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Globalization's contribution to development: trade perspective and UNCTAD's contribution

Background note by the UNCTAD secretariat¹

Executive summary

UNCTAD XII, which will take place in Accra, Ghana, from 20–25 April 2008, will provide an occasion for UNCTAD member States to address opportunities and challenges from globalization for development. To facilitate an input to the Conference by the Commission on Trade in Goods and Services, and Commodities, this report examines international trade perspectives on – and UNCTAD's contribution towards – beneficially harnessing globalization and promoting inclusive development.

¹ This document was submitted on the above-mentioned date as a result of processing delays.

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Introduction

1. International trade has been such a powerful force of globalization that it is often regarded as synonymous with it. In the first seven years of this century, its scale, scope and pace have increased in an unprecedented way, and its profound impact on every facet of economic growth and development has been further reinforced. This is especially so as trade's nexus with cross-border investment, technology transfer and labour integration has become ever closer.
2. This phenomenon of trade-driven globalization has both contributed to and is affected by some paradigm shifts in the world economy, the international trading system and in developing countries themselves. These include the emergence of some developing countries as regional and global dynamos of trade, the inexorable move towards regionalization, the intensified competition for commodities, especially food, energy and minerals, the global hunt for cost-quality competitive labour and skills, and the unprecedented premium on knowledge, innovation and technological edge.
3. In addition, policy- and market-driven liberalization of trade and investment in developed and developing countries has spurred global production and distribution chains organized by transnational corporations. Developing countries are being drawn ever closer into this web of global products and markets.
4. As the São Paulo Consensus affirms, trade is not an end in itself, but a means to growth and development. It should also be seen from the perspective of using trade as an engine of economic growth, making globalization more inclusive and achieving internationally-agreed development goals, including such Millennium Development Goals as poverty reduction. The record of trade-driven globalization in this respect is mixed. Development benefits have accrued to some countries, which have been able to use trade to mobilize domestic and foreign investment, catalyze entrepreneurship, stimulate and diversify and add value to productive and export capacity, encourage transfer and endogenous development of technology, generate employment, enhance incomes and consumer welfare, reduce poverty and further gender equity.
5. On the other hand, trade-driven globalization has also imposed costs and posed challenges for developing countries, such as de-industrialization, decline in traditional industries and agriculture, adverse impact on rural livelihoods, urban unemployment, increased marginalization of regions and communities, food insecurity, hardship for women, exposure to financial shocks, widening inter- and intra-country economic inequality, and social gaps and tensions.
6. UNCTAD XII provides an occasion for UNCTAD member States to address how trade might be beneficially harnessed to facilitate developing countries' qualitative integration into the global economy and the international trading system to maximize development gains, minimize possible costs and promote inclusive development. To facilitate an input to the Conference by the Commission on Trade in Goods and Services, and Commodities, the present report examines the status of international trade and what UNCTAD can contribute.
7. Chapter I examines some new realities and persistent challenges emerging with globalization and affecting trade and development prospects of developing countries and countries with economies in transition. It also identifies key areas of an enabling international environment for global policy coherence, governance and solidarity, complementing national and regional level processes, to maximize development gains from trade-driven globalization and minimize associated costs. Chapter II identifies areas in which UNCTAD can act as a catalyst for development-friendly integration of developing countries into the global economy.

I. Opportunities, challenges and development solidarity

A. Globalization and the changing geography of world trade

1. New realities and persistent challenges

(a) Buoyancy in international trade flows

8. In the past 30 years, international trade flows have expanded dramatically, generally at a rate faster than global output. In particular, world merchandise exports of goods and services doubled between 1995 and 2006 to reach over \$14.7 trillion in 2006.² The impact of trade on the world economy and development has also increased. Several factors, including tariff liberalization, FDI promotion, the strengthening of global production and distribution networks, and technological change, have both stimulated and been affected by these trends. There have been shifts in comparative and competitive advantage and the importance of both natural resource endowments and technological edge have increased. Those countries effectively participating in and shaping the changing geography of world trade are experiencing a more beneficial integration into the global economy and the international trading system, with a positive impact overall on their development process. Globalization can thus place countries on track towards achieving internationally-agreed development goals, including the Millennium Development Goals. However, such advances are subject to risks from such factors as the continuing build-up of global current-account imbalances and protectionist reactions in developed economies.

(b) Surge in South-South trade

9. South-South trade performance has been impressive in quantity and quality, emerging from the periphery of world trade towards its centre. South-South merchandise trade expanded dynamically from \$577 billion in 1995 to \$12 trillion in 2006. In 2005, 46 per cent of developing countries' total merchandise exports went to each other. There has been a significant growth in interregional South-South trade driven largely by developing Asia's demand for energy and industrial raw materials, and its exports of manufactures and services to other developing regions.

10. With current growth rates, it is likely that by the end of the decade, over one half of developing countries' trade will be with each other, although such trade is presently dominated by a few countries. The potential for further growth can be unleashed through initiatives for economic cooperation among developing countries, the most important of which remains the Global System of Trade Preferences among Developing Countries (GSTP). South-South trade expansion has also created new impetus for regional economic integration schemes. This is facilitated by and contributing to diversification in export-import baskets, better terms of trade, competition, and new and additional markets and sources of supply.

11. Partially fuelling the new dynamism in South-South trade as well as global trade and providing new sources of investment is the emergence of a "new" South. Some dynamically growing countries of the South are spawning global enterprises which actively trade and invest in developed and developing countries. These countries are providing new markets for basic commodities (because of producer demand) and for consumer goods, because of a rise in demand and income. This has contributed to the growing share of developing countries in world trade – from about 20 per cent of merchandise global exports in 1970 to an all-time record of around 36 per cent in 2006. Their experience underlines an important lesson,

² Merchandise exports accounted for \$12 trillion and services for \$2.7 trillion.

namely that increased participation in dynamic and new sectors of world trade is critical to successful export performance.

(c) Continuing marginalization

12. However, globalization has not equitably improved development prospects of all countries, especially least developed countries (LDCs), landlocked and small and vulnerable economies. For example, the export share in world trade of the 50 LDCs, the majority of which are sub-Saharan African countries, fell from 2.5 per cent in 1960 to about 0.5 per cent in 1995, and have since hovered around this level, rising slightly to 0.8 per cent in 2006. Their vulnerability to external shocks has increased and their structural constraints (including over-dependence upon commodities and weak productive capacity and competitiveness) are shown up even more acutely. Many countries (or people within countries) have been adversely affected or marginalized by globalization and liberalization, and there is rising concern that this may be economically, socially, politically and environmentally unsustainable, with increasing inequalities and loss of social cohesion. Even those countries which have been able to participate in the new wave of trade-driven globalization continue to face enormous challenges in overcoming poverty and serious infrastructure deficits, as well as in providing universal access to services.

2. The enabling environment

13. Identifying ways of strengthening the qualitative trade integration of developing countries that assures development gains has to be an important plank of coherent national and international attention and support. This would involve action on three fronts: (a) helping to build up developing countries' productive capacities and competitiveness; (b) improving their market access and entry conditions through trade agreements and negotiations at the multilateral, regional and bilateral levels; and (c) enhancing their participation in value chains with higher returns, especially in new and dynamic sectors of world trade. UNCTAD's analytical and policy research tools can be useful to identify a coherent set of instruments and institutions at national and international levels to "enhance the enabling environment" for development.

14. South-South trade expansion has created new impetus for regional and interregional trade and economic integration of developing countries. Hence, there is an opportunity to support effective and coherent government policies, coordinated at subregional, regional and interregional levels, to ensure that the dynamism of South-South trade is sustained and contributes to development. The conclusion of the third round of GSTP negotiations and the implementation of the resulting agreement would provide a significant boost. Existing institutions should be strengthened to provide the necessary linkages for accessing trade financing and networking among financial institutions and traders. Developing and implementing regional product standards can be effective. Many challenges remain to be addressed, however. These include the likelihood of the "bandwagon" effects that lead to oversupply in markets, lack of diversification and value added among commodity producers, physical infrastructure and trade facilitation deficits and bottlenecks, limited complementarities between many countries, and the crowding out of LDCs and small and vulnerable economies by more competitive countries in certain sectors.

15. The dynamism of the new South and South-South trade demands institutional changes, adaptation and innovation, both in respect of South-South and North-South dialogue and cooperation to sustain and strengthen the development impact of a vibrant South. Neo-protectionism in the form of economic nationalism directed against trade and investment with developing countries is counterproductive and should be eschewed, and the overall positive-sum balance realized. It will have to be kept in view that developing countries generally, despite recent rapid growth and

successful increase in global exports and investment among some of them, are still hugely challenged to deal with a backlog of underdevelopment and poverty in a sustained manner.

B. Multilateralism at a crossroads and moves to regionalism

1. New realities and persistent challenges

(a) WTO, the multilateral trading system and the Doha Round

16. The multilateral trading system (MTS) under the World Trade Organization (WTO) provides, and remains, the most important platform for liberalizing trade among countries, negotiating further trade liberalization, establishing disciplines for the conduct of multilateral trade, resolving trade disputes among members, and providing assistance for and monitoring the implementation of the body of some 20 multilateral trade agreements. The General Agreement on Tariffs and Trade (GATT)/WTO system has undoubtedly contributed to liberalizing and expanding world trade, a buoyant world economy and the advance of trade-driven globalization.

17. WTO is also becoming a universal organization. It presently has 151 members and several countries are in the process of acceding to it. The accession negotiations are quite challenging, especially for LDCs. Moreover, relatively deep liberalization and stringent reform commitments, including WTO-plus obligations which have been requested from acceding developing countries, may pose serious adjustment challenges for developing countries. Properly calibrated accession conditions which keep in view the baseline conditions in the developing countries concerned, factoring in their trade, development and financial needs, would help positive adjustment and economic and institutional upgrading.

18. The development agenda of the Doha Round of multilateral trade negotiations offers a unique opportunity to mainstream development into the MTS and contribute to realizing “an open, equitable, rule-based, predictable and non-discriminatory” MTS. A development-oriented dispensation would contain substantial development content, providing real and additional market access for developing country exports of commodities, manufactures and services, and provide affirmative action, special and differential treatment (SDT) and flexibility, firmly included on a contractual basis to the final outcome of the Doha Round. Any negotiated outcome will define trading conditions for the decades to come. The opportunity to deliver on the Doha Development Agenda should therefore not be lost.

(b) The wave of regionalism

19. Paradoxically, WTO and the MTS, which should set the “gold standard” in terms of openness, predictability, equity and development orientation, are at a crossroads. Not only is the Doha Round experiencing difficulties, but the continuing proliferation of regional trade agreements (RTAs) are competing for space in global trade liberalization and rule-making. RTAs are expected to reach 400 and already account for over 50 per cent of global trade. This trend needs to be monitored, their development dividend and coherence with the MTS ensured and the value of multilateralism affirmed.

(c) Trade adjustment challenges

20. Trade agreements resulting from any trade negotiations will engender changes in policies, legislation, production and trade patterns of developing countries to comply with, adapt to and take advantage of the new trading dispensation. Expected gains from trade liberalization come in the medium to long term for developing countries. However, there are short- to medium-term adjustment implications,

including those of (a) preference erosion; (b) loss of revenues from tariff reduction; (c) increases in food prices for net food-importing countries; (d) shortfalls in export earnings; and (e) social costs, such as the loss of jobs and livelihood due to contraction of import-competing sectors and/or export sectors faced with loss of trade preferences. Such issues need to be adequately addressed. There are also costs associated with implementation, which most developing countries may be unable to bear without financial support.

(d) Non-tariff barriers and environmental measures

21. With tariff liberalization, the deployment and use of non-tariff measures have increased and these can act as non-tariff barriers (NTBs), becoming the new protectionist frontier and preventing effective market entry. Technical requirements and product standards account for 60 to 70 per cent of all NTBs. Meant to protect human, animal and plant health, safety and the environment, technical requirements for trade have also increasingly tended to dictate the way goods are produced, processed and traded as well as being costly and burdensome to comply with. Concerns about the environment and now climate change-related mitigation and adaptation measures, including energy efficiency requirements, will add to developing countries' challenges of proactive standard-making and adaptation. New environmental, health and food safety requirements in particular have become more stringent, complex and frequently changing – a trend set to continue.

2. The enabling environment

22. The MTS and WTO will retain their value in the years ahead, beyond the outcome of the Doha process. They must constitute the central pillar of international governance. There is no other viable alternative that can deliver the same trade benefits as a well-functioning and development-oriented multilateral trading system.

23. The universality of WTO is essential for the legitimacy of the trading system. It is crucial that WTO members ensure fair and equitable terms of accession commensurate with the acceding developing country's trade, financial and development needs, and provision of support in all stages of accession negotiations.

24. Harvesting the development dimension of the Doha Round in terms of providing meaningful market access for developing countries and policy flexibility for them to safeguard their vital trade, development and financial needs and interests is essential to a successful conclusion of the round. It is thus the shared responsibility of all countries, and especially the major players, to demonstrate political will and additional flexibility in the search for compromise solutions towards a successful conclusion on the Round by garnering its development agenda.

25. For improved development coherence between WTO and RTAs, it is important to conclude the Doha Round so that the new set of multilateral agreements can serve as a bulwark and guarantee against further erosion of the MTS. Also, WTO should be provided with clear, improved and effective compliance disciplines to ensure the compatibility of RTAs with WTO principles. At the same time, in view of the development enhancing aspects of South-South RTAs and the need for policy space by developing countries in North-South RTAs, there is need for explicit and effective SDT for developing countries in WTO disciplines on RTAs. Continuous monitoring and assessment of the evolution and development impact of RTAs is also required.

26. The donor community and the international financial institutions need to provide adequate, predictable and sustainable assistance for undertaking adjustment and meeting implementation costs, building trade-related infrastructure and supply capacity-building for taking advantage of trade opportunities. In this context, the Aid for Trade initiative can play an important role and should be made operational. Such Aid for Trade must be significant, additional, non-debt-creating, predictable,

needs-based and demand-driven, and not be conditional on the outcome of the round. It is also imperative that all developing countries in need should benefit from it. Such Aid for Trade should be provided at the national and regional levels as well as multilaterally through development institutions such as UNCTAD.

27. WTO and RTAs should proactively address the front-stage non-tariff barriers faced by developing country exports. This includes expediting the ongoing work in the non-agricultural market access (NAMA) negotiations on NTBs. Defining, identifying, classifying and quantifying NTBs with a view to disciplining them is a prerequisite. UNCTAD's multi-agency initiative to institute a systematic approach to addressing NTBs based on its already comprehensive database on measures affecting trade is timely. Building standards-setting facilities in developing countries, especially LDCs, is very important in enhancing tradability of their exports. Improved transparency on the standard-setting process by Governments and by the private sector is also important. At the bilateral and regional levels, dialogues should be undertaken to avoid NTBs constituting barriers to market entry. Regulatory cooperation on mutual recognition and harmonization or equivalence of national standards could be undertaken between developing countries and their major trading partners. Further vigilance is needed to ensure that emerging environmental policies and regimes do not constitute unnecessary obstacles to developing countries' exports.

C. Commodities – fomenting a resources boom

1. New realities and persistent challenges

28. The commodities problematique was a decisive factor in the establishment of UNCTAD. Today, more than 40 years later, the trade and development challenges related to commodities are as relevant as ever, despite some recent progress. Since 2002, there has been a “commodity boom” with international commodity prices showing a strong upward trend after their sharp fall from 1995–1997 to 2002. UNCTAD's commodity price index (including fuels) in current dollar terms has risen 96 per cent since 2002. The rise in prices has been driven by the boom in metal and mineral prices, which have increased by 191 per cent, and crude oil prices, which have risen by 140 percent. Increases for agricultural raw materials and tropical beverages taken as groups averaged 58 per cent and 45 per cent, respectively. The recent strong rise in food and some agricultural commodity prices also has implications for development.

29. The recent increases in commodity prices have not been enough in some cases to offset the severe declines prices suffered in the past. The real prices of commodities are still on a downward trend. In the case of coffee, for instance, the rise in international prices has not been sufficient to make up for the fall in prices following the 1997 crisis. Expressed in current dollars, non-fuel commodity prices are still lower than what they were in the early 1980s. In real terms, by the end of 2005, commodity prices were about 30 per cent lower than the average for 1975–1985. Poor farmers are particularly affected because they can do little to protect themselves against the vagaries of the market or obtain remunerative returns from their commodities.

30. There are reasons to be optimistic, however, based among other things on the continued rapid development in China and the other fast growing economies, which is expected to create and sustain demand for commodities. This augurs well for commodity sector development, commodity markets and for the earnings of commodity-dependent countries. At the same time, food- and energy-importing developing countries may face security issues from the recent strong rise in food prices, caused partly by energy price increases and, to some extent, by diversion of food crops to biofuels.

2. The enabling environment

31. The challenge for commodity-dependent developing countries and the international community is to ensure that the positive outlook for commodities can be transformed into broad-based, sustained and inclusive development. At the national level, developing countries need to work out and implement effective commodity strategies and devise institutions and schemes to foster viable and dynamic commodity sector development, diversification and increased value retention and competitiveness. An active enabling and supportive role vis-à-vis producers and enterprises is needed. Strategies tailored to the specific circumstances of commodity-dependent developing countries need to be devised and implemented so that the poorest of those working in the fields, forests, seas and mines can be brought into the monetary economy and share the benefits of global growth. Infrastructure needs to be improved so that poor farmers can reach markets and participate in global value chains. This can be achieved through innovative public-private partnerships, both national and international. Services such as testing and certification need to be provided so that food producers can meet the ever more stringent demands of markets, and effectively participate in value added production. Financial tools adapted to the needs and capabilities of smallholders are needed so that they can raise the capital needed to improve productivity. Regional institutions (especially standards and testing institutions) and value chain development can be useful for such purposes.

32. At the international level, global governance measures (for both coherence and solidarity) would include: (a) levelling the playing field in trade (especially on agricultural subsidies); (b) reduction of tariff escalation and peaks on agricultural exports of developing countries; (c) workable and meaningful compensatory finance schemes and stabilization funds for dealing with losses from price declines and volatility as well as increased import bills for energy-importing developing countries; and (d) measures to address food security and poverty eradication issues arising from rises in food prices. International measures through enabling instruments, including commodity-focused Aid for Trade and development assistance, can be instrumental in sustaining the ongoing transformation of the commodity economy. The first UNCTAD XII pre-event on commodities in Brasilia (Brazil) in May 2007 proposed a comprehensive Global Initiative on Commodities. Its recommendations could serve as a catalyst for re-launching the commodities agenda, aiming at addressing supply capacity limitations, and ensure effective participation of commodity producers in value chains, diversification issues and an international enabling environment.

D. Energy, trade and development

1. New realities and persistent challenges

33. Access to energy is indispensable for sustaining economic growth, improving the quality of life. The energy economy has risen in importance with recent high oil and gas prices and their attendant impact on trade and development as well as the environment. The past few years have witnessed wide fluctuations in oil prices, which reached a record level in the summer of 2006. In October 2007, the crude oil prices jumped to an all-time high above \$86 a barrel, and could possibly rise to \$100 in the near future. This new reality underscores the need for strategic approaches to promoting access to energy, enhancing energy efficiency and alleviating the energy poverty of 1.2 billion people. The entry into force of the Kyoto Protocol in February 2005 has also increased awareness about the detrimental impacts of climate change arising from fossil fuels consumption.

34. Energy exporters risk that the increased export revenues lead to real exchange rate appreciation and loss of competitiveness. The main challenge for these countries is to invest the windfall gains prudently for future generations and to

avoid negative impacts on competitiveness. Strategies are needed to focus on ways to avoid expanding export revenues leading to excess liquidity that in turn could cause the Dutch Disease. Windfall revenues also deserve to be invested in physical and human capital for sustainable economic and social development and poverty reduction. A similar approach could be taken at the level of South-South cooperation with the energy exporters assisting energy importers.

35. The more deleterious impact of energy price hikes will hit energy importers, which are in the majority. Rising import bills can trigger knock-on effects that touch every sector of the economy – from falls in household income at the micro-level, to fuel shortages and cost increases that hamper the operations of business (particularly transportation) and undermine export competitiveness, causing macro-level increases in inflation, unemployment, external debt and reduction of fiscal revenue that could be used for poverty reduction, as well as food pricing and security issues. Dealing with the trade and development impact of energy price rises requires sustainable approaches and development-conducive energy mixes and strategies best suited to each country's situation, including energy efficiency measures.

36. Diversification into alternative energy sources is another strategy that can also meet climate change imperatives. These include renewable energy sources (solar, wind, geothermal, biomass and biofuels) that also promote climate change mitigation. The importance of demand-side energy-efficiency measures for reducing emissions also deserves attention.

2. The enabling environment

37. Development cooperation in the energy sector will be critical to improving the quality and quantity of energy services, promoting energy security and improving trade and development prospects. Achieving a sustainable energy system will depend on technological breakthroughs that radically alter how energy is produced and used. Governments should take the lead in accelerating the development and deployment of new technologies that allow for meeting the growing energy needs without compromising energy security and efficiency and the environment. Energy-importing developing countries face the same problems that developed countries face regarding energy security and efficiency and fluctuations in fossil fuels prices. However, they have limited capacities to pay for the energy bills, become more energy-efficient, increase domestic production, and diversify their fuel mix away from high-risk fossil fuels to alternatives.

38. Ways and means have to be found of making greenhouse emission reduction compatible with the continued economic viability and political stability of developing countries. Despite the urgency to take action, climate change response measures should not prevent developing countries from achieving their economic growth and poverty reduction objectives. The option for developing countries to switch to renewables may be hampered by the limited availability of the related technology in the market, by scarce financing opportunities, and by the difficulty of setting up partnerships with developed country firms. The cost and financing of renewable systems remain significant barriers to the development of those energy sources. The switch to alternative energy sources can happen only if measures favouring such a switch are implemented. Strategies may therefore be put in place to develop industrial and trade policies that favour the adoption of renewables and energy efficiencies.

39. Measures that encourage the switch to alternative energy sources – such as quotas, research and development schemes, fixed-premium prices, and investment subsidies – might be incompatible with WTO rules. Renewable energy products, such as components and equipment, may be regarded as “environmental goods”. There is no definition in WTO for environmental goods and WTO members have

been unable to find an agreement on the definition of environmental goods. The Doha Ministerial Declaration launched negotiations on the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services. Renewable energy goods face tariff and non-tariff barriers, especially technical regulations. These need to be addressed. A number of developing countries – such as Brazil, China, India, Malaysia and South Africa – have large domestic markets and significant export potential for renewable energy products. Mexico, Thailand, the Philippines, Indonesia and Uruguay also look promising as future exporters of renewable energy products.

40. Biofuels constitute an important alternative energy source. In addition to the climate change and strategic benefits to be derived from replacing fossil fuels with biofuels, particularly in the transportation sector, their production and trade can bring about significant social benefits by creating employment mainly in rural areas of developing countries. Trade prospects are also there, though tariff and non-tariff measures hamper international trade. The development of biofuels by countries has to be carefully assessed, including in terms of the impact of rising bioenergy production on food prices, food production and trade, as well as food security.

E. Environment, climate change and development – key tasks ahead

1. New realities and persistent challenges

41. The impact of human-induced activity on the world's natural resources – a key source of trade and economic development – has risen to the forefront of the international development agenda. It poses new challenges and opportunities in regard to the preservation of the environment and promotion of economic development.

(a) Climate change

42. Climate change is a crucial factor in trade-driven globalization that is already having profound and irreversible development impacts. The international community has now reached a consensus on the fact that increasing emissions of greenhouse gases such as carbon dioxide and methane – most of which are linked to the human use of fossil fuels – are causing detrimental changes in the global climate systems. Against this worrying trend, trade is an important factor for the promotion of the use of more energy-efficient goods and renewable energies. Although the value of trade in this area is still relatively low, the potential for greater trade flows exist.

43. Impacts of climate change are inequitable. Poor countries are hit the hardest and earliest, while it is the rich countries that are responsible for three quarters of greenhouse gas emissions. Key sectors such as agriculture, fisheries, forestry, industry, energy and transport are very sensitive to climate change. Natural disasters destroy strategic national investments in infrastructure while there is lack of requisite insurance to cover the losses. Sea level rise is causing enhanced soil erosion, loss of productive land, increased risks of storm surges, reduced resilience of coastal ecosystems and the attendant costs of responding to and adapting to these shocks. Small island developing countries are particularly vulnerable.

(b) Environmental, health, and food safety requirements

44. New environmental, health, and food safety requirements (EHFSRs) pose serious challenges on access of developing country products to key export markets, but also opportunities for export competitiveness and sustainable production and consumption methods at the national level. EHFSRs are becoming more stringent, frequent, complex and interrelated. Many such requirements are now imposed by

the private sector, coexisting and interacting with mandatory governmental requirements. Governments set product characteristics and product-related processes and production methods (PPMs) and the private sector follows up by imposing specific non-product-related PPMs to meet the product characteristics. It is as yet unclear whether private standards fall under WTO disciplines. However, they may pose challenges in terms of justifiability, transparency, discrimination and equivalence.

45. Beyond their technical (quality assurance) function, private standards often play a governance role in global supply chains, leading (often in combination with brand names and patents) to significant dependencies and cost shifting, often to the disadvantage of producers/exporters in developing countries. Such private supply chain requirements also tend to marginalize smaller countries and producers, thus excluding those from trade who are most in need of trade-driven poverty alleviation.

(c) Environmentally preferable products, services and production methods

46. International public attention on the problems caused by climate change, material and pollution intensity of economic growth and unsustainable lifestyles, as well as the pressure from new EHFSRs, have heightened the interest in environmentally preferable products, services and production methods. These are the strategic markets of the future and developing countries need to identify the market niches and opportunities open to them and what policy initiatives need to be launched in time to turn these opportunities into reality.

(d) Biodiversity

47. The international approach to the protection of biodiversity continues to focus on innovative ways to promote sustainable use and thus benefit nations and their peoples economically, socially and environmentally. Biodiversity-rich countries, with increasing participation of the local private sector, are taking advantage of new trade and investment opportunities in the emerging market for biodiversity products and services. UNCTAD's BioTrade contributes to the conservation and sustainable use of biodiversity through the promotion of trade and investment in BioTrade products and services.

(e) Traditional knowledge

48. Harnessing knowledge for development requires an approach to assisting developing countries that are rich in traditional knowledge, innovations and practices (TK) to benefit from this resource. TK is the main asset of the poor, who use it to derive goods and services from their natural environment. Yet TK is being lost at alarming rates worldwide, as globalization and environmental degradation spurs the breakup of traditional communities and livelihoods. There are also concerns that TK is being inappropriately exploited and patented by third parties without the consent of the original holders of that TK, and without the fair sharing of resulting benefits. There is need for concerted action at the national, regional and international levels to redress this and to establish appropriate mechanisms and regimes for the preservation, promotion and protection of TK, as well as disclosure, prior informed consent and benefit sharing.

2. The enabling environment

49. The trade, environment and development nexus in the context of globalization renders policy coherence and an enabling environment essential for developing countries to effectively and proactively respond to the challenges and opportunities of climate change and biodiversity, environmental requirements and market access, increasing material efficiency and lowering pollution intensity of production for

export, and profiting from export opportunities in environmentally preferable products.

50. Climate change and biodiversity issues with trade and development implications are being addressed through various policies. Such carbon-reduction tools involve (a) regulatory measures (e.g. standards on energy efficiency or regulation and standards on renewables); (b) fiscal measures (e.g. carbon taxes or subsidies for energy efficiency and fuel switching); and (c) market-based and incentive measures (e.g. Kyoto flexibility and government procurement).

51. Effective action requires a global policy response, guided by a common international understanding of the long-term goals for climate policy and strong frameworks for cooperation. Addressing climate change typically involves (a) mitigation, by reducing greenhouse gas emissions; and (b) adaptation, by increasingly ensuring the development of climate-resilient societies. If the future global climate regime is going to contain emission-reduction commitments involving some developing countries, developed countries should assist developing countries in capacity-building, technology transfer and adaptation. In parallel, the impact that efforts to reduce emissions will have on developing countries that are highly dependent on the production and export of fossil fuels should be examined and support provided to them. The long-term nature of the climate change problem makes technological change a central issue in policy considerations to develop and adopt new energy technologies. Specific financing mechanisms should be made available to developing countries to develop and adopt the new energy technologies.

52. Among the products emerging from the search of a new economic model based on low-carbon emissions are biofuels – fuels derived from biomass. To ensure that engaging in biofuels production and use yield positive environmental and development results, Governments have to take some crucial decisions and develop appropriate strategies, e.g. (a) whether biofuel production is intended for transportation or for broader energy replacement; (b) what are the land requirements; and (c) which conversion technology is desirable. The economic and environmental impacts, the compatibility of biofuels with existing fuel delivery/use infrastructures, and competing uses for biomass also have to be assessed.

53. The mushrooming of new EHFSRs has to be dealt with in a proactive way that requires (a) the development of national adjustment strategies that minimize the costs and maximize the benefits of the new requirements (e.g. through lower pollution or higher material efficiency, occupational and food safety); and (b) seizing production and export opportunities for environmentally-friendly goods and services, such as products of organic agriculture, biodegradable products, natural colorants and flavours, and biofuel.

54. To design appropriate proactive adjustment strategies requires conceptual clarity, a good understanding of the role of supportive or flanking policies and effective public-private partnerships, as well as policy coherence at the national level. Furthermore, there is much merit in comparative analysis and exchange of national experiences and best practices on proactive adjustment approaches. The development of regional standards of developing countries can facilitate access to overseas markets and also ease regional trade. The recent UNCTAD-architected East African Organic Product Standard is a case in point.

55. Environmental issues are likely to play an increasingly important role at WTO and in regional and bilateral trade agreements, through avenues such as accelerated liberalization of environmental goods and services, challenges to environmentally-related domestic legislation, and clarification of the relationship between trade rules and environmental agreements. Developing countries need support to identify their interests and effectively pursue them in international policymaking forums on environmental goods and services.

56. International support should also be provided to developing countries to craft national policies and use various tools, including economic instruments, to protect, preserve and allow sustainable use of TK and related biological resources. National, regional and global regimes are required for the preservation, promotion and protection of TK (including issues of national and international protection of intellectual property rights, prior disclosure, prior informed consent and benefit sharing). In this context, international discussions and negotiations on international legal instruments (including under the Convention on Biological Diversity) to regulate access to and the sharing of benefit are also of key importance to reduce the risk of misappropriation of TK and biological resources stemming from developing countries.

F. Services economy and trade – the new frontier

1. New realities and persistent challenges

57. Services contribute to economic growth and development through the creation of a competitive economy, providing new jobs, enhancing access to essential services and stimulating trade. Between 1990 and 2005, the share of services in gross domestic product has grown from 65 per cent to 72 per cent in developed countries and from 45 per cent to 52 per cent in developing countries. Services today account for over 70 per cent of employment in developed countries and around 35 per cent in developing countries. World services trade has nearly tripled to reach \$2.4 trillion.

58. Developing countries' performance in services trade overall has been exceptional. Since 1990, their services exports have grown at an average annual rate of 8 per cent, compared to 6 per cent for developed countries. Accordingly, their share of world services exports has climbed from 19 per cent to 24 per cent. Travel and transport continue to represent the major proportion of developing country services exports while business services including information and communications technologies, financial and insurance services now account for about one third. Services trade by developing countries is presently dominated by a few. Developing countries in Asia account for 75 per cent of all developing countries' services trade. Africa accounted for 10 per cent and Latin America and the Caribbean accounted for 15 per cent. An increasing number of countries are successful in exporting services such as tourism, transport, construction, audiovisual, computer and information services, business and professional services, particularly through mode 1 and mode 4. South-South trade in services is also expanding, within which RTAs play an important role, and provide new opportunities for trade.

59. However, the potential of services sector development and services trade is yet to be fully realized by many developing countries, especially in Africa and among LDCs. LDCs continue to be marginalized from international flows of services, with their share in world service exports being about 0.8 per cent. Also, most of their services are in the informal sector and are not tradable, reducing their propensity to benefit from trade-led globalization. Using services trade liberalization as a means of increasing universal access to essential services is a challenge for them.

2. The enabling environment

60. The formidable potential of the expanding service economy and trade in services is a notable feature of the emerging new frontier of world trade. It is also a challenge as gains are not automatic. Reaping such gains will require sound national developmental policies and strategies as well as securing favourable terms and conditions for developing countries' participation in the world services trade.

61. Designing and implementing national strategies for developing services sectors, and regulatory framework based on data and comprehensive services

assessment to facilitate appropriate pacing and sequencing of policy reform remain challenges. The human and social development implications of the service economy and regulations will have to be emphasized. In addition, strengthening human, institutional and regulatory capacities in trade policy and trade negotiations is essential to effectively managing and taking meaningful advantage of trade agreements in services.

62. The WTO Doha Round of negotiations on services under the General Agreement on Trade in Services (GATS) offers an important avenue to liberalize services trade in a development-friendly manner, creating new opportunities for services development and trade for developing countries. This would require meaningful commitments in sectors and modes of export interest to developing countries, as well as the effective operationalization of LDCs' modalities. In the domestic regulation area of GATS negotiations, the main challenge relates to striking a balance between preserving the right to regulate and achieving clear and specific international disciplines to underpin any market access commitments. In other areas of rulemaking, development imperatives of developing countries need to be integrated into negotiations on disciplines for trade-distorting effects of subsidies, Governments' procurement, and an emergency safeguard mechanism for services. Similar concerns apply to liberalization of services trade within regional trade agreements.

63. International solidarity initiatives for an enabling environment in the services sector (such as Aid for Trade) can also be pursued in terms of infrastructure building, both physical and social, to complement services liberalization. There is also a need to explore the use of private-public partnership. On the global level, microfinance institutions and donor finance are essential in providing international public funding for services development.

64. Building competitiveness in the services sector, thereby facilitating productivity in the economy as a whole, is essential. Trade-related assistance is useful for building national services strategies, sectoral assessment and regulatory frameworks for development. The use of trade assistance would help beneficiaries (a) identify and build on services sectors of export potential, as for instance the tourism sector for small and vulnerable economies; (b) move up the services value chain; and (c) diversify both within the services sector and across other sectors, including manufacturing and agriculture.

G. Labour mobility

1. New realities and persistent challenges

65. One promising avenue in which services can act as a catalyst for inclusive development is in the area of labour mobility and integration. Movement of labour for economic, political/security, and social/cultural reasons is expected to be on the rise in the coming decades. Labour mobility and integration are a continuation of a well-established historic trend. Over a billion people are estimated to be integrating into the global labour market by 2010 on account of global production, distribution, trade and investment networks, and push and pull factors of economic migration. Emerging complementarities in demographics, labour force and skills have opened up win-win gains for both sending (mostly developing) and receiving (mostly developed) countries from liberalizing the movement of people, including temporary movement of natural persons to provide services abroad. Moreover, remittances from migrants form a substantial proportion of foreign earnings for sending countries and a stable source of development finance. Recorded remittance flows have doubled over the past five years, and stood at \$268 billion in 2005, with

developing countries' share at \$199 billion³ – figures which could be doubled if unrecorded flows are captured.

2. The enabling environment

66. This issue needs to be addressed head on by both sending and receiving countries to leverage it as a beneficial tool for development. Otherwise, the gains from the globalization of the labour market will be precluded. Current market access conditions for labour movement remains limited due to political and security pressures and perceived negative wage and employment effects – this needs to change. Pragmatic trade and development policies, strategies and frameworks at the national, regional and multilateral levels can be evolved to liberalize and facilitate labour mobility. Modes 4 and 1 commitments in GATS, regional and bilateral agreements for liberalized and facilitated temporary movement of workers, and outsourcing and off-shoring offer the best antidote to illegal migration and its attendant problems.

67. Attention should be paid to ensuring that sending countries not only reap socio-economic benefits from remittances, returnees and diaspora networks, but also from net brain gain. This could include cooperative arrangements between sending and receiving countries that encourage temporary migration. Such “co-development” initiatives (including measures to ensure brain circulation rather than brain drain) would be important especially in socially sensitive sectors such as health and education and economically important ones such as engineering, science and technology. Further, an adequate understanding of the costs and benefits of labour mobility and integration for all countries should be promoted.

H. Ensuring fair competition and controlling anticompetitive practices for maximizing development benefits from trade liberalization

1. New realities and persistent challenges

68. Effective competition law and policy are necessary for ensuring fair competition and promoting development under globalization. The spread of global production and distribution chains and of network-based industries (such as in computer software) has been accompanied by merger trends within several sectors. In mining, for instance, the transaction value of mergers reached \$60 billion in the first three quarters of 2006.⁴ Such trends may concentrate market power in some large enterprises, reduce competition and facilitate abuses of dominance and cartelization. This would adversely affect developing countries, their enterprises and their consumers, including through higher import prices or market entry problems for exports. Developing countries are particularly affected by the serious national, regional and international deficits in laws, enforcement capacity and international cooperation mechanisms for controlling anti-competitive practices.

2. The enabling environment

69. Consensus regarding the benefits of competition policy for development led to the unanimous adoption by the United Nations General Assembly in 1980 of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices,⁵ which was reaffirmed by the Fifth United Nations Conference to Review the Set (November 2005). There has also been a substantial increase in bilateral and regional agreements in this area. Developing countries need

³ World Bank. The International Migration Agenda and the World Bank: Managing Risks and Enhancing Benefits: 12).

⁴ See UNCTAD Cross-border Mergers and Acquisitions database www.unctad.org/fdistatistics.

⁵ United Nations General Assembly resolution 35/63 of 5 December 1980.

to be assisted to formulate and implement national and regional competition policies and legislation to address anti-competitive practices, particularly cross-border practices, requiring strengthened international assistance and cooperation mechanisms which include developing countries. UNCTAD constitutes a suitable venue for such international action.

II. UNCTAD'S contribution to trade-led inclusive development

70. UNCTAD, as the United Nations focal point for trade and development, and as an organ of the General Assembly, is needed to facilitate interlocution between different perspectives of globalization, and provide prevision about emergent trade and development issues so that globalization can be harnessed beneficially and qualitative trade integration of developing countries promoted. UNCTAD's role as a forum for generating new ideas, building consensus and providing policy guidelines and options, and following up with operational field activities to maximize development gains and minimize costs will need to be enhanced. The following are some suggestions, drawing upon the São Paulo Consensus, the outcome of the Mid-Term Review of UNCTAD XI, and the Report of the Secretary-General of UNCTAD to UNCTAD XII. UNCTAD should strengthen its ability to monitor and deal with longstanding issues of trade and development, whilst responding dynamically to new and emerging issues. It should address the development dimension of systemic and strategic issues, as well as provide practical and concrete insights and support. UNCTAD's central role in the trade and development nexus is clearly articulated in the outcome of the Mid-Term Review of the São Paulo Consensus, which: "(a) requests UNCTAD, in accordance with its mandate as the focal point in the United Nations system for the integrated treatment of trade and development, to continue its work on trade in goods, services and commodities" and to continue "...coordination of United Nations-wide activities on trade and development".⁶

71. Responding to these mandates, UNCTAD's work on international trade in goods, services and commodities (including analytical research, technical cooperation, and intergovernmental dialogue and consensus-building) has and should continue to encompass the following:

- (a) The international trading system (both the MTS and RTAs) from a development perspective;
- (b) South-South trade, GSTP and economic cooperation among developing countries;
- (c) The emergence of the new South in international trade and development;
- (d) A comprehensive approach to commodity, trade and development;
- (e) Energy, trade and development;
- (f) RTAs;
- (g) Trade negotiations, issues, capacities, WTO accession and post-accession;
- (h) Development-focused outcome of WTO's Doha Work Programme;
- (i) LDC trade agenda, including utilization of duty-free and quota-free market access;
- (j) Services sector development and trade negotiations;
- (k) Intellectual property rights, technology transfer and development;
- (l) Development of productive capacities, competitiveness and market access for developing countries;

⁶ TD/B(S-XXIII)/7 (Vol. I), paragraph 18.

- (m) New and dynamic sectors of world trade, including creative industries;
- (n) Non-tariff barriers (definition, identification, classification and measures for disciplining);
- (o) Competition law and policy, and trade and development implications;
- (p) Trade-related databases, and trade and development benchmarks;
- (q) Cross-cutting issues of trade, poverty, sustainable employment creation, gender, movement of natural persons and labour integration, and adjustment to trade reform;
- (r) Trade, environment and development issues, including climate change and trade and new stringent and complex environmental, health and safety requirements; and
- (s) Aid for Trade (including aid for institutional, regulatory, infrastructural and human resources development in developing countries).

72. UNCTAD should be enabled to deal with longstanding trade and development issues in their interface with globalization, whilst responding to new and emerging issues in a proactive way. Inter-agency cooperation, especially within the United Nations system, and partnerships with civil society and the private sector, will be pursued and expanded. At the same time, there is a need to make sure that UNCTAD is shielded from wasteful “mandate creep” from other bodies.
