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Trade and Development Benchmarks: A Work in Progress

Note by the UNCTAD secretariat

Executive summary

Improved trade performance can help developing countries achieve higher levels of growth and investment, strengthen and diversify their economies, and enhance efficiency in resource allocation through greater competition. It can also improve national living standards, encourage entrepreneurship, and enhance opportunities for the poor and women in economic activities. These gains are particularly important for developing countries to promote the sustainable development and poverty reduction objectives of the Millennium Declaration. To clearly identify these gains and find ways to achieve them, including through trade policies and negotiations, UNCTAD's Trade and Development Benchmarks aim to advance a systematic understanding of the connections between trade and development. This note provides an update on UNCTAD's ongoing work to develop these benchmarks.

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Background

A key challenge facing the international community is to maximize the potential of trade in goods, services and commodities to promote growth, development and poverty reduction in developing countries. Increasing and predictable earnings from trade can substantially relieve foreign exchange constraints facing developing countries, reduce dependence on foreign aid and lessen external debt burdens. Improved trade performance can contribute to higher levels of domestic and foreign investment, strengthen and diversify the economic base and enhance efficiency in resource allocation through greater competition. Trade can provide an important impetus to strengthen a country's scientific and technological base and promote innovation, which are among the key determinants of increasing local content, enhancing domestic value-added activities and raising returns on factors of production. It can encourage entrepreneurship, create new opportunities for the poor and expand the prospects for more beneficial participation of women in economic activities. Trade can also help ensure access by the poor to food, essential medicines and basic social services.

Increasing gains from trade for developing countries is also in the interest of developed countries, considering that domestic demand growth potential in some of them is likely to level off in the future, reflecting their long-term demographic trends and the growing degree of consumption saturation. Developing countries constitute a reservoir of untapped demand which, if realized, could provide sustained impetus to the growth of international trade and expansion of the world economy, with beneficial effects on the welfare of developed-country economies, consumers and businesses. Accordingly, assuring development gains from trade is central to realizing this "triple win" – for developing countries and countries in transition, for developed countries, and for the world economy as a whole.

To help bring about these gains, there is a need for a more systematic understanding and monitoring of the interconnections between increased trade and development, including in the context of fostering positive synergies between international trade policies and negotiations on the one hand and national development strategies on the other. In this regard, identification of a set of common standards or benchmarks to assess development gains from trade is a particularly important and challenging task. Such benchmarks can contribute to timely follow-up to and monitoring of progress towards achieving the Millennium Development Goals, implementation of the Monterrey Consensus, and outcomes of other relevant multilateral conferences and events.

The UNCTAD secretariat presented broad areas for research and analysis on trade-related development benchmarks at the fiftieth regular session of the Trade and Development Board in October 2003, and the United Nations General Assembly, in resolution 58/197 of 23 December 2003, took note of UNCTAD's work on trade and development benchmarks. Efforts at UNCTAD are now underway, in consultation with other concerned parts of the United Nations, to elaborate conceptual and methodological approaches for further development of the benchmarks.

The trade and development benchmarks are a work in progress. This informal note is part of the UNCTAD secretariat's efforts to keep member States updated on the work underway. It provides a brief description, introduces possible indicators, and presents an illustrative example for each of the benchmarks.

The Trade and Development Benchmarks

1. Developing countries' performance in trade

An assessment of developing countries' gains from trade should begin with an examination of the performance of developing countries in international trade.

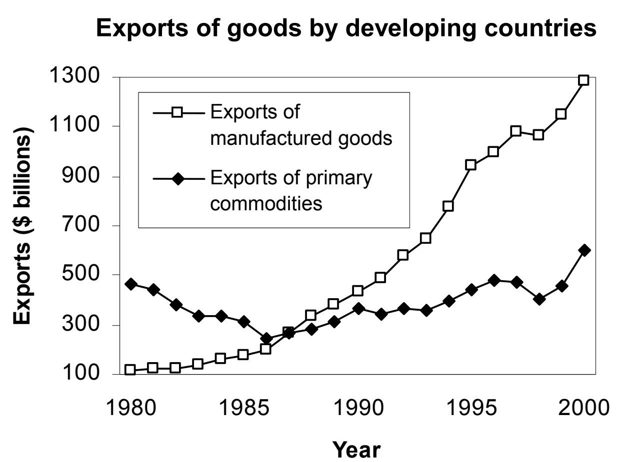
Possible indicators:

- Share of developing countries in world trade in goods and services
- Trends in export concentration
- Trends in terms of trade of developing-country exports
- Trends in domestic value added in developing-country exports
- Trends in developing countries' share in dynamic sectors of world trade

Developing-country exports: slower earnings growth chasing faster export growth

An important development in world trade over the past 25 years has been the increase in the share of manufactured goods relative to commodities in developing-country exports. The share of manufactures in developing-country exports, which in 1980 accounted for only 20 per cent of exports ($115 billion), has grown steadily, reaching nearly 70 per cent ($1.3 trillion) in 2000. Meanwhile, annual exports of primary commodities in value terms fluctuated within a narrow range of $250 billion to $600 billion.

Figure 1



Source: UNCTAD Handbook of Statistics 2003.

A closer look at these trends, however, reveals that the picture is much more nuanced. Many developing countries, including least developed countries (LDCs) and other commodity-dependent developing countries, have remained largely excluded from this process. In fact, the marginalization of LDCs in world trade increased over the two decades since 1980. In the case of many developing countries, rising manufacturing exports has not been accompanied by faster growth in gross domestic product (GDP). The share of developing countries in world manufacturing value added increased during this period from 17 per cent to 24 per cent, while their share in world manufacturing exports rose much faster – from 11 per cent to 27 per cent. On the other hand, while the share of developed countries in world manufacturing exports fell from 80 per cent to 70 per cent during this period, their share in world manufacturing income actually increased from 65 per cent to 73 per cent. This indicates, among other things, that developing countries' share in world manufacturing exports is not a reliable guide to the domestic value added they receive from these exports, as the latter tends to be low for many such exports, particularly labour-intensive assembly-line manufactures, owing to low domestic content.

2. Openness of markets

The ability of developing countries to fully exploit existing and potential export opportunities depends critically on how open and fair the premium export markets are for their goods and services.

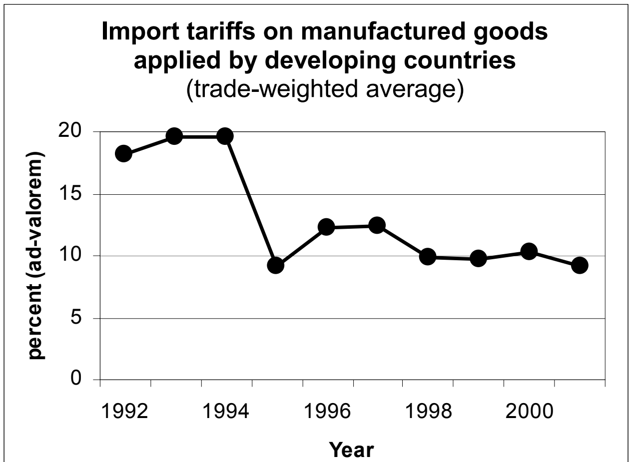
Possible indicators

- Trends in developing-country trade liberalization
- Trends in tariffs (including peaks and escalation) applied to principal exports of developing countries
- Indicators of openness in selected services modes and sectors of export interest to developing countries
- Incidence of market entry barriers (e.g. discretionary standards, technical and environmental requirements, rules of origin)
- Trends in domestic support and export subsidies
- Indicators of anti-competitive structures and practices in key international markets

Liberalization by developing countries: all dressed up, but where to go?

Throughout the past two decades, developing countries have pursued trade liberalization, both as part of multilateral liberalization under the WTO Agreements and unilaterally, including under structural adjustment programmes and North-South regional trade agreements. A key indicator of this process is the steady decline in their tariff rates (see Figure 2). The results have been mixed: many countries, especially LDCs, have not seen significant gains in export earnings or domestic value added, which raises questions about the manner in which liberalization has been applied. True, no country has ever developed with closed borders. Yet the across-the-board opening being pursued by many developing countries, with support from international finance institutions, is clearly not the best alternative. The experiences of more successful developing countries suggest the need for a strategic and selective approach to liberalization that suits the capacities and requirements of each country, rather than a one-size-fits-all approach.

Figure 2



Source: UNCTAD TRAINS database.

Domestic liberalization alone cannot guarantee development gains from trade. Openness of the main markets for developing countries' exports is equally important. Developing countries confront a number of serious constraints. Developed countries apply nearly 50 per cent higher tariffs on developing-country exports that on exports from other developed countries. Moreover, tariff peaks and escalation continue to affect many key products exported by developing countries. These difficulties are compounded by market entry barriers, such as the need to meet a rapidly growing number of technical, environmental and health standards. Domestic support and export subsidies by developed countries in the area of agriculture amount to nearly $1 billion a day, thereby depressing world prices of agricultural goods and crowding out potential developing-country exports. Moreover, monopolistic and oligopolistic structures and practices in international markets adversely affect gains of developing countries from trade.

3. Equal opportunity for unequal partners

Equitable rules and their fair application are the ultimate protection for the weaker trading nations. The principle of special and differential treatment under the World Trade Organization is meant to factor structural and other asymmetries between the developed and developing countries into trade agreements to make these fair and equitable.

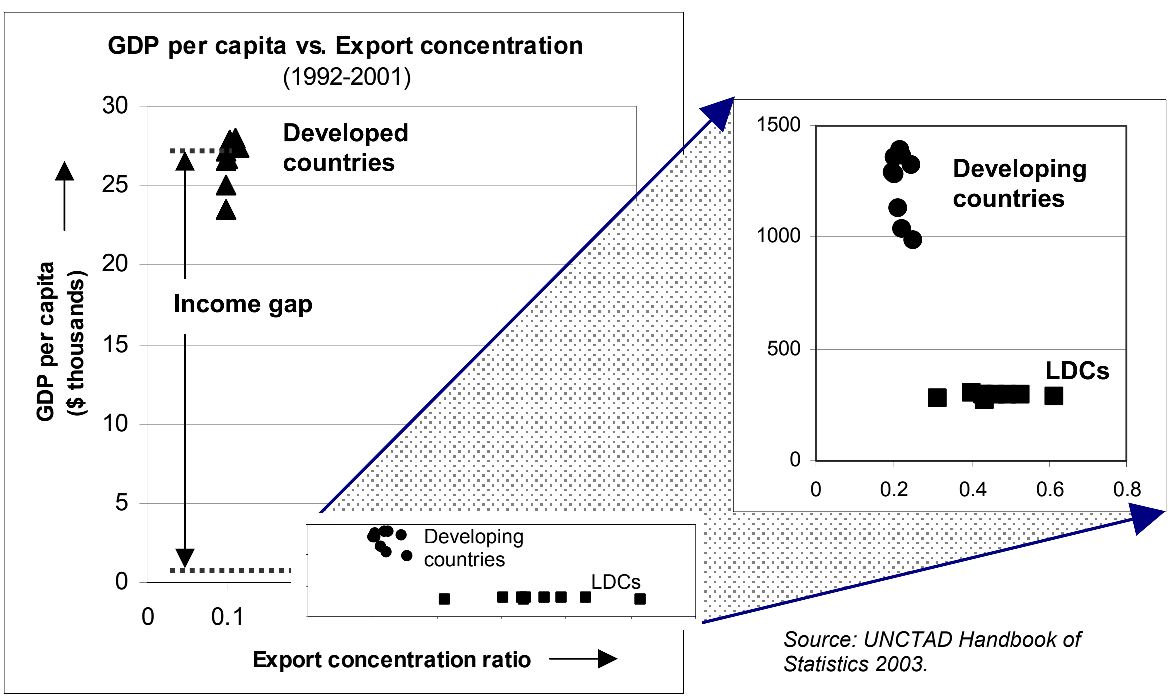
Possible indicators:

- Trends in per capita income of developed and developing countries
- Indicators of infrastructure, technology and human development
- R&D investment by developed and developing countries
- Size of subsidies provided by developed and developing countries
- Levels of domestic and foreign investment

Catching up with the developed countries: a long way to go

Over the years, a number of developing countries have been able reduce export concentration and raise income levels. LDCs, however, remain far behind on that count, experiencing considerable year-to-year fluctuations in performance. Figure 3, which demonstrates this pattern, also indicates, however, that, despite diversification, the per-capita income level of developing countries remains many times lower than that of developed countries. This income gap results from many underlying economic, social and other asymmetries between developed and developing countries, which restrict the ability of the latter to maximize gains from diversification. Developing countries will need to focus more closely on removing these asymmetries in order to capture the gains from trade more fully and to make progress in catching up with the income levels of developed countries. They need, among other things, sufficient policy space and flexibility to pursue national trade and development strategies. The international trading system should adequately reflect this need.

Figure 3



Source: UNCTAD Handbook of Statistics 2003.

4. Serving the public interest

The Millennium Declaration calls on the international community to create an environment at the national and global levels that is conducive to sustainable development and the elimination of poverty. To that end, continued efforts must be made to ensure that the trading system is responsive to key public interest issues, including eradication of poverty, fighting infectious diseases and epidemics, and ensuring provision of basic social and environmental services to the poor and the underprivileged.

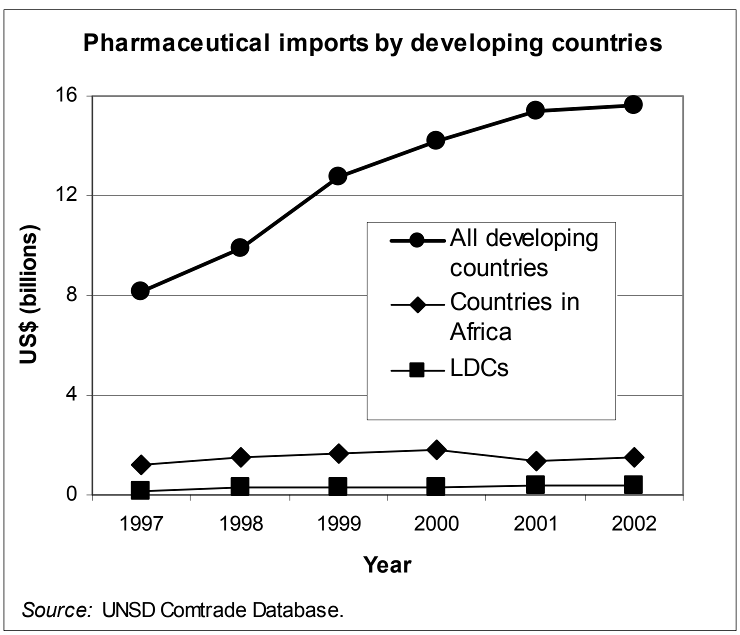
Possible indicators:

- Trends in poverty; relevant social indicators
- Trends in trade and domestic access to (tradable) basic social and environmental services
- Trends in female labour participation in export sectors
- Trends in world prices of exports of poverty-sensitive sectors
- Tariff- and quota-free treatment of LDCs' exports
- Trends in imports of medicine by developing countries without a significant pharmaceutical base

Trade can save lives: access to imported medicines

The WTO decision on the TRIPS Agreement and Public Health (30 August 2003) was an important recognition of the role that the multilateral trading system can play in helping to meet the Millennium Development Goal on access to medicine. Many developing countries, particularly LDCs and African countries, do not have significant domestic pharmaceutical production capacities and have to depend on imports. Figure 4 shows that, while pharmaceutical imports by developing countries have been increasing, for LDCs and Africa such imports have actually been flat or in decline over the past several years, while at the same time, in many of these countries public health crisis have become increasingly critical. Today, pharmaceutical imports by LDCs stand at 50 cents per person per year.

Figure 4



Effective implementation of the decision on TRIPS and Public Health can help these countries source medications from cheaper suppliers. However, this alone may not be enough. Some of these countries will also need budgetary support to be able to translate availability of cheaper medicines into affordability, particularly to benefit the poor. In other words, positive actions in the trading system and increased development financing will need to work hand in hand.

5. Revitalizing the commodities sector

Some 50 developing countries, including many LDCs, depend on just two or three commodity exports for the majority of their export earnings, and 39 of them on exports of a single commodity. Raising the profile of commodities in the multilateral and wider international trade and development cooperation agenda while fostering a supportive international environment for commodity-dependent developing countries is key to the timely achievement of the Millennium Development Goal on poverty reduction.

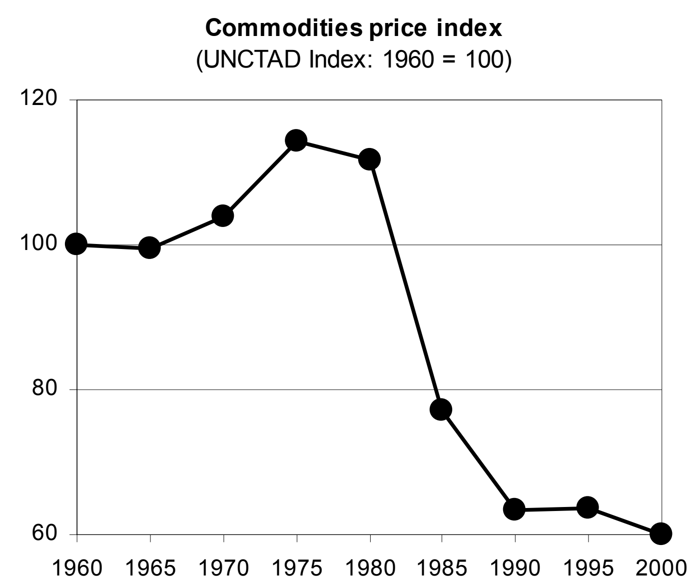
Possible indicators:

- Trends in commodity dependence
- Trends in commodity prices and earnings
- Trends in domestic processing of commodities in developing countries
- Incidence of market access and market entry barriers to commodities trade
- Trends in domestic value retention in the supply chain
- Needs and adequacy of commodity sector assistance

Getting the prices right versus getting the right prices

Commodity production and trade have a major bearing on the sustainable livelihoods of the poor and on the export and growth performance of many developing countries. Commodity-dependent countries are among those that carried out liberalization on a broad front over the past two decades as part of structural adjustment and policy reforms. An important justification for these reforms was to get the prices right. At the same time, however, commodity prices kept falling and producers failed to get the right prices.

Figure 5



Source: UNCTAD Commodities Price Bulletin, 2004.

The long-term decline in real commodity price is a major problem for many developing countries, in particular LDCs, as it significantly reduces the purchasing power of commodity export earnings. The prices of primary commodities (both minerals and agricultural products) have remained exceptionally low in real terms, particularly since the mid-1990s. For example, for coffee, producers now receive, in nominal terms, roughly a third of the price they were getting in the mid-1990s. Restoring remunerative prices and managing large price fluctuations and their impact on incomes are a formidable challenge for developing-country governments and producers. Internationally, these problems have been complicated by the emergence of increasingly concentrated market structures and stringent market entry requirements.

6. Coherence

Of key importance to the development orientation of the international trading system is the degree of coherence that can be brought to bear among the different areas of trade negotiations and disciplines, between the different multilateral institutions and policies, and between these and regional and national processes and strategies.

Possible indicators:

- Special and differential treatment provisions under multilateral trade agreements
- Donor conditionalities in bilateral and multilateral development financing
- Scope and coverage of WTO Agreements versus those of regional trade agreements
- Trade-related financial and technical assistance requirements and commitments
- Trends in official development assistance (ODA) flows, debt relief and debt service/export ratios

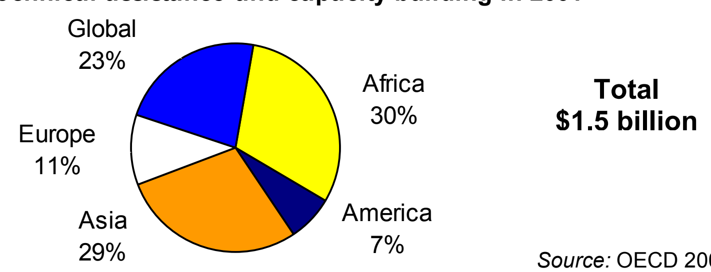
Implementation and adjustment costs of trade agreements: calculating the incalculable?

Trade agreements do not come cheap. Their application requires institutional and other adjustments, as well as involving implementation costs. Even large developed economies make provisions for these eventualities. The adjustment needs of developing countries, given their limited resources, are much more acute. Defining the magnitude of adjustment and implementation costs has been referred to as "calculating the incalculable". Any serious approach to this would require a country-by-country and sector-by-sector needs assessment.

Support to countries acceding to the European Union could provide a very rough indication of what might be in order. Under the Phare Programme, which is one of the three pre-accession instruments financed by the European Union to assist the applicant countries of Central Europe with EU integration, an amount of €11 billion has been allocated for the period 2000–2006 for institution building in 10 countries (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). This corresponds to annual funds equal to 0.5 per cent of the combined GDP of these countries. Applying this factor to the combined GDP of developing countries yields $34 billion per year. This is not to say that the latter figure is a reliable guide to developing countries' need for support for adjustment to, and implementation of, WTO Agreements. Adjustment and implementation requirements arising from accession to the European Union cannot be equated with those stemming from WTO membership. Also, most developing countries' institutional and other related capacities are not comparable with those of the EU candidate countries.

Figure 6

Regional distribution of ODA commitments for trade-related technical assistance and capacity building in 2001



Source: OECD 2002.

It is also important to note that in 2001, total ODA flows were $52 billion, representing 0.22 per cent of donor countries' combined GDP, as compared with the internationally agreed target of 0.7 per cent. Of this $52 billion, about 2.8 per cent, or $1.5 billion, was allocated to trade-related technical assistance and capacity building.