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Chair's summary

A. Assessing the evolution of the international trading system and enhancing its contribution to development and economic recovery

(Agenda item 4)

1. The Commission's deliberations under agenda item 4 were facilitated by a presentation of the secretariat's background note (TD/B/C.I/15) by Ms. Mina Mashayekhi, Officer-in-Charge, Division on International Trade in Goods and Services, and Commodities, and by a high-level panel consisting of Mr. H.V. Singh, Deputy Director-General, WTO, and Mr. José Manuel Salazar-Xirinachs, Executive Director, Employment, International Labour Organization (ILO). A number of ambassadors and senior officials took part in the debate.

2. The secretariat's background note entitled "Assessing the evolution of the international trading system and enhancing its contribution to development and economic recovery" was commended for its thought-provoking analysis. The note emphasized that trade-led growth remained key to countries' post-crisis development strategies, and that it needed to be complemented by proactive policies for the enhancement of production capabilities, structural transformation and economic diversification, and to support job creation and labour-market adjustment, within comprehensive trade and development strategies. Trade liberalization and trade disciplines were increasingly affecting trade and industrial policies, as well as the labour market. Policy linkages made it incumbent on the international trading system to provide greater policy space to countries to use development-policy instruments to enable development.

3. Participants noted that the "two-speed" recovery, characterized by faster growth in developing countries than in developed countries, demonstrated the structural changes under way in the global economy. Economic opportunities were shifting to the South, leading to a multipolar international trading system with the rise of emerging developing countries. Developing countries had been the major drivers of recovery, had provided important import demand for all economies, and had emerged from the crisis as even more important export destinations than before. Their robust import demand had helped many countries to resist global demand contraction during and following the crisis. The rapid and dynamic growth of developing countries had created new and additional poles of trade and growth, as over half of global growth was expected to originate in developing countries in the coming years, and their different demand composition – centred on raw materials, energy and food products – was expected to create unique opportunities for developing countries. Conversely, high and persistent levels of unemployment, and jobless growth, were matters of particular concern for many countries.

4. A variety of challenges continued to confront developing countries in the recovery process. Pervasive unemployment, widening inequality, high youth unemployment, and a large informal economy all continued to threaten the inclusiveness and sustainability of the recovery, with adverse implications for the fight against poverty and for achievement of the Millennium Development Goals. Despite dynamic trade and economic recovery in some regions, world exports were yet to regain their pre-crisis levels, and many developing countries continued to suffer from the legacy of the crisis – especially those whose exports depended on primary commodities. Recent surges and continued volatility in commodity prices were causing significant challenges for both exporters and importers, with the recent high food prices raising concerns over food security. Developing countries' external competitiveness had come under pressure, owing to appreciation of their currencies prompted by increased capital inflows that necessitated capital controls.

5. Trade had become more important to the economic growth and development of all countries, and to achievement of the Millennium Development Goals, with the growing interconnectivity in terms of trade expansion between countries marked by global supply networks and the increased role played by emerging economies. Trade-led growth remained a valid strategy for development, particularly for smaller economies that relied on external demand to sustain growth. Larger economies with trade surpluses could place more emphasis on domestic-demand-driven growth, although trade continued to be important for them. Greater interdependence meant that the effects of national trade measures affected the smooth functioning of production processes in other countries. In that regard, reference was made to the recent increase in trade-restrictive measures applied by the G-20 countries, covering 0.6 per cent of their imports.

6. However, it was stressed that trade did not automatically lead to growth and development. Freer trade was a necessary condition, but not the only condition, for realizing economic growth and development. A one-size-fits-all liberalization approach was not optimal in all cases, either. The trade policy choices of countries, including determining a reasonable level of protection, depended on the level of development of the country, the size of the market, sequencing and timing, as well as complementary policies.

7. The services sector, including infrastructure services, as well as services trade, had come to provide a real opportunity for developing countries as a launching pad for economic growth. This sector had increased its share in value added, played an increasing role in export diversification, enhanced economic efficiency, delivered on public goals (e.g. health and education), and absorbed a large labour force by job creation.

8. A large number of developing countries had not been able to benefit from the opportunities created by international trade. LDCs, LLDCs and smaller and more vulnerable economies continued to face important structural constraints in reaping the benefits of trade for development, especially supply-side constraints. Therefore, there was a strong need to address these constraints, by building competitive productive capacities, promoting infrastructure development, and supporting technology development and diffusion, inter alia through public-private partnerships to enhance access to capital, skills and technology, and also to address pressing environmental and climate-change-related challenges. Reference was made in this regard to the importance of making progress as agreed at LDC-IV towards full and effective implementation of the Istanbul Plan of Action. The need was highlighted for further strengthening of Aid for Trade and the Enhanced Integrated Framework, as well as for broader ODA support, to ensure effective implementation of these programmes with equitable resource allocation.

9. It was recognized that the State had an important role to play by acting as a catalyst or enabler of structural transformation. Trade policy needed to be accompanied by industrial, labour-market and other complementary policies, and social safety nets, in a comprehensive and integrated development strategy to ensure the realization of gains such as supply capacity enhancement, export diversification and employment creation, reducing inequality, poverty alleviation, and access to key services – especially by the poor. A toolbox of development-enhancing trade and related policies could be considered, combining a trade-led growth model with proactive, modern industrial and labour-market policies adapted to an increasingly open trade environment.

10. Participants noted that historically, the international trading system (ITS) had focused predominantly on trade liberalization, and had often failed to fully take into account implications for productive capabilities, employment and development. It was thus considered important to review that conventional focus, and to align liberalization approaches and disciplines to broader development objectives. Developing countries should have the space to design adequate content, depth, pace and sequencing of liberalization approaches, as gradual reform was more likely to lead to a smooth labour-market adjustment, and to pre-empt job destruction in import sectors. This was also imperative in pre-empting de-industrialization and creating endogenous productive capabilities. Thus,

special and differential treatment and less-than-full reciprocity were important principles to be fully operationalized in the ITS.

11. Greater market access and entry enabled under the ITS could further contribute to boosting labour demand, particularly in the export sector. It was emphasized that there was a need to ensure that these policies were designed in a smart way, by addressing the sectors with high potential for employment creation and productivity growth, including labour-intensive manufacture, as well as agriculture and services, including through mode 4 and labour movement. Regional integration, particularly South–South integration and cooperation, was considered to play a particularly important role in overcoming size constraints and significantly improving export and job opportunities. The recent conclusion of the São Paulo Round of Global System of Trade Preferences (GSTP) negotiations – which substantially increased product coverage and cut applied tariffs – was particularly significant in boosting the rapidly growing interregional South–South trade. Participants noted that carefully designed industrial policy instruments, such as performance requirements, could be instrumental in promoting local employment and human capital development. The need for greater policy space, as well as for policy coherence and good governance, was highlighted.

12. Policies that would facilitate labour-market adjustment to exogenous shocks and would create employment were essential in maximizing the beneficial effects of trade, as trade openness had increased workers' vulnerability and insecurity by increasing labour-market exposure to external shocks. It was stressed that implementing such policies was particularly challenging for developing countries, as most of them did not have access to unemployment insurance or other means of compensating the unemployed for income losses. Social protection was thus indispensable in open economies. It was also important to invest in capital and people to complement trade opening, especially as globalization implied an increasing skill premium. In that regard, it was considered important to support developing countries to implement such measures through aid for trade, development and employment. Strong and well-designed social protection schemes could also address issues of job and income insecurity.

13. It was emphasized that the multilateral trading system (MTS) was the centrepiece of the international trading system. The open, equitable, transparent, predictable, non-discriminatory, rule-based multilateral trading system had played a major role in maintaining open markets and containing protectionism during the crisis, and its trade rules had generally proved their robustness. The current setback in the WTO Doha Round negotiations was a cause for serious concern. It was stressed that further prolongation could affect the credibility of the MTS, thus the WTO needed to be strengthened as the guardian of the multilateral trading system. The Doha Round was developing countries' best opportunity for addressing the existing imbalances, making the system more equitable and development-friendly, serving as a global stimulus, and enhancing job-creating effects. Thus, efforts were needed to bring it to a conclusion under a single undertaking and with a strong development focus – paying special attention to issues of concern to LDCs, LLDCs and smaller and more vulnerable economies, including through the provision of strong Aid for Trade support.

14. As a way forward, participants stressed the importance of securing an early harvest of issues of key interest to LDCs, such as duty-free quota-free market access, cotton, a services waiver, and WTO accession, as well as a package of a few LDC-plus issues with strong development content, such as trade facilitation, by the end of the current year. There was a need to review the next steps, given that the results of the Round would set the terms of global trade for the next decades and would have a lasting effect on development and employment. Some participants emphasized the need to ensure a package that would effectively open markets to create new opportunities for growth. Other speakers stressed the importance of delivering on the entirety of the Doha Round package under a single undertaking in the near future, and of starting reflection on future work on pressing twenty-

first century issues, such as the “Singapore issues” of competition and investment. In the longer term, participants noted the case for reflecting on further strengthening of the MTS and further improvements to its functioning, for example in respect of the single undertaking approach and broad-based agenda.

15. Participants praised UNCTAD’s work as playing an important role in monitoring, assessing and analysing the evolution of the international trading system, and in supporting countries in addressing the development challenges they faced as they engaged in international trade and the international trading system – for example, national trade policy formulation and implementation, and multilateral and regional trade negotiations. Its analyses and intergovernmental deliberations were described as making a major contribution to building and advancing understanding on key issues on the trade policy and trade negotiations agenda, and to helping countries recognize the benefits to be gained from beneficial integration in the international trading system. UNCTAD’s collaborative work with other organizations was welcomed – for example with ILO and WTO, and under the International Collaborative Initiative on Trade and Employment.

16. Summarizing this agenda item, the Chair reiterated that trade had become more important to the economic growth and development of all countries, and for achievement of the Millennium Development Goals. The growing interconnectivity in terms of trade expansion between countries had been marked by the role of emerging economies and changing global supply chains. Trade growth, however, did not automatically lead to development, as the global crisis had shown. Furthermore, trade liberalization was a necessary condition but not the only condition for realizing economic growth and development, especially in developing countries. Trade policy needed to be accompanied by complementary policies and social safety nets in a comprehensive and integrated development strategy to ensure the realization of gains such as supply-side enhancement, export diversification and employment creation, poverty alleviation, and access to key services – especially by the poor. A toolbox of development-enhancing trade and related policies could be considered. For example, it was important to ensure that trade reforms had positive employment effects by putting in place domestic labour policies, and ensuring support for workers and firms. Globally, the multilateral trading system was the centrepiece of the international trading system. It should be strengthened by concluding the WTO Doha Round as mandated, under a single undertaking and with a strong development focus, paying special attention to issues of concern to LDCs, LLDCs and smaller and more vulnerable economies. In addition, WTO needed to be strengthened as the guardian of the multilateral trading system, providing the rules and disciplines needed to ensure an open, rules-based, predictable and transparent system. South–South trade also offered new opportunities for increased trade both between developing countries and with the rest of the world. Finally, UNCTAD played an important role in monitoring the evolution of the international trading system, which was appreciated by countries. Its analyses and intergovernmental deliberations contributed to building and advancing understanding on key issues on the trade policy and trade negotiations agenda, and helped countries to consider appropriate policy options in addressing these issues nationally, regionally and multilaterally.