restrictions and weaker demand are

reducing revenues.”

Asia-Pacific

Highlighting the impact of the crisis beyond the Middle East region, the report said that Asia and the Pacific is already facing visible and, in some countries, immediate spillover effects from the Middle East crisis.

It said that although the region as a whole is not directly affected by the conflict in the same way as the Arab States, it is highly exposed through energy imports, transport and logistics networks, tourism, labour migration and remittance flows. These channels connect external shocks to jobs, incomes and enterprises across the region.

According to the ILO, energy-price and supply-chain disruptions are the main sources of risk.

Many economies depend heavily on imported oil and gas, including supplies that originate in or transit through the Gulf. Higher energy prices quickly feed into transport costs, production costs and consumer prices.

For workers and households, this means pressure on real incomes. For enterprises, especially those with thin margins, it means higher operating costs, weaker demand and greater uncertainty.

Micro, small and medium enterprises (MSMEs), with limited access to finance, face greater barriers to absorbing higher costs and lower demand for their goods and services, said the report.

Jobs and incomes are projected to come under greater pressure in Asia and the Pacific than at the global level, it underlined.

It said model-based estimates suggest that the region's strong dependence on imported energy, together with its close links to Gulf economies through trade, transport, tourism, labour migration and remittances, could make the labour market effects larger than the global average.

In this context, it said hours worked and real labour incomes could decline significantly in Asia and the Pacific.

Compared with a no-conflict scenario, hours worked in the region are projected to fall by 0.7 per cent in 2026 and 1.5 per cent in 2027.

Real labour incomes could fall more sharply, by 1.5 per cent and 4.3 per cent, respectively, as higher energy and

transport costs feed into inflation and erode purchasing power.

The unemployment rate is projected to rise by 0.2 percentage points in 2026 and 0.8 percentage points in 2027, said the ILO.

It said the projected impact is larger than the global average. By 2027, losses in hours worked and real labour income in Asia and the Pacific are around 0.4 and 1.3 percentage points larger, respectively, than at the global level, while the rise in unemployment is around 0.3 percentage points higher.

The declines in hours worked are equivalent to a region-specific loss of about 11.3 million and 30.7 million full-

time jobs in 2026 and 2027, respectively.

The corresponding loss in real labour income amounts to about USD 660 billion and USD 1.9 trillion (in 2021 PPP terms), respectively.

This suggests that the region may face, in relative terms, not only higher costs, but also more persistent labour market pressures if the crisis continues, the report emphasized.

The report also pointed out that the spillover effects from the Middle East crisis are putting pressure on migration and remittances.

Since the crisis began, labour deployments to GCC countries have declined sharply in several labour-

sending economies, while repatriations are rising.

This reflects flight disruptions, security concerns, and weaker labour demand in construction, hospitality and transport, it said.

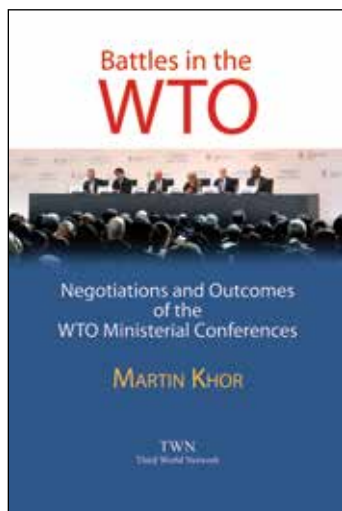
Remittance flows – a key source of household income for many families and communities across South and Southeast Asia - are beginning to weaken, with early signs of contraction in some countries.

“If the crisis disrupts both deployments and remittance flows, the effects could spread to consumption, poverty and local employment in countries of origin,” the report concluded. (SUNS #10447)

Battles in the WTO

Negotiations and Outcomes of the WTO Ministerial Conferences

Martin Khor



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murky decision-making methods often employed during Ministerials, where agreements are sought to be hammered out by a select few delegations behind closed doors before being foisted on the rest of the membership. Such exclusionary processes, coupled with the crucial substantive issues at stake, have led to dramatic outcomes in many a Ministerial.

The ringside accounts of Ministerial battles collected here offer important insights into the contested dynamics of the WTO and the multilateral trading system in general.

pushing to expand the WTO’s ambit into new subject areas, against many developing countries which call instead for redressing imbalances in the existing set of WTO rules.

This book also shines a light on the

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The World Trade Organisation has been an extremely controversial and divided organisation ever since its establishment in 1995. The big battles are most evident at its highest governing body, the Ministerial Conference, where the Trade Ministers of member states convene to chart the WTO’s course.

This book is a compilation of contemporaneous reports and analyses of what unfolded at each Ministerial, as well as a few “mini-Ministerials”, that took place from the WTO’s inception up to 2017. As these articles reveal, the Ministerials have been the stage on which battles over the future direction of the WTO are most prominently played out. These clashes have mainly pitted developed member states

Managing markets to promote food security

Many countries are becoming increasingly exposed to food price swings and supply disruptions as volatile global markets and long, fragile supply chains drive up import costs, with the harshest impacts falling on low-income consumers and heavily import-dependent economies already struggling to absorb rising shocks.

by *Lean Ka-Min*

PENANG: As geopolitical turmoil drives up food prices and intensifies hunger levels, governments need to reduce dependence on volatile global markets and strengthen domestic food systems.

Market management measures such as public food reserves, marketing boards and production quotas can help countries achieve this and build resilient self-reliance in food supply, according to a global food policy think-tank.

In its latest report, “The New Geopolitics of Food”, released in May, the International Panel of Experts on Sustainable Food Systems (IPES-Food) states that such measures can stabilise prices, protect against supply disruptions and support local farmers.

“Crisis after crisis exposes the risks of outsourcing food security to distant markets and fragile supply chains controlled by a handful of countries and companies. The way forward is resilient self-reliance – local food systems backed by fair trade. The tools to stabilise prices already exist, from food reserves to supply management, but governments are not using them at scale,” says IPES-Food expert Jennifer Clapp, professor and Canada Research Chair in Global Food Security and Sustainability at the University of Waterloo, Canada.

Geopolitical shocks

The report says the geopolitics of food are being reshaped by several factors, including a rise in armed conflict across the globe.

The ongoing Iran crisis, for example, has already fuelled fears of spiking food and fertiliser prices.

“Food has also been increasingly used as a weapon of war and coercion, both contributing to and deepening crises in the world’s ‘hunger hotspots’ as

already observed in Palestine and Sudan,” laments the report.

Away from the military battlefield, another type of warfare is being played out on the trade front.

Steep tariff hikes imposed by the US aimed at reducing its trade deficit and extracting concessions from trading partners have hurt food and agricultural exporters while also prompting retaliatory tariffs from the likes of China, the report notes.

Further, with some countries turning their backs on multilateralism and international cooperation, flows of food and development aid have dwindled – with deadly consequences in the neediest countries – and institutions of global governance find themselves hobbled.

All this geopolitical turbulence has added to the strain on a global food system already buckling under climate disruption and the harms of industrial agriculture and corporate concentration.

The cumulative volatility has seen food prices shoot up over the years: according to the report, “since 2020, global food price inflation has remained well above overall inflation rates, with food prices averaging more than 35% higher than in 2019”.

Those feeling the most pain from the price spike are poor and net-food-importing developing countries, many of which are already deep in debt.

The report states: “The global food import bill rose to a record \$2.2 trillion in 2025, with the sharpest increases concentrated in developing countries already struggling to service debts to international creditors. For example, the Least Developed Countries (LDCs) saw their food import bill rise from \$41 billion in 2020 to \$59.4 billion in 2024. Net Food Importing Developing Countries

(NFIDCs) experienced a similar increase, from \$108 billion to \$155.9 billion over the 2020-2025 period. Higher debt loads and rising import costs are forcing many governments to make difficult trade-offs between paying for food, education, and healthcare or repaying debts.”

Market management policies

In light of the growing external volatility, IPES-Food advocates market management policies to fortify domestic food security.

Measures to regulate, stabilise and strengthen domestic food and agricultural markets, the report notes, used to be common components in the policy arsenal of high- as well as low-income countries.

However, they became increasingly frowned upon since the 1980s as neoliberal principles of deregulation, liberalisation and privatisation took hold.

Today, with food systems roiled by uncertainty, a comeback could be on the cards.

The report focuses on two kinds of market management measures: public food stockholding (PSH) and supply management mechanisms.

Considered “arguably the longest-standing form of market management”, PSH, the report says, typically involves: “(i) the strategic procurement of food by a public entity; (ii) the storage and management of those stocks; and (iii) the release of stocks via mechanisms such as auctions or public food distribution programmes.”

In emergency situations, the stocks provide safeguards for consumers against short-term food price shocks. PSH schemes can also stabilise domestic market prices for both consumers and producers between a set price floor and price ceiling: stocks are purchased when prices drop below the floor, and released when they surpass the ceiling.

The report points to India’s PSH programme, “among the most comprehensive in the world”, as an example of a well-functioning system. It is managed by a national government agency, the Food Corporation of India (FCI), which purchases rice and wheat at minimum support prices from domestic farmers – mainly smallholders, as large-scale farmers and traders are excluded from the scheme.

There were over 40,000 rice procurement centres and 20,000 wheat centres throughout the country by 2015-16.

The grains procured are supplied by the FCI to the states at subsidised prices for distribution to low-income households.

Under India's public distribution system, the poorest households are eligible to purchase 35kg of grain per month, while households around the poverty line can access 5kg.

"In total," says the report, "an estimated 67% of the Indian population benefits from public food distribution, making it the world's largest subsidised food distribution system."

Besides this distribution, the grains from the PSH system are also held as food security stocks to be released periodically in response to food shortages and price volatility.

The report maintains that "India's PSH programme played an important role in the country's response to the market uncertainties of the 2007-2008 food price crisis and the COVID-19 pandemic, helping to buffer domestic markets during a period of global market volatility. For example, as global rice prices soared by 230% between 2005 and 2006 and by 75% between October 2007 and March 2008, wholesale rice prices in India increased by just 16% and 14% over the same periods. Additionally, price support through the PSH scheme supported farmers' livelihoods by allowing them to sell directly to the FCI at guaranteed prices."

Beyond the national level, public food stockholding can also be implemented on a regional basis, as seen in the case of West Africa.

A collaborative food storage programme established by the Economic Community of West African States (ECOWAS) "operates across four complementary levels: local community stocks overseen by producer organisations or decentralised authorities; national stocks managed by state governments, sometimes alongside financial partners; the Regional Food Security Reserve (RFSR) managed by ECOWAS; and collective mechanisms for mobilising international aid if no other solutions are feasible".

ECOWAS members, the report explains, contribute a share of their national stocks to the RFSR, which stores

its grains in warehouses across the region.

Local sourcing is prioritised: "87% of the stocks are produced in West Africa and procured directly from producer organisations rather than large conglomerates or private traders".

When the stocks are released, they are distributed freely or sold at reduced prices. The targeted recipients may be specific administrative or geographic areas, with landlocked, low-income and crisis-hit countries accorded priority access.

"To date, the RFSR has provided over 55,000 metric tonnes of cereals through 19 interventions to six countries in the region (Burkina Faso, Cabo Verde, Ghana, Mali, Niger, and Nigeria)," the report states.

In addition to PSH, supply management mechanisms can also be employed to boost domestic food systems.

These mechanisms, explains the report, include "marketing boards, which have the exclusive authority to buy and sell a given commodity, and production quotas, which limit the quantity of food commodities that producers can sell in an effort to manage the overall market supply. By restricting supply and/or coordinating marketing, these systems help stabilise or even maintain commodity prices above market levels."

Use of supply management mechanisms to stabilise prices and safeguard farmer incomes can be seen in Canada and Norway.

In Canada's dairy, poultry and egg sectors, national oversight agencies and provincial marketing boards coordinate production levels and set quotas on the amounts producers can supply to the market.

To protect prices, negotiations take place on minimum farmgate prices and on import controls aimed at averting undercutting by cheaper imports.

Amid such measures, the report points out, "producer price volatility for unprocessed milk in Canada's dairy sector has been lower than in the US, which lacks a comparable system" of supply management.

In contrast, Germany saw greater volatility of milk prices following the phaseout of the European Union's milk production quota scheme in 2015.

While both the US and Germany experienced high milk price volatility during the 2007-08 food price crisis

and the COVID-19 pandemic, prices remained relatively stable in Canada.

Meanwhile in Norway, farmer cooperatives play a key part in supply management. The dairy cooperative TINE and the meat and egg cooperative Nortura buy from farmers to supply retailers and food service outlets.

As their transactions account for a large proportion of the total production in their respective sectors, they effectively function as marketing boards, notes the report.

Major cooperatives also collaborate closely with farmers' unions when the latter negotiate an annual agreement with the government to set target commodity prices and draw up farmer support schemes.

Resilient self-reliance

Beyond taming price volatility and supporting farmer livelihoods, IPES-Food envisions market management policies as forming part of a broader strategy to forge "resilient self-reliance" amid the unstable new geopolitics of food.

It describes a resilient food system as being able to "weather shocks and rebound in ways that uphold equitable food access, livelihoods, and sustainability".

Self-reliance, meanwhile, does not necessarily imply 100% food self-sufficiency or autarky but, rather, lays emphasis on supporting greater domestic food production to lessen overdependence on imports.

The report outlines a number of ways in which market management measures could contribute to resilient self-reliance.

Firstly, these measures can "help support local cultures and communities, while ensuring people can feed themselves appropriately".

Appropriateness refers in this sense not only to sufficient calories and nutrition but also to preferences, adequacy of diets and cultural appropriateness.

Thus, for example, a PSH programme may seek to purchase and distribute a diverse range of traditional, culturally appropriate crops grown by small farmers.

Secondly, market management measures can be combined with policies that support territorial markets.

Historically, says the report, these

local markets have often been sidelined by government-led self-reliance initiatives, which instead looked to policies and infrastructure that favoured large-scale corporate-centred food supply chains.

Supporting territorial markets would not only counter corporate concentration but enhance resilience as well, by integrating into the food network additional and decentralised channels of distribution.

“Territorial markets remained resilient during supply chain disruptions caused by the COVID-19 pandemic and the Russian invasion of Ukraine,” the report notes.

In this regard, the PSH programmes of India and ECOWAS show the way by prioritising procurement from local small farmers.

Thirdly, market management measures can foster ecological integrity, the report suggests, by incentivising sustainable farming practices.

“For example, supply management programmes could prioritise small-scale agroecological producers, while simultaneously reducing farmers’ exposure to market volatility.”

All these functions come on top of the abovementioned role played by market management tools in shielding countries from excessive price volatility.

These policy tools support producer livelihoods, thereby promoting more reliable food production over time, while also, in the case of PSH programmes, enabling access at reasonable prices for consumers.

Finally, market management policies can be implemented in the context of cooperative international trade and aid partnerships, the report says.

It highlights the ECOWAS RFSR as an example of how countries can boost not only domestic food security but also regional collaboration in the form of resource pooling, information sharing and collective responses to address market volatility and other challenges.

On a wider scale, global buffer stocks (virtual as well as physical) have been mooted as a means of supporting national and regional public reserves and enabling market management at the international level through commodity derivatives markets.

“Together,” says the report, “these approaches can support a strategy of resilient self-reliance within a broader food sovereignty framework.”

Food sovereignty initiatives, it explains, include “the cultivation and revitalisation of Indigenous foodways and knowledge systems, the protection of seed sovereignty, and the defence of the rights to land, territories, forest, water, and productive resources. They also encompass the rights of peasants, pastoralists, and fisherfolk, as well as regional collaborations to build territorial and agroecological markets.”

As IPES-Food expert Shalmali Guttal emphasises: “We need to rebuild food systems from the ground up, closer to home, with food sovereignty – stronger local production, fairer markets, targeted distribution systems and food subsidies, and the tools to protect people when shocks hit.”

The IPES-Food report is available at <https://ipes-food.org/report/the-new-geopolitics-of-food>. (SUNS #10446)

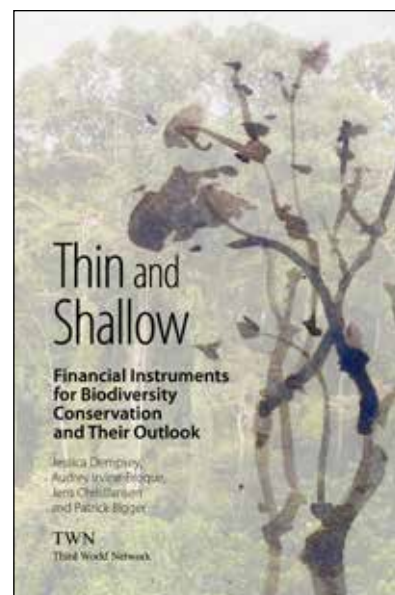
Thin and Shallow: Financial Instruments for Biodiversity Conservation and Their Outlook

*Jessica Dempsey
Audrey Irvine-Broque
Jens Christiansen
Patrick Bigger*

This paper examines the track record of private financial mechanisms aimed at funding conservation of biological diversity. It finds that, due to lack of rigorous and consistent benchmarks and monitoring, these investments may not necessarily safeguard biodiversity and could even, in some cases, have adverse impacts. Further, despite decades of attempts to draw private capital to biodiversity protection, the quantum of finance remains limited, especially in the highly biodiverse countries of the Global South where it is most needed.

Written for a research project established by a group of central banks and financial supervisors, this paper cautions these authorities from deploying resources towards promoting such biodiversity-focused private financial instruments. Instead, the supervisory bodies are urged to step up policy coordination to address drivers of biodiversity loss in the financial system.

Available at: <https://www.twn.my/title2/books/pdf/Thin%20and%20shallow.pdf>



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Brazil flags reversal of Geneva texts at MC14, raises integrity concerns

The Minister-Facilitator processes at the failed World Trade Organization's 14th ministerial conference (MC14) had drastically rewritten the Geneva-crafted texts on WTO reform and agriculture, raising serious concerns about the integrity and conduct of the conference, said Brazil at a General Council meeting held after MC14.

by *D. Ravi Kanth*

GENEVA: Brazil on 7 May seemingly presented a sharp conclusion of how the Minister-Facilitator processes at the failed World Trade Organization's 14th ministerial conference (MC14) in Yaounde, Cameroon, in March drastically altered the texts dispatched from Geneva on WTO reform and agriculture, raising serious concerns about the integrity of the conduct of MC14, said people familiar with the development.

On the second and final day of the WTO's General Council (GC) meeting on the "follow-up" to MC14, Brazil apparently said it left Geneva with two overarching objectives to be achieved at MC14, which concluded on 30 March.

According to Brazil, the two objectives include maintaining the centrality of the Geneva process and the progress seemingly made on WTO reform to be preserved at the ministerial conference, said people who asked not to be quoted.

The Brazilian trade envoy to the WTO, Ambassador Guilherme de Aguiar Patriota, is understood to have said that the shape of the Geneva texts was completely altered at MC14, suggesting that the way the six Minister-Facilitators conducted the process was opaque and seemed fluid, said people familiar with the GC proceedings.

Ambassador Patriota apparently said somewhat astonishingly that the Geneva texts were altered by a margin of 20 to 70 percent, adding that the draft texts of the Minister-Facilitators were circulated in a selective way, said people familiar with the development.

On WTO reform, the Brazilian trade envoy appears to have said that three key issues – the role of industrial policy, development flexibility for developing countries, and emerging agricultural

trade issues – were apparently excluded from the draft Minister-Facilitators' texts on WTO reform, said people familiar with the development.

In the face of the rather disconcerting developments at MC14, Brazil was apparently left without any option, the Brazilian trade envoy seems to have said.

Against this backdrop, Brazil was only left with the option of agreeing to a two-year moratorium on customs duties on electronic transmissions, which has been the practice adopted for the past 30 years, Brazil argued, according to participants familiar with the development.

Without naming the United States, Brazil seemingly suggested that one delegation insisted on a duration for the e-commerce moratorium beyond four years as a sine qua non for discussing any other issue, pointing out that this was not an acceptable situation at MC14, said participants familiar with the development.

Brazil, in effect, explained the underlying rationale for its decision to stick to a two-year e-commerce moratorium at MC14, without revealing its intention as to what it would do in the coming months, said people familiar with the development.

At the GC meeting, India said that it was ready to accept a four-year e-commerce moratorium as well as a similar duration for the moratorium on TRIPS non-violation and situation complaints, said participants who asked not to be quoted.

To recall, India had pressed hard for the termination of the e-commerce moratorium at MC12 in Geneva in June 2022, and at MC13 in Abu Dhabi in February-March 2024.

However, India changed its position in the face of requests from then US Trade Representative (USTR) Ambassador Katherine Tai at MC12, and later at the requests of the Abu Dhabi trade minister and the European Union at MC13, having agreed to only a two-year extension at each conference.

India had maintained that the e-commerce moratorium must be terminated at MC14, which was actually reflected in the MC13 ministerial decision.

That decision (WT/MIN(24)/38) clearly provided language for the termination of the e-commerce moratorium.

It said unambiguously: "We agree to maintain the current practice of not imposing customs duties on electronic transmissions until the 14th Session of the Ministerial Conference or 31 March 2026, whichever is earlier. The moratorium and the Work Programme will expire on that date."

However, India – apparently under the pressure of the ongoing bilateral negotiations with the US – has changed its position and reportedly sought a four-year moratorium at MC14, said sources who asked not to be identified.

Secretariat involvement

During the GC discussions, some members apparently sought to know the views of India, South Africa, and Brazil about the WTO Secretariat's involvement in initiatives outside the WTO's purview – for example, the WTO Director-General Ms. Ngozi Okonjo-Iweala's alleged embrace of controversial initiatives like the Joint Statement Initiative (JSI) decision on an e-commerce agreement at MC14, said people familiar with the development.

In response to the question, South Africa is understood to have said that the Secretariat's involvement should be limited to agreements that are part of the WTO.

India is understood to have asked whether the DG can be involved in an agreement that is not part of the WTO legal framework.

Brazil apparently conveyed that the Secretariat's involvement in a non-WTO agreement is controversial.

In effect, South Africa, India, and Brazil seemingly highlighted serious systemic concerns when the Secretariat

openly pursues issues that are not part of the WTO's mandate, said people familiar with the development.

Singapore, a strong voice in the "Friends of the System" group that did some heavy lifting in articulating on controversial WTO reforms, apparently said somewhat emphatically that it is highly disingenuous to say that the JSI e-commerce agreement announced at Yaounde is not a WTO agreement, insisting that it was conceived and negotiated within the WTO, and therefore, nobody should question the involvement of the Secretariat.

When India pointed out that e-commerce was not even remotely part of the MC14 agenda for trade ministers to discuss, Singapore apparently objected to India's remarks, said people familiar with the development.

Korea's paper

During the meeting, Korea's paper on "Preserving the spirit of open and predictable trade: collective restraint against actions undermining trade liberalization" raised several comments.

Korea sought an exchange of views "on the need for collective restraint with respect to measures that may undermine the openness, predictability and stability of trade."

In response to the Korean proposal, China thanked "Korea for setting this agenda and drawing members' attention to both the importance of preserving the spirit of open and predictable trade and the potential systemic ramifications of the proliferation of tariff measures taken under various names."

China said that "tariff measures concerned are not limited to steel sectors," adding that "Members have no common understanding on what constitutes 'structural challenges', just as there is no agreement on what constitutes 'overcapacity', or other such names or labels."

The Chinese trade envoy, Ambassador Li Yongjie, said that "in the WTO context, however, members do have agreed rules that govern tariff measures," emphasizing that "it is the rules, not labels, that provide the basis for any tariff measures" – in an apparent criticism of the US arguments on "overcapacity".

"That is exactly why we should exercise restraint," China said, adding that "as the saying goes, do not do unto

others what you would not have them do unto you."

"In addition," according to China, "members have agreed to discuss specific issues of concern, including subsidies and industrial policies, under the WTO framework."

China said members "should engage in in-depth dialogue with a view to updating and strengthening rules."

Brazil is understood to have said the issues raised by Korea were apparently discussed in detail under the WTO reform issue of "the level-playing-field", suggesting that there are questions concerning measures adopted by the three leading members: the US, the

(continued on page 18)

New GC chair reports no progress on e-com moratorium, WTO reform

The new chair of the WTO General Council on 6 May said that her post-MC14 consultations have produced no movement toward resolving the deadlock on extending the e-commerce moratorium or advancing WTO reform, underscoring the persistent divisions that have remained since the Yaounde ministerial collapsed without outcomes.

by D. Ravi Kanth

GENEVA: The new chair of the World Trade Organization's General Council (GC) on 6 May apparently stated that her consultations with members since the failed WTO's 14th ministerial conference (MC14) in Yaounde, Cameroon, in March, have yielded no progress in resolving the impasse over the extension of the e-commerce moratorium and on WTO reform.

During the GC meeting to discuss the "follow-up" to the failed MC14, the new GC chair, Ambassador Clare Kelly of New Zealand, said she would continue her consultations with members until the next GC meeting in July on the two issues: the moratorium on customs duties on electronic transmissions and the allegedly controversial WTO reform, according to participants familiar with the proceedings.

The seemingly plain statement made by the new GC chair suggests that Brazil is maintaining its position on not extending the e-commerce moratorium beyond two years – a practice that has been in place since 1998 – while Türkiye, the other country that opposed the extension of the moratorium beyond two years, revealed its decision to agree to a four-year moratorium at the GC meeting.

Plurilateral initiative

At the GC meeting, the United States took the floor immediately after Cameroon, apparently to announce that it had waited until the first GC meeting after MC14 for an outcome on the e-commerce moratorium, but with the impasse continuing, Washington will now pursue a plurilateral initiative with like-minded countries, said people familiar with the development.

The US, which normally speaks at the end of a meeting, intervened unusually early to suggest that the WTO has apparently failed the "litmus test" of delivering on a four-year moratorium on customs duties on electronic transmissions, while arguing that it will now pursue a plurilateral initiative on the moratorium.

The US trade envoy, Ambassador Joseph Barloon, appeared to suggest that it was a test for the WTO whether it could deliver on a permanent moratorium – later scaled down to four years – indicating that Washington was ready to accept a package of three issues.

The three issues highlighted by Ambassador Barloon are: a four-year e-commerce moratorium (even though

the US objective was a permanent moratorium), a moratorium on TRIPS non-violation and situation complaints, and a development-oriented e-commerce work program, said people familiar with the development.

In the spirit of compromise, the US seems to have said that it aligned its positions on these three issues while reserving its position until this first GC meeting after the Yaounde fiasco.

It seemingly bemoaned that any outcome on these issues is not even feasible at this GC meeting, said people familiar with the development.

Against this backdrop, the US is understood to have said that Washington will focus on a plurilateral initiative on the e-commerce moratorium, insisting that is the only way to make progress here in the WTO, said people familiar with the development.

However, the US – which was originally a party to the proposed Joint Statement Initiative (JSI) on digital trade – boycotted the plurilateral deal announced by other JSI members at Yaounde, a deal that was hailed by WTO Director-General Ms Ngozi Okonjo-Iweala at MC14.

WTO reform

Even on the controversial WTO reform, the US said that its position remains unchanged: the reform discussions should be based on concrete proposals rather than a prescriptive framework on the three issues – changing the practice of decision-making by consensus, differentiation among developing countries for availing of special and differential treatment (S&DT), and “level-playing field” issues, said participants who asked not to be quoted.

In effect, the US insisted that WTO reform work be conducted through submissions made by members, said participants who asked not to be quoted.

China’s trade envoy, Ambassador Li Yongjie, said “it is regrettable that outcomes, especially concerning the reform work plan and e-commerce work programme and moratorium, slipped through our fingers at the end of the meeting; we have made significant progress in building convergence.”

The Chinese trade envoy called for keeping “the positive momentum post-MC14 and continue our work based on

what we have converged at MC14, to support a rules-based multilateral trading system by action.”

As regards the next steps, Ambassador Li said that “China would like to echo the call on members to follow the reform work plan, on which we spent a lot of time discussing and converging, both before and at MC14.”

China said it “supports the GC chair to carry out consultations with members, including a structure to organize reform discussions in an inclusive, transparent and efficient way, as well as potential facilitators, with an immediate aim of reporting back to the GC in July. We also stand ready to work with the DSB chair.”

China said it will “support continued work under the GC on the basis of the draft Ministerial Decision on Work Programme on E-commerce, with a view to arriving at a multilateral outcome, together with a moratorium on TRIPS Non-Violation and Situation Complaints.”

China emphasized that “the LDC package is an important part of the development agenda. China supports further work to deliver results and call [on] members to engage in constructive discussion.”

The Chinese envoy welcomed “Comoros as the 130th member party to the IFDA [Investment Facilitation for Development Agreement],” adding that it also welcomes “the launch of the Joint Ministerial Declaration on the IFDA, as well as the Declaration on the Interim Arrangement for the ECA [Electronic Commerce Agreement].”

Turkiye, which opposed the four-year extension of the e-commerce moratorium at MC14 on grounds of lack of consensus on the scope and definition of what would constitute electronic transmissions, appeared to indicate at the GC meeting that it is ready to accept the four-year moratorium, said people familiar with the development.

Turkiye said that its key concern was to understand the nature of electronic transmissions, as customs duties are levied on trade in goods, adding that the proposed ministerial decision was apparently pushed without proper technical discussion in Geneva, said people familiar with the discussions.

Ankara said there was no clarity on whether the e-commerce moratorium included internal taxes in addition to customs duties, said people familiar with

the development.

However, in a spirit of compromise, Turkiye said that it is willing to join the consensus announced by the Minister-Facilitator at MC14, said people familiar with the discussions.

Turkiye’s announcement apparently led to a round of applause at the GC meeting, as was also the case when Ankara announced that it would join the controversial plurilateral IFDA at MC14, said participants who asked not to be quoted.

Aside from its normal support for the e-commerce moratorium and WTO reform, the European Union appeared to call for a holistic, overarching discussion on agriculture that is not text-based, said participants who asked not to be quoted.

Among other participants, the Russian Federation made a rather emphatic statement on the need for plurilaterals within the WTO, suggesting that they should be guided by the multilateral system, said participants who asked not to be quoted.

Russia apparently said it believes plurilateral initiatives must be pursued within the WTO, not outside – unlike the systemically and procedurally inconsistent JSI on e-commerce, according to participants who asked not to be quoted.

In short, the Russian approach, said one participant, is somewhat different from the kind of plurilateral initiatives being pushed by the US and other members without regard for the fundamental rules of the Marrakesh Agreement that established the WTO in 1995, said people familiar with the development.

The Russian position somewhat strangely appears to resemble the Indian position, which emphasized conducting plurilaterals based on the WTO’s rule-book, said another participant who asked not to be quoted.

Meanwhile, Costa Rica apparently announced at the GC meeting that it will join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the regional trade agreement that emerged after the Trump administration pulled out of the original TPP signed by the Obama administration.

Costa Rica justified joining the CPTPP on grounds that it is almost based on WTO rules, said participants who asked not to be quoted.

Several countries, including Brazil

and India, apparently did not speak at the GC meeting on 6 May.

In his final statement, the outgoing GC chair, Ambassador Saqer Abdullah Almoqbel of Saudi Arabia, who arrived at the meeting in his traditional robes, lavished praise on the DG Ms Okonjo-Iweala, referring to her as “her highness”, apparently because of her royal family background, said people familiar with the proceedings.

The DG, in her statement at the GC meeting, appears to have said that MC14

was a success, adding that she has been specially invited by other organizations like the International Monetary Fund and the World Bank to share the MC14 success story, said participants who asked not to be quoted.

The DG’s statement is being likened to that of “a delusional head” of a country or organization – willing to put a gloss on even grand failures, as is the case in contemporary events, said a participant who asked not to be quoted. (*SUNS #10439*)

(continued from page 16)

European Union, and China.

During the discussion, the Russian Federation pointed out that under the ongoing consultations launched by the EU under Article XXVIII of the GATT 1994 to raise tariffs by 50 percent on imports of steel, it was not even consulted despite being a principal supplier of steel products.

Russia suggested that the rules are not being followed as per the Article XXVIII framework, said participants familiar with the development.

Even the additional duties imposed by the US under Section 122 of the Trade Act of 1974 – which were notified to the WTO’s Committee on Balance of Payments – were questioned, said participants familiar with the development.

Without naming China, Chinese Taipei apparently raised concerns about non-market economy governments subsidizing outside their territory through transnational subsidies.

Chinese Taipei seems to be suggesting that a non-market economy is allegedly pumping billions of dollars in subsidies outside its territory, said people familiar with the development.

Excess capacity

Even though China dismissed the US arguments raised at the previous week’s meeting of the Committee on Subsidies and Countervailing Measures (SCM) on excess capacity allegedly sustained by huge state-financed subsidies, the US again raised the issue at the GC meeting by suggesting that it is apparently causing distortions and problems for several countries, said people familiar with the development.

The US is understood to have said that members simply cannot wait to address this issue on the grounds that there is no proper rule by the WTO to control them. The US justified its actions on excess capacity.

The Office of the United States Trade Representative is currently holding public hearings regarding the Section 301 investigations into 16 countries’ acts, policies, and practices relating to structural excess capacity and production in manufacturing sectors.

Apparently, the EU also raised its concerns at the meeting on the issue of excess capacity, said participants familiar with the development.

Meanwhile, at the GC meeting, Thailand has seemingly championed the cause of major tech giants such as Google, Amazon and Microsoft, by suggesting that the moratorium on TRIPS non-violation and situation complaints could also include the issue of alleged copyright violations in the development of artificial intelligence (AI) industries, said a person who asked not to be quoted.

Over the past months, there have been several legal disputes raised in the US over alleged copyright violations by the major AI platforms, said people familiar with the development.

On a separate issue, Thailand and Australia asked the WTO Secretariat to make a presentation on the current crisis in the Middle East and its impact on the trade in fertilizers and food items, said people familiar with the development.

The DG apparently intervened on this issue, suggesting that the WTO Secretariat is already doing some work on it.

In a sharp intervention following the DG’s statement, the US apparently said that whenever the WTO Secretariat is doing some work, it must clarify that it is doing so based on a request from the members, said participants who asked not to be quoted. (*SUNS #10440*)

Global Governance for Justice, Democracy and Sustainability

By *Lim Mah Hui*

Transcending national borders, the gravest challenges of our time – such as climate change, unprecedented inequality and the spectre of nuclear conflict – require global solutions. However, the present system of global governance is ill-equipped to deal with these problems and is instead buckling under the weight of its own tensions and contradictions. In place of the current order, which was shaped by and for the interests of the developed world, a new global governance architecture must be constructed that advances distributive justice and equity among nations. Such an arrangement has to redress power imbalances in international institutions as well as promote policies oriented towards economic, social and environmental progress.



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Non-tariff measures now outweigh tariffs as major driver of trade costs

Trade policy is becoming more interventionist, with non-tariff measures now driving most trade costs and shaping who trades, what is traded and where, creating a dual burden for developing countries, who are facing higher tariffs while also struggling to meet increasingly complex rules, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: Trade policy is becoming increasingly interventionist, with tariffs rising but no longer the primary barrier to exports; instead, non-tariff measures (NTMs) such as regulations, standards and product requirements now account for most trade costs, shaping who can trade, what is traded and to which markets, according to UN Trade and Development (UNCTAD).

In the latest edition of its Global Trade Update, UNCTAD said that for developing countries, this shift creates a dual burden: they continue to face higher tariffs while also struggling to comply with ever more complex rules that determine market access and competitiveness.

According to the UNCTAD report, after years of decline, tariffs re-emerged: In 2025, global tariffs on exports rose significantly— by 10 per cent for developed, 16 per cent for developing and 18 per cent for least-developed countries.

Despite rising tariffs, non-tariff measures (NTMs) impose higher costs on exports for 88 per cent of countries, it said.

This burden falls most heavily on smaller developing countries and least developed countries (LDCs), for which NTM-related export costs are particularly high.

NTMs are policy measures other than tariffs that can potentially have an economic effect on international trade in goods, said UNCTAD.

On the one hand, they include non-tariff barriers (NTBs) such as import licensing requirements, quotas, import prohibitions and export bans.

On the other hand, however, most NTMs are technical measures that primarily aim to protect public health and the environment.

The report said that these

essential public policy instruments can nonetheless have substantial trade effects by generating information, compliance and procedural costs. They shape trade, by determining who trades, what is traded and to which markets.

After announcing “reciprocal tariffs” on 2 April 2025, the United States has signed numerous Reciprocal Trade Agreements and framework “deals”, it noted.

Other economies, such as the European Union, have also accelerated negotiations of trade agreements to open up alternative markets as access to the United States market becomes more costly.

The report said that while tariffs dominated the headlines, NTMs have long been, and remain, a central pillar of recent trade agreements.

As tariffs declined over much of the past few decades, trade negotiations increasingly shifted toward regulatory and administrative measures that continue to determine effective market access.

NTMs sit at the heart of trade negotiations, reflecting their decisive role in shaping who can trade and under what conditions, it added.

At the same time, the report said governments are increasingly using NTMs to advance objectives linked to economic nationalism and economic security, as both developed and developing economies seek not only to protect domestic industries but also to shape and secure control over key global value chains, underscoring a broader trend toward the strategic use of interdependence.

“Recent United States trade deals focus heavily on easing regulatory and administrative requirements for its

exporters.”

Most of these include sector-specific provisions on the recognition of United States standards and conformity assessment for vehicles, pharmaceuticals and agrifood products in bilateral trade, it added.

In some countries, the negotiations covered the removal of local content requirements as well as the elimination or simplification of import licenses.

With Indonesia and Malaysia, agreements also covered strategically important critical minerals, with countries agreeing to refrain from imposing any type of export restrictions, the report noted.

Recent European Union agreements with India and Mercosur emphasize mutual recognition and alignment with broader international standards, rather than the recognition of standards of one of the parties.

The global trade policy landscape has shifted towards more interventionism since Covid-19 in 2020, the war in Ukraine in 2022, and again with the United States tariff hikes in 2025, the report reiterated.

“Several major economies have moved away from a strong focus on trade liberalization toward a more distortive use of trade policy to pursue industrial policy objectives, strengthen supply chain resilience and address national security concerns. Subsidies for green transition have also been rising and often promote local content.”

The use of sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), tariffs and non-tariff barriers have all increased, it noted.

The report said while globally there were more tariff reductions than increases in 2025, the United States' tariff increases quantitatively outweighed other countries' reductions and raised global average tariffs by double digits.

Despite the overall jump in tariff policy interventions in 2025, new NTBs were still almost twice as frequent, it added.

The report said that in addition to clearly restrictive NTBs, technical NTMs related to health, security and the environment have been on the rise for two decades and are more than three times as frequent as all other trade policy interventions combined.

The increasing use of these TBT and SPS measures reflects more complex trade in disaggregated global value chains

as well as rising regulatory requirements and consumer demands related to health, safety, environmental protection, and sustainability, it added.

Double burden

The tariff increases of 2025 affected countries unevenly, hitting many developing countries harder than most developed ones, said the report.

For developed countries, the tariff increase that they face on their exports remains below the tariff increase that countries from East Asia, South Asia and Latin America face, with average tariff rates on exports from Latin America more than doubling.

At the same time, developing countries bear a disproportionate share of trade costs related to NTMs, it added.

Their exports are often more affected because compliance with complex regulations, certification requirements, and associated administrative procedures is relatively more burdensome and resource-intensive for their firms, particularly smaller exporters with limited technical and financial capacity.

For example, when accredited laboratories or certification bodies are unavailable at home, exporters may need to ship products through third countries to confirm compliance with the requirements.

UNCTAD research shows that least developed countries (LDCs) lose about 10 per cent of their exports to G20 markets because of their inability to comply with NTMs compared with other developing countries.

As the use of NTMs continues to expand, the gap between developed and developing regions risks widening further, UNCTAD cautioned.

“Development strategies must thus focus on reducing the costs and challenges of compliance with NTMs. Since most pursue legitimate public policy objectives, they cannot be simply negotiated away.”

Instead, the report pointed out that two policy approaches are both effective and politically achievable: enhancing transparency and regulatory cooperation.

It said that by improving access to information and promoting greater alignment or stronger mutual recognition across regulatory systems, these measures can significantly reduce the compliance

costs associated with NTMs, particularly for developing country exporters.

The report noted that the lack of transparency in non-tariff measures is a significant obstacle to global trade.

For businesses, particularly smaller enterprises, the sheer volume of regulations and the difficulty of identifying which regulations apply to specific products can be overwhelming, it said.

Regulations on standards, labeling, approvals, and safety often differ across markets. Most NTMs are subject to notification requirements at the World Trade Organization (WTO) but these obligations are not always met.

Moreover, the report said some NTMs that do not require notification, for example, if measures are based on international standards, can still have substantial trade effects.

Ensuring that comprehensive and accessible information on all relevant NTMs is available is therefore essential for traders, it stressed.

The costs of this lack of transparency are significant. Studies suggest that improving transparency can reduce trade costs associated with non-tariff barriers by about 19 per cent.

When countries fail to notify measures, the costs are comparable to imposing a 28 per cent tariff.

For smaller companies with limited resources, these hidden costs can be enough to completely exclude them from entering or participating in the global market, the report suggested.

The missing voice

The report drew attention to recent data that reveal a striking divergence in how countries engage with the WTO to resolve trade frictions.

Developing countries have become increasingly active, recently overtaking developed nations in both raising and responding to Specific Trade Concerns (STCs), while the participation of LDCs remains minimal, it said.

STCs are important tools through which WTO members challenge or seek clarification of trade measures, such as health and safety standards, that they consider to unfairly restrict their exports.

The absence of LDCs from these discussions suggests they are not yet fully equipped to take advantage of the

multilateral system.

This “diplomatic silence” prevents LDCs from addressing the very barriers that may stifle their growth, the report emphasized.

“Without active engagement, these economies cannot effectively contest the regulations that could limit their market access. The fact that LDCs are also not targeted by STCs may indicate limited interest by other WTO members in these markets.”

This lack of political engagement is closely linked to the LDCs’ marginal position in global commerce.

Despite decades of international commitments and preferential market access schemes, the LDC share of world exports has remained stubbornly low, recorded at approximately 1.1 per cent in 2024, barely unchanged from the 1.0 per cent share in 2010.

The United Nations Sustainable Development Goal (SDG) 17 sets the specific target for doubling the share of global exports of LDCs to 2 per cent by 2020.

Current trends suggest that, even by 2030, this target will remain unrealized, the report warned.

To improve the integration of the most vulnerable countries into global trade, the international community must move towards concrete technical support and capacity building.

LDCs require specialized assistance to navigate the complex landscape of NTMs, especially SPS and TBT regulations, it suggested.

“Differences in regulations across countries increase the costs of producers and traders as they need to comply with varying requirements. Even if countries pursue a similar safety level, regulations can be very different.”

The report cited the well-known example of poultry, stating that in the United States, producers are allowed to use antimicrobial washes, such as chlorine, to reduce bacteria during processing.

In contrast, the European Union places greater emphasis on hygiene throughout the production chain, such as stricter farming and handling practices, and does not permit chlorine-treated chicken for sale. This has resulted in limited market access.

Another example cited by the report is electrical products where a device is

approved for sale in one country but often needs additional testing and certification before it can be sold in another country, even if the underlying safety objectives are broadly similar.

Smaller exporters from developing countries often face similar challenges because different countries impose varying requirements on issues like pesticide residues, packaging, labelling, and certification.

Even when the underlying goal, such as food safety, is the same, farmers may need to adjust production methods, undergo separate inspections, or obtain new certificates for each destination market.

For small-scale producers, these additional steps can be costly and time-consuming, making it harder to access regional or international markets, the report pointed out.

It said regulatory convergence where countries align their domestic rules with each other or with international standards could reduce the costs associated with NTMs by between 15 and 30 per cent, without jeopardising safety objectives.

Ideally, international standards could be widely applied. For agri-food, Codex Alimentarius, International Plant Protection Convention (IPPC) and World Organisation for Animal Health (WOAH) develop recommendations for technical regulations based on scientific evidence, it noted.

However, it said many countries support those recommendations but either over-regulate, i.e., add additional requirements, or under-regulate, i.e., miss out on recommended measures, or both.

LDCs frequently face a double-edged sword regarding standards. Many LDCs currently under-regulate, which creates a barrier to exporting to wealthier regions that demand strict compliance with international norms, or even impose additional requirements.

However, raising domestic standards to meet global requirements can be challenging: while it can open foreign markets, it may also increase domestic production costs, potentially reducing the competitiveness of domestic goods, including in their own markets, UNCTAD suggested.

A primary reason for this disconnect is that international standards often do not reflect the specific economic and technical realities of developing

countries, it said.

It said that current data shows a significant participation gap in the international bodies that write these rules.

"Ensuring that developing countries have a seat at the table when standards are drafted is essential to create a global trading system that is both safe and inclusive."

South-South trade

The report also found that South-South trade has experienced dynamic growth in recent years, as developing countries increasingly trade with one another.

Yet, a major obstacle remains: transparency around trade rules is often weak. Exporters frequently struggle to find clear, up-to-date information on trade-related regulations applied in other developing countries, it said.

"The result is uncertainty, delays, and higher costs; barriers that disproportionately affect smaller firms trying to enter new markets."

The report underlined that stronger regulatory cooperation among developing countries could unlock real gains.

Aligning product requirements or mutually recognizing certifications

would reduce duplication and speed up trade flows, it said, citing the African Continental Free Trade Area (AfCFTA) as an example.

The average ad valorem equivalent costs of technical measures in the agri-food and manufacturing sectors are 12.8 and 1.8 per cent, respectively.

The low average impact of technical measures in manufacturing is due to their relatively low incidence, said the report.

Where measures are applied in manufacturing, the average cost is 5.4 per cent. Even a mild form of regulatory cooperation, where the number of measures that each country applies does not change but the types of measures were more aligned, would reduce between 30 and 40 per cent the costs in both sectors, it added.

The report stressed that transparency and stronger regulatory cooperation are practical, achievable goals in South-South trade agreements.

UNCTAD said by investing in clearer rules and closer cooperation, developing countries have a real opportunity to turn South-South trade into a more powerful engine of growth.

Without greater transparency and regulatory cooperation, NTMs risk eroding the benefits of decades of tariff liberalization, it concluded. (*SUNS #10440*)

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Private credit's tech & AI-heavy exposure poses stability risks

While private credit offers tailored financing and diversification benefits, it carries significant vulnerabilities, thus warranting close and sustained attention, in particular during a prolonged downturn, according to the Financial Stability Board.

by Kanaga Raja

PENANG: While private credit brings benefits in the form of tailored finance for companies and diversification for investors, it also embeds several vulnerabilities, including complex inter-linkages with banks, borrower credit quality concerns, and valuation opacity, according to the Financial Stability Board (FSB).

In a new report on private credit vulnerabilities, the FSB focused on potential vulnerabilities around bank inter-linkages and lenders' credit exposures, and highlighted data challenges for effective monitoring.

"Private credit remains untested to a prolonged economic downturn and so warrants close attention," it said.

It pointed out that industries receiving significant private credit include technology, healthcare, and services companies, underscoring the tendency of private credit to specialise in certain sectors.

Private credit is also contributing to fund the recent boom in artificial intelligence (AI)-related investments, it said.

"However, this focus on specific sectors may leave private credit funds exposed to idiosyncratic risks," the FSB warned.

The FSB coordinates the work of national financial authorities and international standard-setting bodies across 24 countries and jurisdictions.

The FSB report refers to private credit as non-bank direct lending to medium-sized companies negotiated on a bilateral basis.

The private credit market has grown significantly across jurisdictions, with the aggregate size estimated to be between \$1.5 trillion and \$2 trillion based on data from members in the assessment as of the end of 2024, the report said.

This estimate suggests private credit is of similar size to the institutional leveraged loan market (approximately

\$1.5-\$1.7 trillion), and as well as the approximately \$2 trillion high-yield public debt market.

The United States has the largest market, with an estimated size of around \$1 trillion, followed by the euro area and the United Kingdom, with much smaller but still sizeable markets, said the FSB.

Other jurisdictions with existing but modest markets include Canada, Hong Kong, Japan, Switzerland and South Africa.

The report said private credit is growing quickly. Over the past 5 years, members' survey responses indicate the average annual growth rate was 16% in Canada and 17% in the United Kingdom.

The average annual growth in the euro area was 13% over the past decade from a low base.

The United States has also seen a threefold increase since 2019, though it represents a small share of financing to the US non-financial corporate sector, while activity is also growing (albeit from a smaller base) in South Africa and Switzerland.

The FSB attributed the growth of private credit to several factors. These include the prolonged low-interest rate environment, changes in post-crisis bank regulation, and the expansion of private equity, which have increased demand for high-yield and tailored credit.

"Growth may also be attributed by companies seeking to borrow more including those who are seeking quicker financing, more flexible terms and/or are embarking on significant capital expenditure."

The report said that market participants also point to similar reasons including the scale effects of established portfolios, strong borrower relationships, changes in bank capital requirements and sustained investor appetite for yield and diversification as key contributors to ongoing growth.

Private credit provides alternative

financing opportunities to companies that may seek customised and flexible solutions and/or face difficulties in securing affordable funding from banks and public markets, it added.

It said private credit lending has historically focused on un-rated businesses that have credit fundamentals that would place them in the high-yield part of the corporate credit spectrum, including highly indebted medium-sized companies.

The Basel-based FSB said that by reducing reliance on banks and public markets, private credit plays a critical role in supporting economic growth, particularly in sectors and borrowers under-served by traditional lenders, such as highly innovative firms that might lack adequate collateral but have significant growth potential and longer-term financing needs.

"Attractive yields, diversification opportunities, access to asset classes difficult to gain exposure to via public markets, and stable cash flows (in normal times) make private credit appealing to a broad range of investors."

In addition, the market structure of private credit is evolving. The private credit landscape is experiencing some consolidation via mergers among established players, said the report.

For example, in the United Kingdom, the top five asset managers providing private credit account for over 50% of gross assets in UK-managed private credit funds.

According to the FSB, the private credit ecosystem is characterised by deepening interconnections between asset managers, banks, insurers and private equity firms.

Banks and private credit funds are connected through financing arrangements and strategic partnerships.

Across FSB members, the available data captures direct exposures of around \$220 billion of drawn and un-drawn bank credit lines to private credit funds, while some commercial estimates range from \$270-\$500 billion.

The report stressed that this range highlights some of the data challenges in private credit.

However, the FSB said there are also potential vulnerabilities from a range of other indirect exposures including through banks providing revolving credit facilities to companies that are simultaneously borrowing from private credit funds and the growing use of synthetic risk transfers.

The report warned that valuation

opacity and reliance on private credit ratings can amplify strains in stress.

It said in private credit, measures available to authorities of credit quality are scarce and limited to a subset of borrowers. Many jurisdictions do not collect detailed information, and the available data cover only a portion of the market.

This limited data availability ties in with the reliance on private ratings or private estimates in the market, which are often provided by smaller, lesser-known rating agencies.

The FSB warned that opacity in credit quality can lead to informational contagion, which in turn can amplify credit-related vulnerabilities.

Noting that private credit issuers appear to be concentrated around the single B credit rating bucket, the report said the largest borrowing sectors in private credit are services, technology, and healthcare; some stakeholders, however, highlighted that in private credit markets there was wide heterogeneity at sectors level, owing to the niche and smaller nature of borrowers compared to public markets.

Other commentators note concerns on the concentration, particularly in technology and its exposure to AI bust or AI disruption scenarios, it added.

The FSB also said borrowers facing negative cash flows may turn to private equity cash injections and short-term liquidity measures for temporary relief.

Common tools to improve liquidity in the short-term include payment-in-kind (PIK) loans, bank revolving credit facilities, and loan restructures.

However, the report warned that these measures can also signal deteriorating credit conditions, particularly for weaker borrowers.

“In addition, while postponing essential expenditures might temporarily preserve liquidity, it can jeopardise a company’s long-term viability and increase the risk of credit defaults.”

In an environment of rising interest rates, re-financing challenges may become more severe, and persistently negative cash flows often lead to escalating debt and heightened financial stress, the report pointed out.

Members identified several other potential vulnerabilities in private credit. Based on responses to an internal FSB member survey, these include interconnectedness with other non-banks and cross-border inter-linkages, leverage, liquidity mismatches, and concentration.

These may interact and reinforce

each other, especially during stress, and could be amplified by opacity and complexity, said the report.

It said that interconnectedness between private credit and insurers has increased in recent years.

Private equity firms appear to be increasingly developing ownership or control relationships with insurance companies that then invest in private credit funds.

In some jurisdictions, life insurers invest in high-yield corporate bonds and leveraged loans, which may expose them to risk factors that are common to private credit assets, it noted.

Partnerships between life insurers and private credit investment firms have created more complex and opaque structures that seek to shift portfolio allocations towards riskier corporate debt and may exploit flexibility and opacity in valuations, as well as potential regulatory arbitrage and the use of offshore reinsurance jurisdictions, the report said.

For instance, in the United States, private equity-backed insurers now control nearly \$900 billion in insurance liabilities, a significant rise from \$67 billion in 2012, with 35% of new US annuity sales in 2023 going to private equity-backed insurers.

The report said this trend is also expanding globally, with funded re-insurance gaining traction in the United Kingdom and Asia, where insurance liabilities transferred through funded re-insurance are projected to grow significantly in the coming decade.

It also said private credit lending can involve cross-border activities through involvement of foreign investors, fund managers, and lenders across jurisdictions.

AI-related risks

The report found that private credit loan originations remain concentrated in a few industries, highlighting the trade-offs between specialisation and diversification.

It said that industries receiving significant private credit include technology, healthcare, and services companies, underscoring the tendency of private credit to specialise in certain sectors.

Private credit is also contributing to fund the recent boom in AI-related investments.

Specialisation could be associated with a deeper understanding of borrower characteristics and enhance private credit

lenders’ ability to monitor and manage loans effectively, it suggested.

However, the FSB said this focus on specific sectors may leave private credit funds exposed to idiosyncratic risks.

“By reducing diversification, pronounced specialisation may increase exposure to region- or industry-specific shocks.”

Private credit is playing a critical role in addressing the financing needs of data centre investments, particularly those driven by the rapid expansion of generative artificial intelligence (GenAI), the report noted.

As the demand for high-performance computing infrastructure such as data centres grows, internal cash flows from technology companies are proving insufficient to meet the substantial capital requirements, it said, adding that private finance, and specifically asset-based finance (ABF), has proved a key source of funding.

According to private sector research, AI infrastructure capital expenditure (capex) between 2025 and 2028 is projected at \$2.9 trillion, with \$1.5 trillion expected to be met by external capital, including \$800 billion from private credit.

The report said that according to other estimates, data centres will require \$5.2 trillion in capital expenditures by 2030.

Private credit lending to AI-related sectors has expanded considerably, both in absolute terms and as a proportion of total private credit activity, it further said.

It said the terms of private credit loans to AI-related firms are broadly aligned with those offered in other sectors, featuring similar maturities and rate spreads. However, loans to AI companies are generally larger in scale.

“While exposure to AI-related sectors remains relatively small for the average private credit fund, interest and activity in this area have been steadily growing over time, with the sector’s share of private credit deals reaching 34% in 2025, up from an average of 17% over the previous five years.”

The report pointed out that asset-based finance is well-suited to the complexities of data centre financing.

It allows developers to secure funding by leveraging predictable and stable cash flows, such as long-term lease agreements with highly creditworthy tenants.

This financing structure enables technology companies to access critical infrastructure without significantly

impacting their balance sheets, while investors benefit from stable and attractive returns.

The flexibility of private credit makes it ideal for supporting data centre projects at different stages of development, from land acquisition to construction and operation.

However, risks and challenges could impact private credit lenders' ability to fully meet the financing needs of data centre investments, the report underlined.

It said one vulnerability relates to being impacted by wider changes in financial markets and macroeconomic conditions.

A sharp correction in asset valuations, which have increased rapidly, could lead to sizeable credit losses to private credit investors.

This could be triggered by any significant shortfall in the supply of electricity, a critical factor in the construction and operation of data centres, which could lead to delays or cancellations of projects, it suggested.

In addition, the report said valuations and credit losses could also be driven from any overcapacity in the data centre market, if development outpaces demand for AI-related services thereby leading to lower-than-expected returns for investors.

Overall, the report stressed that the concentration of risks and the complexity of bank exposures to private credit merit continued attention.

Banks may encounter challenges in aggregating exposures across business lines or counter-party types, especially if counter-party disclosures are limited, it said.

The FSB added that this can hinder their ability to identify risks from concentrations and correlations, potentially influencing transmission channels under stress.

In adverse conditions, exposures that seem manageable on a standalone basis may exhibit higher-than-expected correlations, complicating efforts to effectively manage and mitigate risks, it emphasized.

Stress scenarios

While no system-wide stress has been reported by members in their jurisdictions, isolated cases of liquidity pressures or borrower defaults have recently occurred, which also impacted some private credit lenders and investors, said the report.

Corporate credit came into focus in late 2025, when some corporates defaulted over a two-month period, the

FSB said, adding that the most prominent among these defaults were First Brands and Tricolor.

It said the market reaction to the defaults was both contained and short-lived. While several financial institution lenders disclosed losses on their exposures to the failed companies, these were digested by markets without any major strains.

"The cases highlight potential vulnerabilities in corporate credit. While fraud appears to have played some role, a lack of transparency and hidden leverage characterised these failed companies, leaving lenders with insufficient or poor information about their clients prior to bankruptcy," the report said.

It said this is best illustrated by the use of off-balance sheet financing at some of the defaulted companies, which rendered an ex-ante assessment of total indebtedness and overall financial health difficult for individual lenders.

The report further said lender reliance on overly optimistic credit ratings may have also contributed to a flawed assessment of underlying risks.

More generally, the number of institutions that had lent to the failed companies shows that weak underwriting spanned across corporate credit markets, not just confined to private credit funds.

The cases highlight inter-linkages among lenders of different types, several of which only became fully apparent upon default, said the report.

"Such interconnections could induce spillovers, including across borders, in prolonged periods of stress."

The events show how tightly integrated banks can be in the intricate web of exposures in corporate credit, said the report.

For instance, it said that in some of these cases, banks lent to private credit funds exposed to the defaulted firms, directly to the failed companies, and to other investors that had exposures to the failed firms.

"Private credit remains untested at its current size and scope, and a severe economic downturn could expose leverage and borrower credit quality vulnerabilities," the report warned.

"Growing reliance on private credit may pose risks during economic downturns. While the close relationship between private credit and private equity sponsors may help reduce defaults by providing additional capital to portfolio companies, severe economic downturns could weaken borrowers' debt service capacity and increase corporate defaults, particularly among weaker and highly leveraged corporates, two common characteristics of private credit

borrowers," it said.

Such conditions could result in losses for private credit funds, forcing them to scale back lending and reduce access to credit for certain types of borrowers, particularly in the mid-sized and higher-risk corporate segments, said the FSB.

It said these segments, which have become increasingly reliant on private credit, could face heightened funding pressures, amplifying the broader economic impact.

The report also said opacity in valuations and asset illiquidity could accelerate these dynamics during periods of stress.

Private credit assets are generally illiquid, making it challenging for funds to sell assets quickly without incurring price discounts.

"Private credit funds with redemption features, in particular, may face some challenges in liquidating assets to meet redemption requests, particularly when market conditions are deteriorating."

Vulnerabilities arising from complexity and inter-connectedness within the private credit ecosystem could also be exposed during stress.

The complexity of funding structures may create spillover risks to the banking system during stress events, it added.

For example, the FSB said private credit funds' reliance on bank credit lines for liquidity could shift pressures to banks, especially when corporate borrowers draw on revolving credit lines.

High leverage in private equity deals could magnify losses, placing additional strain on private credit funds that finance these transactions.

It said investors, such as insurers and pension funds, with exposures to both asset classes may face capital calls, potentially forcing them to sell liquid public assets.

Significant inter-linkages and market opacity could increase the risk of correlated stresses.

The report also warned that data gaps hinder effective oversight of the sector, pointing out that differences in definitions across jurisdictions and limited fund and loan-level information make it hard to assess exposures and potential transmission channels.

The report proposed a core set of comparable metrics for authorities to track market size and growth, links with banks and insurers, leverage, liquidity features, concentration, cross-border activity, and borrower credit quality. (SUNS #10439)

The unravelling of the WTO's institutional sanctity?

The World Trade Organization Director-General's decision to act as depositary for the non-WTO plurilateral e-commerce agreement has drawn severe criticism for committing her office and WTO resources to an accord outside the organization's legal framework, thereby setting what critics describe as a troubling institutional precedent, according to *Kinda Mohamadieh*.

GENEVA: The Director-General (DG) of the World Trade Organization (WTO) accepted to serve as depositary for the non-WTO plurilateral e-commerce agreement. In doing so, the DG is committing her office and WTO human and financial resources to a non-WTO agreement, setting a problematic precedent that breaches her mandate and establishes a rupture with the practice since the establishment of the WTO.

On the margins of the WTO's 14th Ministerial Conference (MC14), 66 States issued a declaration on interim arrangements for the non-WTO agreement on electronic commerce, announcing their intent to implement this agreement resulting from the Joint Statement Initiative on the subject after completing their required domestic procedures.

Despite this agreement not being a WTO instrument, it was branded as a WTO agreement and published on the WTO website under the WTO document reference number.

This, however, does not establish a legal relationship between the agreement and the WTO.

What is clear is that the e-commerce plurilateral agreement has not been accepted as a plurilateral agreement under the WTO rules (i.e., as an Annex 4 agreement), and that the interim arrangements recently launched have no legal standing under WTO law.

The States issuing the interim arrangements note that, on 18 February and 16 December 2025, they had requested the WTO General Council to adopt a decision to add the agreement on electronic commerce to Annex 4 of the WTO Agreement. The General Council was unable to reach consensus on that request.

In the declaration on the interim arrangements, the participating States note that they will "continue to seek a decision to add the Agreement on Electronic Commerce to Annex 4 of the WTO Agreement."

Yet, while acknowledging that the agreement is not part of the WTO institutional framework, the interim arrangements draw on the resources and institutional services of the WTO, by relying on the office of the WTO DG to serve as depositary and on the WTO Secretariat to service the agreement.

The Vienna Convention on the Law of Treaties (VCLT) codifies under Articles 76 and 77 the functions and competence of depositary of international treaties.

These rules of customary international law stress the international character of the function and the obligation to perform these functions impartially.

Besides, the constituent instrument of the organization to operate as depositary must allow for such functions.

In founding the WTO, members entrusted the organization's DG to be guardian of the WTO agreements and to act as depositary for these agreements and related instruments.

According to Articles XIV.3 and XIV.4 of the Marrakesh Agreement Establishing the WTO, the WTO DG acts as depositary of the WTO Agreement and its annexed Multilateral and Plurilateral Trade Agreements.

Article XIV.4 of the Marrakesh Agreement speaks specifically of "Plurilateral Trade Agreements", which according to Article II.3 of the Marrakesh Agreement, are "[t]he agreements and associated legal instruments included in Annex 4" to the Marrakesh Agreement.

There is no basis under the Marrakesh Agreement for the DG or the WTO Secretariat to provide any services for non-WTO agreements.

Thus, the law and established practice at the WTO make it clear that the DG can operate as depositary for WTO agreements concluded by its Members, based on the rules and procedures of the organisation, and that her mandate does not extend beyond that scope.

Given that the role of the depositary and its functions are guided by a treaty's procedural provisions, it is expected that the depositary is consulted in the drafting of the final clauses of the text well before the adoption of the treaty.

The fact that the DG is already listed in the adopted plurilateral e-commerce agreement text implies that the DG was consulted by the drafters of the text before that step was taken.

Furthermore, as per Article 24(4) of the VCLT, the functions of the depositary apply from the time of the adoption of the text, rather than upon its entry into force.

This implies that the DG's commitment to act as depositary is already operational.

By assuming this role, the DG has already committed WTO resources (human and financial resources) to fulfilling this function.

In order to fulfil the functions of a depositary, the DG requires the Legal Affairs Division (LAD) of the WTO Secretariat to assist her.

The LAD prepares copies of relevant agreements and analyses practical legal issues arising in everyday depositary work in accordance with international treaty law and established depositary practice.

Upon request, the LAD also guides members and acceding governments in drafting their WTO-related legal instruments.

Given the divergence among WTO Members about

bringing the plurilateral e-commerce agreement under Annex 4, and given that the law and practice of the WTO do not provide grounds for the WTO DG to have official functions in relation to non-WTO instruments, the DG's acceptance to act as depositary in this case falls beyond her mandate as defined by the Marrakesh Agreement.

Thus, this action could “adversely reflect on [her] position as international official” in contradiction with the requirements set upon her under Article VI.4 of the Marrakesh Agreement, and contrary to the “integrity, independence and impartiality which are required by [her] status” as an international civil servant.

This is clearly a case of “inappropriate” action by the DG and the Secretariat, which could demonstrate what the US referred to in its “WTO reform” submission as Secretariat action to “... pursue its own agenda, ... acting without regard to Members’ views and the impact that such activities may be having on Members’ interests, trust in the Secretariat, and budget contributions”.

Thus, this action ought to be alarming to all WTO Members, especially as they actively discussed at MC14 that “the WTO Secretariat should focus on its administrative role of serving the Members and refrain from driving policy”.

Besides the procedural, financial and legal implications that implicate the mandate of the WTO DG and Secretariat, this action also carries implications for future approaches to plurilateral agreements under the WTO framework and rules, and to the relation of unmandated plurilateral and other trade agreements (such as free trade agreements and regional agreements) with the WTO.

It was noted by commentators on the WTO that such “interim arrangements” can be considered examples of “WTO reform by doing”.

As such, the choice of the DG's office as depositary may be part of a strategy to change the practice at the WTO towards “flexibilising” the conduct regarding non-mandated plurilateral agreements.

Could this be an attempt at normalising the administering of such agreements by the WTO despite the lack of consensus among WTO Members on the legal relation between these agreements and the Organization?

This could be read as such, especially because bringing the plurilateral e-commerce agreement into force does not essentially require involving the WTO's DG and its Secretariat.

The participants could elect to identify one or more States to act as depositary. (SUNS #10454)

Putting the Third World First

A Life of Speaking Out for the Global South

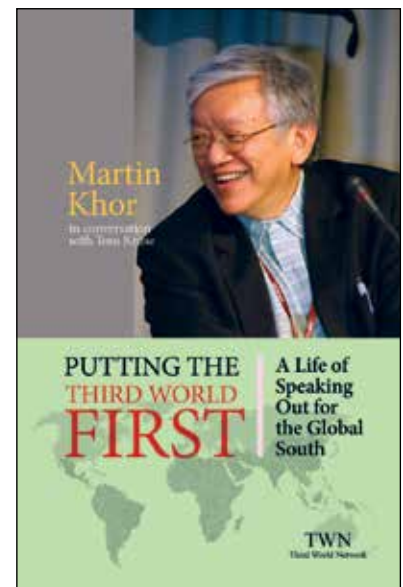
Martin Khor in conversation with Tom Kruse

Martin Khor was one of the foremost advocates of a more equitable international order, ardently championing the cause of the developing world through activism and analysis. In this expansive, wide-ranging conversation with Tom Kruse – his final interview before his passing in 2020 – he looks back on a lifetime of commitment to advancing the interests of the world's poorer nations and peoples.

Khor recalls his early days working with the Consumers Association of Penang – a consumer rights organization with a difference – and reflects on how he then helped build up the Third World Network to become a leading international NGO and voice of the Global South. Along the way,

he shares his thoughts on a gamut of subjects from colonialism to the world trade system, and recounts his involvement in some of the major international civil society campaigns over the years.

From fighting industrial pollution in a remote Malaysian fishing village to addressing government leaders at United Nations conferences, this is Khor's account – told in his inimitably witty and down-to-earth style – of a life well lived.



Martin Khor (1951-2020) was the Chairman (2019-20) and Director (1990-2009) of the Third World Network.

To buy the book: <https://twn.my/title2/books/Putting%20the%20TW%20first.htm> or email twn@twnetwork.org