

**Annual Meeting  
2005**

**Tough Choices:  
A Guide to the Issues**

Davos, Switzerland 26-30 January

World Economic Forum  
91-93 route de la Capite  
CH-1223 Cologny/Geneva  
Switzerland  
Telephone +41 (0)22 869 1212  
Fax +41 (0)22 786 2744  
E-mail: [contact@weforum.org](mailto:contact@weforum.org)  
[www.weforum.org](http://www.weforum.org)

© 2005 World Economic Forum  
All rights reserved  
No part of this publication may  
be reproduced or transmitted in  
any form or by any means, including  
photocopying or recording, or by any  
information storage and retrieval  
system.

## CONTENTS

|                                 | Page |
|---------------------------------|------|
| Introduction                    | 3    |
| I. China                        | 6    |
| II. Climate Change              | 8    |
| III. Equitable Globalization    | 10   |
| IV. Europe                      | 12   |
| V. Global Economy               | 14   |
| VI. Global Governance           | 16   |
| VII. Islam                      | 18   |
| VIII. Middle East               | 20   |
| IX. Poverty                     | 22   |
| X. US Leadership                | 24   |
| XI. Weapons of Mass Destruction | 26   |
| XII. World Trade                | 28   |

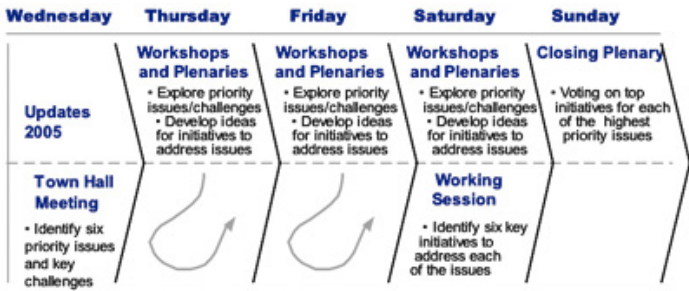
**INTRODUCTION**

The theme of the Annual Meeting, *Taking Responsibility for Tough Choices*, highlights the many challenges facing the world community, ranging from climate change and poverty, through to concerns over weapons of mass destruction and sustaining the global economy. At the centre of the global agenda are 12 issues, labelled the *Tough Issues*. This booklet outlines the status and some key policy questions for each of these issues.

On the morning of the opening day, these *Tough Issues* will be reviewed in update sessions; in the afternoon they will be the focal point of the Town Hall meeting. Participants will select and rank the six issues at the top of the global agenda and identify critical questions within each of the selected priority issues. The results will then be integrated into relevant sessions in the official programme as key agenda points. The reporting press in Davos is expected to cover the recommendations and proceedings of the Town Hall meeting as well as monitor its impact in subsequent sessions during the Annual Meeting.

**The Global Town Hall Process**

**Davos, Switzerland  
26-30 January 2005**



Participants will have the opportunity to deepen their understanding of the *Tough Issues* in nearly 90 sessions during the course of the Annual Meeting and propose ideas or initiatives on how best to tackle each issue. The initiatives will be reviewed at a working session on Saturday and the best will be taken to the closing plenary on Sunday for discussion and prioritization.

Each of the following sections includes a brief overview of the Tough Issue, three to five questions highlighting “tough choices” or relevant policy decisions, and a list of pertinent sessions throughout the Annual Meeting. Although we have attempted to include diverse perspectives, we recognize that not all points of view are fully represented. We hope that any differences of opinion or omissions will be brought out over the course of the Meeting. Such is “the spirit of Davos”!

**Ged Davis**

Managing Director, Annual Meeting Programme

## I. CHINA

Buoyed by domestic economic growth and a favourable geopolitical climate, China's emergence as a global power accelerated in 2004.

Multinational companies continued to beat a path to China's door, with record flows of foreign direct investment slated to break US\$ 60 billion in 2004. China now provides between 10 and 50% of global sales (and profits) for many consumer and resources companies. Moreover, the race to offer insurance and financial services to the world's greatest savers has only just begun. In addition to the magnetism of its markets, China's openness to trade and investment, enormous pool of surplus labour and growing demand for commodities – it is now the world's biggest consumer of steel, copper, coal and cement, and second biggest consumer of oil – have amplified its impact on the global economy over the last year.

China's economic clout underpins its weightier role on the world stage, whether in using its influence on the UN Security Council, the World Trade Organization and other multilateral forums; brokering negotiations with North Korea; or reshaping regional economic and political cooperation. Thus far, China's government – which recently won a minor diplomatic victory by nudging the EU to consider dropping its arms embargo – has wielded this power softly. Moreover, US preoccupation with Iraq and the War on Terror has, for now at least, muted tensions between the two powers. But China's assertiveness will continue to grow, especially on issues that its leaders consider crucial, such as Taiwan.

China's increasing global power, however, will not insulate it from pressing internal problems. Indeed, its breakneck economic growth has exacerbated flagrant violations of technology and intellectual property codes, a fickle regulatory environment and deep-seated inequities in its development process, especially the concentration of wealth in the hands of a few. Among the greatest challenges will be improving overall productivity and continued reform of its financial system, whose banks (which still provide Chinese businesses with roughly 90% of their financing) are awash in non-performing loans to unprofitable state enterprises and whose stock market remains more an instrument of state policy than a reliable means of raising capital. Chinese policy-makers must also respond to pressure to inject some flexibility in the country's policy of pegging its currency to the dollar, which can not only distort global trade and investment flows, but also make it more difficult to engineer a soft landing for its overheated economy. Failure to meet these linked challenges risks triggering an economic crisis that could generate turmoil at home and abroad.

## Tough Choices

1. How can China reform its banking system by stopping bad loans to loss-making state enterprises and still protect the workers that those companies employ?
2. How can China create flexibility in its exchange rates without triggering capital flight or a meltdown in its banking system?
3. How can China's growing impact on the global economy be managed in a way that generates the fewest shocks and the greatest benefits?
4. How can China best participate in setting world rules in a meaningful and positive way?

## Supporting sessions

1. Asia's New Balancing Act
2. Asia's New Multinationals
3. Cool in Asia
4. Managing the Chinese Economy's Pressure Points
5. Nurturing Early Stage Investment in China
6. Still Dreaming of 1.3 Billion Chinese Consumers
7. Update 2005: China
8. What Does It Mean to Be Chinese?
9. What If...? Forecasting China's Impact on the World's Resources

## II. CLIMATE CHANGE

Following a long period of debate about the science of climate change, there is now consensus among scientists that the threat is real. Indeed, evidence is growing that global warming has begun and its effects are beginning to be felt.

Attention is now shifting towards solutions. Having been ratified or approved by 132 nations, the long-delayed Kyoto Protocol will enter into force on 16 February, committing nations responsible for 62% of greenhouse gas emissions from developed countries to cut or limit their emissions by 2012. Australia and the US have declined to participate, although many states in the US are implementing various regulatory or incentive programmes. A European Trading System covering 25 countries will create a continent-wide market for carbon emissions in 2005.

Some international companies have already begun to act – by monitoring their emissions of greenhouse gases, by reducing emissions from manufacturing facilities or products, and/or by investing in low-carbon technologies that offer the promise of future profits. Others have chosen to wait until the risks, costs or regulatory environment are more certain. They argue that we still do not know whether the benefits of taking action will outweigh the costs.

The main sources of greenhouse gas emissions are electric power generation, transport and change in land use. Under business as usual, world energy demand is projected to grow almost 60% by 2030. Fossil fuels will account for 85% of increased demand. Emissions of carbon dioxide, the principal greenhouse gas that comes from burning fossil fuels, will grow 60% or more. Some scientists suggest that to stabilize our climate at safe levels, we will need to reduce greenhouse gas emissions by 60% or more from 1990 levels. On a cumulative basis, the US, EU, Japan and Russia have been among the biggest emitters. The largest growth in emissions over the next several decades will take place in major developing nations such as China and India. Once in the atmosphere, carbon emissions remain for about 100 years.

In the absence of concerted action, we will likely face more frequent heat waves, more frequent floods and droughts, rising sea levels and a host of related impacts. Many business sectors – from insurance to agriculture to tourism – may be at risk, while others will face new regulatory requirements and costs. There will also be new opportunities, ranging from the creation of emissions trading markets to energy-saving technologies, alternative fuels and new sources of electric power.

## Tough Choices

1. Recognizing that some of the choices made today will “lock in” future emissions for many years (e.g. power plants are built to generate electricity for 25-50 years), how should we prioritize capital investment?
2. With regulation of greenhouse gases now being introduced in most, but not all, industrialized nations, and developing countries so far exempted, what standards should multinational businesses set for themselves?
3. Assuming concerted global action is essential, how can the US, Australia and major developing countries be brought into the international process to address climate change?
4. What is business’s role in helping developing countries move to a low-carbon energy path?

## Supporting sessions

1. Climate Change: How Will Business Meet the Challenge?
2. Climate Change: The New Political Landscape
3. Climate Change: Understanding the Science, Dealing with the Risks
4. Environment: Current Trends and Emerging Issues
5. One Economy, Many Risks
6. Update 2005: Climate Change
7. Where Would You Not Travel?

### III. EQUITABLE GLOBALIZATION

Advances in telecommunications and transportation, coupled with the liberalization and deregulation of markets, have continued to drive global integration, facilitating the mobility of production and capital, as well as technologies and information, across national borders.

Although the process of globalization has generated immense wealth and opportunities and holds huge potential for further good, it has failed so far to benefit all groups in society in an equitable way. Income growth has been unevenly distributed and the gap in per capita GDP between the poorest and richest countries has increased. While the number of people living in absolute poverty declined significantly from 1990 to 2000, progress across regions was highly uneven. In addition, because developing nations often lack the public infrastructure and resources to cope with globalization's darker side – the rise in the illegal trafficking of people, drugs and guns for example – their citizens have often borne the brunt of these ills. For these and other reasons, many people blame globalization for growing inequality, poverty, environmental blight, a weakening of labour rights and a host of other evils.

These unbalanced outcomes should not be attributed to globalization *per se*. They result, in part, from the lack of institutions and resources in developing countries that would otherwise make it possible for their people to participate in the process. Inequalities are exacerbated by deficiencies in international regulatory institutions that, for example, restrict market access and discriminate against competitive products from developing countries. Moreover, many international financial institutions have rules and voting arrangements that often betray an inherent bias in favour of rich and powerful nations, lack transparency and fail to take the views and interests of non-state actors into account. As a result, developing countries and the poor often feel as if globalization is something that is being done to them, rather than an organic process that they can have a hand in shaping.

## Tough Choices

1. What can be done to ensure that developed countries live up to their commitments and obligations to remove market barriers against goods and services for which developing countries have a competitive advantage?
2. What can developing countries do to make it possible for their people to participate successfully in the global market economy?
3. How can international institutions promote more balanced and equitable global economic growth without stifling the dynamism and effectiveness of market mechanisms?

## Supporting sessions

1. Are the Rich (Still) Getting Richer and the Poor Poorer?
2. Balancing Global Competition and National Regulation
3. Migration and Cultural Authenticity
4. Must We Call a Revolution for Children?
5. Update 2005: Equitable Globalization
6. When Does the Economy Serve the People?
7. Will Income Disparities Always Be with Us?

## IV. EUROPE

Today, Europe can be proud of the euro's successful introduction, its increasingly borderless economy, the recent addition of 75 million citizens last May and the signing of its new constitution in October.

But 2005 promises to be a challenging year. For starters, there is the ongoing integration of the European Union's ten newest members, which is raising thorny issues ranging from agricultural subsidies and migration policies to leadership politics. Next March, the EU will hold a summit to review its Lisbon agenda, the platform of economic reforms and initiatives designed to make Europe "the world's most competitive knowledge-based economy by 2010" – a pledge that its member states are still far from fulfilling. And starting in 2005, the EU's 25 governments begin the process of ratifying its new constitution through a series of referenda – a process that could lead to a political crisis if one or more states vote the new constitution down.

Last year in Davos, many people made the point that Euroland is threatened by having to deal with too many problems at the same time: ageing and in some cases shrinking populations, sluggish economic growth (which will later translate into diminished political power and relevance), failing educational systems and sometimes complacent leaders and electorates. Those challenges remain, imposing a heavy responsibility on European leaders to make important decisions on a wide array of issues.

## Tough Choices

1. How can the EU balance centralization and the devolution of power to individual member states?
2. How can its member states arrive at a proper balance between redistribution and stronger growth?
3. Should European defence continue to rely on US leadership and manpower, or should it move towards more burden-sharing and, ultimately, independence?
4. How can European countries best face the challenges of migration, ageing and the continent's changing cultural and religious make-up?

## Supporting sessions

1. Europe 2020: Dressing Up for the Occasion?
2. Europe's Missing Engine of Growth Can the European Union Reform Itself?
3. Lest We Forget the Lessons of WWII
4. Plotting a New Course for the Transatlantic Partnership
5. Update 2005: Europe
6. What Direction for Germany?
7. Who Leads Europe?
8. Why Can't Europeans Get Jobs?

## V. GLOBAL ECONOMY

Despite relatively robust global growth in 2004, the global economy faces a variety of threats that range from higher oil prices and rising public sector deficits in industrialized countries to the effects of some unforeseen security shocks to consumer and business confidence. Global macroeconomic imbalances – particularly a gaping current account deficit in the United States – also raise questions about the future evolution of exchange and interest rates and the continued strength of the global economic recovery.

Oil prices are at higher levels than foreseen during last year's Annual Meeting. With a booming China's demand for energy and continued growth in North America, prices may remain uncomfortably high for the foreseeable future. The unstable geopolitical situation in the Middle East and other concerns about supply, such as the reliability of Russia as a growing alternative source of supply, have alarmed many. Much will depend on the speed at which new fields can be brought to market in the coming years, and the extent to which demand can be offset by increased efficiency or alternative fuels.

The US has been running a large and growing current account deficit for many years, reflecting the willingness of foreign investors to invest a share of their assets in the US market. However, in recent years, the widening deficit has partly reflected a massive deterioration of the US fiscal position. This has raised questions about the sustainability of the dollar, the resilience of current exchange rate arrangements among the world's three key currencies, and the risks posed by sharp exchange rate swings to global trade and investment. At a time of growing dollar weakness, the large accumulation of large dollar assets in Asia has heightened these concerns.

On the upside we have seen significant improvement in productivity in the US and the prospect that this might be the basis for faster growth worldwide.

## Tough Choices

1. Given the US role as global economic locomotive, how can it address its current account deficit without jeopardizing global growth?
2. Will nations be able to contain nascent inflation by raising interest rates in a coordinated manner that does not upset global financial markets?
3. Will those industrialized nations facing the challenge of ageing populations generate the political will to reform their pension and healthcare systems?

## Supporting sessions

1. A Reality Check on the US Economic Recovery
2. Are Your Oil and Gas Supplies Secure?
3. As Goes Chile, So Goes the World?
4. Balancing Global Competition and National Regulation
5. Building the Global Workforce
6. Defusing the Public Debt Bomb of the Emerging Markets
7. Europe's Missing Engine of Growth
8. Has Japan Recovered?
9. Hedge Fund Fever Heats Up
10. Keeping the Global Economy Growing
11. One Economy, Many Risks
12. Spotting the Next Bubble Before It Bursts
13. The Best Places to Do Business
14. Those Exchange Rates Again
15. Update 2005: Global Economy
16. Who Pays for a Weak Dollar?

## VI. GLOBAL GOVERNANCE

Strained by new global crises and enduring challenges, international institutions must wrestle with the need for fundamental reform and change.

“Rarely have such dire forecasts been made about the UN,” said Secretary-General Kofi Annan in his 2003 annual report to the General Assembly. Its failure to respond effectively to crises over the last decade, from Rwanda to Darfur, and its circumvention by the United States and United Kingdom in their war in Iraq, have raised questions about its relevance. And its creaky organizational structure still bears more resemblance to the world of its founding 60 years ago than the world today. To cope with these twin challenges, a high-level UN panel proposed a series of far-reaching reforms in December 2004 that includes new rules for intervention in crises and an expansion of the Security Council to 24 members.

The World Bank and International Monetary Fund, the two Bretton Woods institutions created 60 years ago, also face calls for reforms to their leadership and governance structures. The IMF faces growing scrutiny for its massive aid packages to Argentina, Brazil and Turkey from critics who feel that it is neglecting its role in policing the global financial system and addressing global imbalances. In addition to vigorous debates over approaches to foreign aid, some critics of the World Bank worry about risky lending practices and the reliance on loans over grants. Meanwhile, the relatively new World Trade Organization will celebrate its tenth birthday this year amid emerging doubts about its effectiveness.

International treaties are as much a part of the international governance system as international organizations. They are binding for countries that have ratified them. But a few prominent hold-outs can greatly affect their application, as is the case, for example, with the US’s refusal to ratify the Kyoto Protocol on climate change and the international criminal court treaty.

A number of regional structures are at varying stages of development, raising issues and challenges related to national sovereignty, multilateralism (as opposed to regionalism), geographic expansion, and inefficiency or redundancy caused by overlapping functions.

## Tough Choices

1. Will the five permanent members of the UN Security Council agree to changes that make the council more representative?
2. Can the international community reform the architecture of international financial institutions to better take into consideration Asia and other regions whose weight in the world economy has increased?
3. Can international treaties and institutions that do not have the support of the world's most powerful nations ever become truly effective, or do they risk irrelevance and collapse?
4. What is the proper balance and division of labour between regional and global entities?

## Supporting sessions

1. A Failing Grade on Failed States
2. Defining Civil Society Once and For All
3. Getting the Millennium Development Goals Back on Track
4. Leading through the Pain of Reform
5. Partnering against Corruption
6. Putting Public-Private Partnerships Into Practice
7. Update 2005: Global Governance

## VII. ISLAM

Today, many societies outside the Muslim world make a clear distinction between the state and religion. Public institutions govern public affairs and although some of the norms they set may be inspired by religious convictions, the state is a secular entity. But most of the world's 1.5 billion Muslims live in societies governed by public institutions that are firmly based on religious norms. State and religion are not separate ideas but an integrated concept about how public affairs in the Muslim world run.

Within that framework, however, Muslim societies display a wide and evolving variety. While many Muslims may have felt that the problems their societies experienced were a product of too little Islam, the failure of Islamist governments to improve the lives of their citizens has raised doubts about the efficacy of an overly dogmatic approach. Some Islamists have exploited a vacuum created by the failures of the secular state, but they have not necessarily come up with a better alternative.

The deep-seated difficulties identified in a scathing and highly influential report by the UN Development Programme in 2002 highlight the enormous challenges that lie ahead in the Arab world – a complex mix of political, social and economic problems that require workable and pragmatic solutions.

The evolution of Islam and its adherents' attitudes about how best to structure their societies will continue to be marked by divergence and contradictions. Indeed, those who advocate democracy as a solution to Islam's perceived "problems" are likely to be disappointed: democratic elections in many Islamic countries could well yield regimes at odds with the values of some of democracy's most ardent proponents.

## Tough Choices

1. What role can Islam play in helping countries in the Muslim world meet complex political, economic and demographic challenges?
2. Is it possible, or even desirable, to forge a new consensus among Muslims on the relationship between religion and the state?
3. Can the West learn to live with a conservative Islamist democracy?
4. How will the Muslim world choose to define itself vis-à-vis other world cultures?

## Supporting sessions

1. Is Politics to Blame for the Rift between the West and Islam?
2. Modernization without Westernization
3. Update 2005: Islam

## VIII. MIDDLE EAST

The Middle East faces a range of enduring problems. First and foremost is the Arab-Israeli conflict. All sides in the conflict need to make responsible choices to move the region towards a long-lasting and stable peace. Such choices call for a willingness to relinquish old positions on matters such as refugees, the status of Jerusalem, borders and water.

Israel's plans to withdraw from Gaza, together with the recent change in Palestinian leadership, may positively alter the dynamic of peace negotiations and open new opportunities. To be sure, the choices that lead to peace will be difficult for members of both societies, but they are necessary to ensure a better future for all.

Next, there is the question of the future of Iraq. A fragmented, destabilized Iraq is in nobody's interest. The international community is supporting Iraq to become a democratic, stable and independent member of the global community. The challenge is immense for a country with limited experience in democratic governance – in a region with strong traditions and a long history of strife. Much is demanded of the Iraqi people in ensuring a transition to democracy, an end to bloodshed and the avoidance of civil war.

Finally, political and economic systems across the Middle East need reform. Elites must be willing to relinquish some power and control and give citizens greater choice to decide the destiny of their countries. At the same time, radicalism and fanaticism cannot be allowed to undermine progress.

## Tough Choices

1. Can Palestinians and Israelis make the compromises necessary to reach a durable peace agreement?
2. Can the international community, and particularly the United States, ensure a secure transition to lasting peace and democracy in Iraq?
3. Can leaders in Middle Eastern countries take the necessary steps to reform economic and political systems while maintaining security and stability?

## Supporting sessions

1. Are Your Oil and Gas Supplies Secure?
2. Disengagement from Gaza: Building Momentum for a Permanent Agreement
3. Iran in the World
4. Is the Peace Process Poised for a Resurrection?
5. Libya's Wind of Change
6. Middle East 2020: Island of Wealth and Opportunity
7. Reforms in the Arab World: From Vision to Action
8. Saudi Arabia's Deepest Challenge
9. Update 2005: Middle East
10. What Lies Ahead for Iraq?

## IX. POVERTY

The last 20 years have seen a remarkable decline in the absolute numbers of poor in the developing world. However, India and China account almost entirely for this drop. In some regions – Africa, for example – the number of poor has actually increased. The state of global poverty is complex and open to question.

Sub-Saharan Africa remains the poorest region in the world. Indeed, the number of poor in Africa has roughly doubled: whereas in the early 1980s one in ten of the world's poorest inhabitants lived in Africa, now the figure is about one in three. Slow growth, heavy reliance on commodity exports, political instability, HIV/AIDS and other infectious diseases are among the main challenges to address in the next years to bridge Africa's widening gap with the rest of world. While the economies of East and South-East Asia are on track to meet nearly all of the UN's Millennium Development Goals by 2015, the economies of sub-Saharan Africa are not likely to meet a single one.

As this year's chair of the G-8, the United Kingdom is pushing its fellow G-8 nations to meet a spending target (set more than three decades ago) of 0.7% of GDP on overseas aid. Worldwide, total official aid from donor countries amounts to only 0.25% of aggregated national incomes. But given the raging debate over the effectiveness of foreign aid, devoting just more money may not be enough. What nations spend on aid is less important than how they spend it. Many development experts would like to see more grants and fewer loans, 100% debt relief and measures to ensure that overseas aid is used only for poverty reduction.

Building upon proven results is particularly important. There is now, for example, good evidence to show that the returns from investing in the education of girls are higher than any other investment available in the developing world. Yet, in many countries, the task of providing more girls with access to educational opportunities is still not getting sufficient attention.

## Tough Choices

1. How can developed countries ensure that overseas aid will actually be effective in reducing poverty?
2. In the face of great needs at home, how can developed countries build the domestic constituencies necessary to support higher overseas assistance, debt relief and more use of grants rather than loans?
3. What are the private sector's role, responsibility and interest in supporting and encouraging aid strategies that have proven results?

## Supporting sessions

1. Microcredit Grows Up
2. Funding the Battle against Poverty
3. How to Tap the Bottom of the Pyramid
4. Small Customers, Big Business
5. Update 2005: Poverty
6. Will Income Disparities Always Be with Us?

## X. US LEADERSHIP

The second Bush Administration faces a number of tests on its ability to steer a careful course for the United States in the international system. The most pressing challenges are reducing instability in Iraq, diminishing the threat of terrorism and addressing the looming danger of nuclear proliferation. These issues will likely absorb the bulk of US leaders' attention and energy in the coming year. That they have led the United States to project considerable military power around the world only raises the stakes of action and the burden of decision.

But US leadership is not defined solely in military terms. The ongoing war on terror and the occupation of Iraq do not excuse the United States from leading in other important areas, from mending transatlantic relations and addressing its current accounts deficit to reviving a constructive discussion on climate change. Since the axiom that any new Administration is a mystery holds true even for presidents in their second term; the world waits expectantly to see how the United States will re-engage on these issues.

Another *de facto* condition of leadership is the ability to first define and command the zeitgeist. In that respect, US society has often set the initial terms of social, cultural and moral debates. At a minimum, it has helped frame issues in a certain light: the place of religion and secularism in political life, the debate on same-sex unions and the question of euthanasia are only a few issues that come to mind. For better or for worse, here too, the voice of the United States seems to be a bellwether for the rest of the world.

## Tough Choices

1. How can the US maintain a “benign” hegemony without further exacerbating anti-US sentiments?
2. Beyond the war on terror, where would US re-engagement be most helpful?
3. How can the US remain the sole superpower and be a net debtor to the rest of the world?
4. How can the US project a consistent set of policies and principles abroad when it is so deeply divided at home?

## Supporting sessions

1. A View From the Hill on US Foreign Policy
2. Addressing the Role of the United States in World Affairs
3. America’s House Divided
4. BBC World Debate: Rebranding US Global Relations
5. Has Brand America Caught a Transatlantic Chill?
6. Nightcap: The Hill Comes to the Alps
7. Plotting a New Course for the Transatlantic Partnership
8. Update 2005: US Leadership
9. USA 2020: Still Number One?

## XI. WEAPONS OF MASS DESTRUCTION

Waged in the name of halting the spread of weapons of mass destruction (WMD), the war in Iraq instead raised important questions about the means and capability of the international community to curb this threat. The nuclear ambitions of two other states, Iran and North Korea, have reinforced fears that the non-proliferation regime is not working. In these two cases, negotiation has so far been the preferred option. The European powers are in talks with Iran to limit its programme. The US is in six-power negotiations brokered by China to halt North Korea's illicit development of nuclear weapons. Adding to the sense of urgency is the looming spectre of terrorists armed with nuclear WMD, a scenario that dramatizes the need for more stringent control of fissile materials, including those remaining in Russia as a residue of the Soviet Union's Cold War armaments.

Confidence in the Nuclear Non-Proliferation Treaty (NPT), a pillar of arms control since 1970, has been seriously shaken. The NPT was a surprisingly successful example of superpower cooperation at a time when both sides were anxious to prevent other states from joining the nuclear club. It remained vulnerable, however, because certain key near-nuclear states never signed on and its enforcement mechanisms were never perfect. Today, developing countries feel that the nuclear states have not upheld their side of the NPT's bargain – their commitment to continue reducing their own nuclear arsenals. Meanwhile, the US strategy of pre-emptive strikes, its interest in developing a new generation of nuclear weapons and its scepticism about the utility of multilateral inspections have also engendered considerable concern.

The new threats call for a broader range of responses. An important school of thought believes that the NPT remains a valuable tool, but that it needs strengthening and more concerted implementation. Many experts also argue higher priority should be given to safeguarding “loose” nuclear weapons material in Russia.

WMD also include chemical and biological weapons, the latter of which pose a special danger as potential arms for terrorists. Although the production and use of these weapons are outlawed by treaty, stricter enforcement and verification are not likely to dissuade rogue states or terrorists. Many believe that the “genie” is already too far “out of the bottle”.

## Tough Choices

1. Are there incentives that can effectively stop non-nuclear states from embarking on WMD programmes, or are harsher measures such as sanctions and military action necessary?
2. Will the nuclear powers uphold their end of the NPT bargain by reaffirming their long-standing commitment to real nuclear arms reductions?
3. What are the dangers inherent in the spread of nuclear technology for civilian electric power generation? Can it be designed and monitored in a way that assures international security?
4. What additional steps are needed to minimize the risk that biological or chemical weapons will be used by terrorists or rogue states and to be better prepared if they do?

## Supporting sessions

1. Biological Threats to Societies
2. Outlook on Terrorism in 2005
3. Putting the "Non-" Back into Non-Proliferation
4. Update 2005: Weapons of Mass Destruction

## XII. WORLD TRADE

Last July, a draft trade deal struck in Geneva among the World Trade Organization's 147 members rescued the Doha Round of global trade talks from death's door. Launched in 2001 to reduce trade barriers that harm economic development and poverty reduction, the Doha Round had almost collapsed after an acrimonious ministerial meeting in Cancun in September 2002. Then, developed countries had balked at reducing hefty agricultural subsidies, and poor countries stung by their experience in the earlier Uruguay Round refused to give ground. But, in Geneva, an agreement was reached for rich countries either to eliminate or significantly reduce their agricultural subsidies, including the US\$ 3 billion in annual subsidies that the US provides to its cotton farmers – an issue of particular concern to African cotton growers. Developing countries also agreed to cut their import tariffs on industrial goods.

The Geneva draft agreement sets no firm date for fulfilment of these commitments. In fact, it pushes back the deadline for completion of the Doha Round. But its details, such as they are, suggest that rich countries have accepted that opening up their agricultural markets is the price they will have to pay for access to developing economies. Now negotiators, who will meet again in Hong Kong in December 2005, must focus on the details of their commitments to reduce protection of agriculture and dismantle trade barriers in labour-intensive manufactured goods, liberalize the movement of labour and enhance trade in labour-intensive services, and redefine the scope for special treatment for developing countries.

More fundamentally, the WTO needs to address the larger concerns that developing countries continue to have about the fairness of the multilateral trading system. In spite of various initiatives to improve market access, developing countries still face many trade barriers, particularly for products for which they have a competitive advantage. It should also be recognized that barriers between developing countries themselves can be as onerous as between developed and developing countries.

## Tough Choices

1. How can developed countries with strong protectionist interest groups in the industrial and agricultural sectors convince those groups to go along with more open trading policies?
2. Can trade negotiators succeed in resolving their differences and bringing the Doha Round to a close before the expiration of President Bush's "fast track" negotiating powers in 2007?
3. How can WTO members reform their procedures to ensure that consensus does not become the enemy of effectiveness, while at the same time addressing the concerns of developing nations about the rules being biased against them?

## Supporting sessions

1. Is the WTO's Tenth Birthday Worth Celebrating?
2. Making Trade Work for Africa
3. Update 2005: World Trade















---

COMMITTED TO  
IMPROVING THE STATE  
OF THE WORLD

The World Economic Forum is an independent international organization committed to improving the state of the world. The Forum provides a collaborative framework for the world's leaders to address global issues, engaging particularly its corporate members in global citizenship.

Incorporated as a foundation, and based in Geneva, Switzerland, the World Economic Forum is impartial and not-for-profit; it is tied to no political, partisan or national interests. The Forum has NGO consultative status with the Economic and Social Council of the United Nations. ([www.weforum.org](http://www.weforum.org))