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Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

Executive Summary

International trade flows have recovered after the global crisis, while their growth has decelerated recently. World economic growth rates have also declined of late and remain unpredictable. Given the uncertain status of global trade, output and employment, the international trading system issues, non-tariff measures, competition policy, and sustainable development issues, their evolution should be monitored to help assess how to boost global economic resilience, sustainable growth and inclusive development. Continuing efforts to strengthen multilateral trade cooperation are essential. Consideration could also be given to reformulating Governments' role in trade policymaking in order to better focus trade on contributing to inclusive growth and development

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Introduction

1. Paragraph 18(d) of the Doha Mandate of UNCTAD XIII provides that UNCTAD should "continue to monitor and assess the evolution of the international trading system and its trends from a development perspective". Accordingly, the present report (a) examines, from a developmental perspective, recent global trade and output performance, participation of developing countries in international trade and implications of the stalled World Trade Organization (WTO) Doha Round; (b) reviews issues relating to regional trading agreements (RTAs), services trade, trade and employment, exchange rates and global supply chains; (c) takes an in-depth look at non-tariff measures; and (d) highlights the treatment of competition policy in the global crisis and the trade and development implications of the Rio+20 outcome.

I. Global output and trade trends

2. The world economic growth rate decelerated considerably from 4 per cent in 2010 to 2.8 per cent in 2011, with the possibility of another economic downturn now looming large. According to United Nations forecasts, the growth rate of world gross product will slow further to 2.6 per cent in 2012 due to weak global aggregate demand, before picking up to 3.2 per cent in 2013.[1] A sudden reversal of economic prospects in 2011 showed that the global financial system and economic growth is still fragile and continues to require close Government attention. Economic activity is slowly cooling down in developing countries, including in dynamically growing countries, yet is still considerably stronger than in developed countries. In developing countries, economic growth is expected to fall from 6 per cent in 2011 to 5.6 per cent and 5.9 per cent in 2012 and 2013, respectively. The sovereign debt crisis in some European economies and fiscal problems elsewhere threaten the stability of the global financial system and economic recovery. Fiscal austerity measures weaken economic growth and employment prospects, as a result of which economic stimulus efforts have received greater attention in affected countries.

3. Deferred employment growth, especially in developed countries, is threatening medium-term growth prospects. Global unemployment is estimated at 6 per cent for 2011, only slightly less than the 2009 peak of 6.2 per cent. For developed economies, the unemployment rate reached to 8.6 per cent, 2.5 percentage points higher than the pre-crisis levels, and has so far defied the policies to bring it down which have been adopted since the beginning of the crisis. The relative share of workers unemployed for more than one year is now about 29 per cent in the United States. Employment has been recovering in developing countries overall, as unemployment rates are now back to or below the pre-crisis levels in most Asian developing countries, and employment recovery has been strong in many Latin American countries. Yet unemployment rates were still above 10 per cent across the countries in the Middle East and North Africa and above 8 per cent in sub-Saharan Africa.

4. World merchandise trade grew in value terms by 22.8 per cent in 2010 and 19.3 per cent in 2011, surpassing its pre-crisis level by almost 13 per cent. World merchandise exports amounted to $18.2 trillion in 2011, of which developing countries accounted for 43 per cent. Developed countries and African countries exhibited relatively weaker recovery in exports, as they barely exceeded the 2008 level by 5 per cent and 7 per cent, respectively.

[1] World Economic Situation and Prospects 2012.

5. South–South exports rebounded faster than overall world trade after the 2008 crisis, growing by 30 per cent between 2009 and 2010 to reach $3.5 billion in 2010, representing 23 per cent of world trade.[2] As from 2008, developing countries as a whole exported more to the South (51–54 per cent of the South's exports) than to the North. South–South trade is thus creating opportunities for developing countries to ease the contractionary effects of lower demand in traditional developed country markets.

6. However, the decline in and unpredictability of world economic growth rates heighten concerns that another economic slowdown would dampen trade and the stimulus it provides to economic growth and development.

7. The contractionary effect of the recession on services trade was smaller than its effect on merchandise trade, and the pace of recovery of services trade was also faster. World trade in services reached $4.2 trillion, 8 per cent higher than pre-crisis level, after growing by 10.6 per cent in 2011. Developing countries registered relatively faster export growth rates (20.5 per cent in 2010 and 11.8 per cent in 2011). High-tech sectors, such as communication services and computer and information services, have experienced swift recovery and robust trade expansion. International tourism receipts also continued to recover, exceeding $1 trillion in 2011. Financial services exports remained sluggish. Foreign direct investment (FDI) outflows, which constitute over half of the world services trade, are increasingly targeted at services sectors.[3] As a result, the share of FDI inflows to the services sector has climbed from 35 per cent in 1990 to over 50 per cent at present.

8. In 2011, developing countries accounted for 30 per cent of world services exports ($1.3 trillion) – a share which has been steadily increasing during the last 15 years. Asian developing countries captured the lion's share of the total, namely 81 per cent, while Latin American and African countries accounted for 12 and 7 per cent, respectively.

9. Remittances, an important source of external funding for developing countries, remained stable and maintained their pre-crisis level during the global slowdown, resuming growth in 2010 and 2011 (at 7.7 per cent), albeit at a slower pace than the pre-crisis rate. Least developed countries (LDCs) also registered significant increases in remittance receipts during the crisis. Their total remittances now stand at 16 per cent above their 2008 level.

II. International trading system and inclusive development

10. The international trading system faces a defining moment. The growing importance of developing countries in international trade, along with the increased prominence of regional trade agreements and South–South trade, has given rise to a multipolar trading system. The multilateral trading system (MTS) underpinned by WTO rules remains a central pillar of the international trading system. However, the impasse of the WTO Doha Round, which reflects wider tensions between globalization and national development interests, underlines the need to seek new ways of fostering multilateral consensus on trade liberalization and development. There have been also growing calls for reformulating trade policymaking to better focus on the primary objective of inclusive growth and development.[4]

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[2] UNCTAD, South–South Trade Monitor No. 1, June 2012.

[3] World Investment Report: 2010.

[4] See, UNCTAD XIII pre-Conference Event: Policy Dialogue – Redefining the Role of the Government in Tomorrow's International Trade (TD/461).

A. Multilateral trading system

11. The lengthy WTO Doha Round negotiations are in a stalemate. The latest efforts to conclude the Doha Round in 2011 faltered mainly owing to the continued disagreement among WTO Members over sectoral liberalization in industrial products, as well as other issues such as special safeguard mechanisms in agriculture and services liberalization.

12. The level of divergence was such that the outcomes of the Eighth WTO Ministerial Conference (MC8) held on 15–17 December 2011 recognized that it was unlikely that all elements of the Doha Round could be concluded simultaneously in the near future, and that there was a need to fully explore different negotiating approaches while respecting the principles of transparency and inclusiveness. Prior to MC8, LDCs supported by many countries had called for adoption of an LDC-specific package. However, MC8 adopted only a few binding decisions concerning LDCs, including to work on improving LDC accession processes (inter alia by strengthening and operationalizing the 2002 guidelines recently concluded by the relevant WTO body) and on a WTO waiver to allow developed and developing countries to grant preferential treatment to services and service suppliers of LDCs. MC8 also approved the accession of the Russia Federation, Samoa and Montenegro and agreed on the revision of the Agreement on Government Procurement. These decisions demonstrated WTO's ability to continue to attract new members and modernize its architecture.

13. Efforts are now being made to advance in those areas of the Doha Round where progress can be made, while rethinking other areas where greater differences remain. In addressing the rest of the core market access agenda in goods and services, some members are giving increased attention to options such as plurilateral negotiations, which would depart fundamentally from the Doha Single Undertaking approach, while others, as highlighted by the "Friends of Development" at MC8, continue to stress the primacy of the most-favoured-nation principle and the development agenda embedded in the Single Undertaking approach. Some countries are already considering forging a plurilateral agreement on services. Proposals have also been made to expand the coverage and participation of existing sectoral tariff elimination and harmonization initiatives regarding information technology and chemical and pharmaceutical products.

14. Discussions on the way forward for the Doha Round are also complicated by the longer-term need to modernize the multilateral trading system so as to meet twenty-first century economic realities. The increased prevalence of trade within global value chains requires new ways of regulating international trade where imports are needed to be able to export, since trade protection can adversely affect production costs and export competitiveness. Some countries are interested in addressing the so-called "21st-century issues" such as investment, competition policy, government procurement, as well as food security, export taxes, climate change and exchange rate undervaluation. At the same time, trade liberalization must contribute to addressing long-standing fundamental development challenges, such as poverty reduction, employment creation and productive capacity development. "Development" should be an integral part of discussions surrounding issues that currently lie beyond the framework of the Doha Round and WTO agreements.

15. Another concern of the multilateral trading system has been the emergence of protectionist measures following the global crisis. There are continued signs of "protectionist" tendencies against the backdrop of current economic difficulties. The WTO reports that the imposition of new trade restrictions, including tariffs and non-tariff measures (NTMs), continued unabated in G-20 economies, adding to the stock of restrictions already in place, while the removal of existing restrictions is very slow. The

trade coverage of restrictive measures implemented since the beginning of the crisis is now estimated at 2.9 per cent of world merchandise trade (3.8 per cent of G-20 trade).[5] Such measures include tariff increases and NTMs such as trade remedy actions, import licenses and customs controls, affecting sectors such as iron and steel, electrical machinery and equipment, and vehicles. Similarly, the latest Global Trade Alert report finds three times as many restrictive measures in 2012 than before the crisis. The accumulation of such measures leads to a substantial increase in protectionism, which in turn negatively affects trade and economic recovery – pointing to the need to sustain the G-20 standstill and rollback commitment on trade-restrictive measures.

16. It is also noteworthy that national industrial policies have been adopted aimed at stimulating growth and supporting domestic industry (particularly small and medium-sized enterprises (SMEs)), including via tax concessions, government subsidies, domestic preferences in government procurement and local content requirements. There have also been some initiatives to strengthen trade reciprocity and buy-national promotion. Such measures have also been taken to support transition to the green economy, including through border tax adjustments associated with climate change mitigation (e.g., the obligation to hold emission permits in the European Union (EU) Aviation Directive) or government support for renewable energy projects (e.g. United States of America and Chinese support for solar panels; and the local content requirement of the Canadian province of Ontario on a feed-in tariff scheme).

17. Global gains from further liberalization (of trade in goods) under the Doha Round are estimated by UNCTAD at $70 billion globally ($48 billion for developing countries). While these amounts appear relatively modest, the extra systemic costs of a failed Round could be considerable in terms of undermining the predictability and stability of international trade provided by a rules-based multilateral trading system under the WTO. It constitutes a major global public good that needs to be preserved and enhanced.[6] Accordingly, renewed efforts are needed to strengthen multilateral cooperation in international trade and development.

B. Regional trade agreements

18. Countries show continuing interest in forming, expanding or deepening regional trade agreements (RTAs), with 319 notified to WTO by January 2012. According to WTO, these agreements are estimated to cover nominally over 50 per cent of world trade, or 16 per cent if only preferential duty-free trade is counted. The expansion of global trade has been accompanied by increasing regional concentration. Intra-regional trade has expanded to encompass 40 per cent of total trade in North America, 63 per cent in Europe and 25 per cent in the ASEAN countries. Recent RTAs have been also driven by a desire to support a duty-free and non-tariff barrier-free trading environment to facilitate trade within global value chains. As a result, they have become deeper and more comprehensive, expanding their scope beyond the subjects covered by WTO agreements to include investment, competition, and government procurement. Recent RTAs involve emerging countries, resource-rich countries and developed countries. Broad-based RTAs aiming at high-standard liberalization and regulatory cooperation are emerging, such as the Trans-Pacific Partnership (TPP) Agreement, which might turn into an APEC-wide agreement, and a possible Trans-Atlantic agreement proposed for 2014.

[5] OECD, WTO and UNCTAD, May 2012, Report on G20 Trade and Investment Measures (mid-October 2011 to mid-May 2012).

[6] See report on UNCTAD XIII special event, Reflections on the international trading system and inclusive development (TD/489).

19. Developing countries have sought to utilize South–South regional integration to promote economies of scale, economic diversification and resilience. A salient example is the African countries' Heads of States' decision in February 2012 to boost intra-African trade by fast-tracking the establishment of a pan-African continental free trade area. Interregionally, some developing countries use the Global System of Trade Preferences (GSTP) as a viable platform to promote interregional South–South trade. Following the successful conclusion of the GSTP São Paulo Round in 2010, the participants are now faced with the tasks of (i) ensuring an expeditious entry into force of the São Paulo Round Protocol; (ii) expanding participation in the Protocol, and (iii) delivering on unfinished business of rules of origin. The Round's results will enter into force with the ratification of at least four participating countries, which appears imminent.

20. The economic effects of regional trade integration are generally mostly positive for member countries of the RTA and negative for non-members (see Table 1). However, the actual results in each case depend on many factors. Analysis of the large prospective RTAs shows that some developing countries, especially those which are not part of the liberalizing region, are expected to lose out with these RTAs.

Table 1
Welfare effects from partial trade liberalization in US$ billion

	Members	*Non-members*	*Global effects*
APEC	159.6	(39.8)	119.1
FTA of the Americas	7.5	(6.9)	0.5
Trans-Atlantic FTA	7.8	(7.2)	0.6
Trans-Pacific Partnership	3.2	(3.5)	(0.4)

Source: GTAP 8 simulation by UNCTAD.

21. The expansion, proliferation and deepening of RTAs highlight the necessity of ensuring coherence between trade multilateralism and trade regionalism so as to ensure that both paths are mutually supportive. There is a need for strong multilateral oversight and effective discipline, including serious examination of RTAs, not just their transparency. By inducing liberalization covering a substantial share of world trade, large and significant RTAs could affect incentives for multilateralism. On the other hand, a greater focus on regulatory barriers with RTAs might strengthen the case for multilateral harmonization of regionally fragmented regulatory regimes. From a development perspective, new-generation RTAs are increasingly defining the terms of developing countries' integration into international trade. It is important that they be allowed to design an adequate scope and speed of market opening under RTAs, and multilateral rules requiring RTAs to liberalize "substantially all the trade" allow for such flexibilities.

22. The need to address the "spaghetti bowl" created by the multiplication of RTAs has induced a move toward rationalization and convergence within regions. Lead countries within each region have begun to use templates or models for their RTAs. Examples of such rationalization efforts include the NAFTA model widely diffused in the Western Hemisphere, the ASEAN template in Asia and the decision in the African context to build a Tripartite FTA from COMESA, EAC and SADC to serve as a template for a continental-wide FTA in Africa. However, while there are perhaps several positive aspects to such convergence efforts, including minimization of transaction costs and of the complexity of overlapping governance systems), they could also give rise to challenges like less ambitious outcomes, as the numbers of parties involved in negotiations increase or tensions with WTO rules rise.

C. Services development potential

23. Services are crucial in growth, inclusive development and employment, including in achieving the Millennium Development Goals. For instance, intermediate services, such as transport, telecommunications, financial services, business services including professional services and research and development (R&D) services, allow specialization, creation and diffusion of knowledge, and exchange, thus contributing to increasing economic complexity, productive capabilities and participation in the global supply chain. The wide and deep impact of services on development is affirmed by recent studies; discussions by Governments under the UNCTAD multi-year expert meeting on services, trade and development; and the Global Services Forum (see Box 1).

24. Several developing countries have taken advantage of the wave of technological advances in information and communication technologies (ICTs) and the disintegration of production processes within global supply chains, which have made more services tradable and capable of being outsourced. According to an Organization for Economic Cooperation and Development (OECD) analysis,[7] trade in intermediate services, including business services, accounts for 73 per cent of trade in services in OECD countries. Driven by global outsourcing of business services, which are often information technology-based, the share of Asian developing countries' exports of computer and information services in total world exports of these services has jumped from 15 per cent in 2000 to 27 per cent in 2009.[8] This has helped increase their share of total world services exports from 16.9 per cent in 2000 to 23.9 per cent in 2010.[9]

25. UNCTAD's research[10] findings show that in Argentina, provision of road transport services has a positive and statistically significant effect on agricultural productivity. Farmers who have access to agricultural services, including contracting farm services, enjoy higher productivity gains than those who do not. In Zambia, Malawi and Uganda, financial credit access services, transport services, marketing services and information services determined to a large extent the gains of farmers from producing export crops destined to international markets. Such services make it easier for farmers in these countries to grow export crops, contributing positively to poverty reduction in rural areas. The positive link between access to finance and participation of SMEs in export markets can also be seen in Brazil, where postal services have been used to implement financial inclusion policies and to facilitate trade for SMEs in relatively poor municipalities located in peri-urban areas and in the countryside. Accordingly, strengthening the domestic services sector by multiplying its backward and forward linkages with the primary and the secondary sectors, and nurturing its export supply capacity, can be a very effective component of a comprehensive development strategy.

Box 1. Strengthening partnerships and associations in services

The private sector and public advocacy and awareness-raising are key to mobilizing policy attention and resources to boost the sector's contribution to growth and development. It is therefore important to enhance networks among national and regional services coalitions and associations and promote all forms of partnership and cooperative frameworks on services involving the private sector, services industries, government,

[7] "Trade in Intermediate Goods and Services", OECD Trade Policy Working Paper No. 93 (November 2009).

[8] WTO data.

[9] UNCTADStat.

[10] UNCTAD (2012), Services, Trade and Development.

researchers and civil society. It is this concern that led participants in UNCTAD XIII at the inaugural Global Services Forum to institutionalize the Forum as a unique platform for mobilizing international cooperation and partnership relating to the services sector. No comparable intergovernmental forum on services existed on a global scale that brought together a range of stakeholders. An important step was taken at the Forum through the launching of the Arab Coalition of Services Industries (ACSI), which was conceived and proposed at the initiative of the Arab private sector and UNCTAD.

26. Such a comprehensive approach is essential in enabling countries to reap the net benefits of the services economy, including by promoting engagement in international trade that is well designed, paced and sequenced. Here, an incremental process of regulatory reforms is essential in the search for best-fit national regulatory and institutional services frameworks, as well as to allow for continuous adjustment to a rapidly evolving external environment. Among the more recent policy challenges in this regard is the formulation of new regulations to cover climate change mitigation and abatement and the promotion of sustainable development and to address rapid technological developments that are creating new business models daily, particularly in ICT-related services. Another major area where regulatory reform is required is the financial services sector. Efforts are being pursued at national and international levels, including in the context of Basel III, to put in place reforms aimed at extending the scope of supervision to encompass both macroprudential and microprudential objectives, and internalizing negative externalities created by individual financial institutions.

D. Trade and employment

27. Trade allows developing countries to access knowledge, skills and technologically advanced capital goods and inputs that can enhance their production capacities for exporting products, creating new jobs in the process. Development pillars of a trading system conducive to employment creation can include, for example, preferential access for LDCs, reduction of trade-distorting subsidies in developed countries, and commitments in trade agreements reflecting the level of development. Regional integration of goods and services markets as well as institutions can have a significant positive effect on employment creation and wage gains. Trade agreements therefore need to integrate measures to not only foster trade growth but also develop productive capacities and create productive employment.

28. This does not imply that trade liberalization or trade openness as such and associated trade and economic growth necessarily guarantee job creation. Many countries, including in Africa, have opened their markets without much concomitant success in labour market expansion. Moreover, open markets will not necessarily create decent jobs. Countries need to adopt complementary measures to trade reforms in order to improve employment creation opportunities. It is essential to foster integration production and trade in sectors that hold greater promise for employment creation opportunities, such as agriculture and certain manufacturing and services sectors. In many commodity-dependent developing countries or resource-intensive countries, for example, prospects for greater employment creation could emerge from a process of structural transformation into value-added sectors. Strategies that could be considered include promotion of effective integration into regional and global supply chains. Governments could provide support services, including support to development of technologies and competitiveness; share in long-term investment risks; encourage strategic orientation of FDI; and provide export promotion services for export sectors. Favourable economic conditions such as predictable economic environments, reasonable secure property rights and macroeconomic stability are also important.

29. Education, training and skill development are also important. Since trade is heavily skill-biased, targeted education and technical training avoid skill mismatches and help enterprises to find the skills they need to maintain competitiveness and innovate. Furthermore, given the large size of the informal sector in many developing countries, policies that improve access to capital by the informal economy are important for the creation of job opportunities, especially for the poor. Strengthening links between the labour-intensive informal sector and the relatively more export-oriented formal sector would promote employment. Social security systems could mitigate the costs of higher fluctuations and adjustment costs that appear to be associated with exposure to external shocks.

30. UNCTAD has strengthened its work on trade and employment. As part of the International Collaborative Initiative on Trade and Employment, it contributes jointly with other international organizations to deepening understanding of the linkages between trade and jobs and to develop policy-relevant conclusions. With the International Labour Organization (ILO), UNCTAD developed a practical methodology to assess the employment effects of regional trade agreements. Currently, UNCTAD is working with the ILO on a project on trade and employment in agriculture.

E. Global supply chains

31. Today, a substantial share of the production processes of global supply chains (GSCs) takes place in developing countries. Policymakers in many developing countries are interested in linking their enterprises to GSCs, as this would enable producers within the chain to acquire management know-how and hands-on information on quality standards and technology, thus to become more competitive. Participation in GSCs could also create economy-wide externalities for developing countries, such as employment, improvement in technology and skills, productive capacity upgrading and export diversification.

32. On the other hand, participation in GSCs could involve some challenges. Many developing country enterprises take part in labour-intensive manufacturing segments of GSCs and may be stuck in low value-added segments within sectors where chains are shorter and less technologically intensive. Yet even if the profits retained in such segments by enterprises are generally low due to intense competition, they may still benefit from production processes optimization, technological upgrading and easier access to foreign investments. Moreover, being a supplier within a GSC sends a strong signal about the productive capacity of the firm in terms of quality and timely delivery.

33. However, the benefits of GSCs are in general unequally divided across the value chain. Consequently, it is important for enterprises to being able to rise along the value chains, where profits and overall benefits are generally higher. In practice, to rise along the value chain, an industrial or process upgrading is required. An important policy question is why some developing countries were able to surge ahead in diversifying into more value addition within GSCs while others did not succeed. Although process upgrading occurred in most regions, it occurred to a different extent and at a different pace. For example, in 1993 the average levels of export sophistication of South Asian and sub-Saharan African countries were similar. However, already by 2000, South Asian export diversification into higher value-added products was much greater than in Africa. In practice, enterprises' participation in high-value segments of GSCs appears to be possible only for countries which already have some prerequisite productive capacity and a skilled labour force.

34. Therefore, the key problem for developing countries is not how to participate in GSC but rather how to maximize the benefits from such participation. To properly address this issue, there is a need for more research and better data, including those on transnational corporations (TNCs) as lead firms. However, the evidence indicates that acquisition of

knowledge of production processes is one of the keys to industrial upgrading and export diversification. For countries that are lagging behind, knowledge must be absorbed (or purchased) from elsewhere. Although GSCs chains can be a powerful force in enabling technology transfers and industrial process upgrading, lead firms may be unwilling to transfer technology to subsidiaries, especially when property rights are not well secured. Essentially, the business model of leading firms in GSCs relies on retaining control of higher value-added areas of their core competencies like R&D, design and distribution.

35. In this regard, developing countries have a number of options to facilitate the rise of their firms along the GSCs. Government support can play a crucial role especially in regard to: (i) promotion policies to attract investments from lead firms; (ii) reduction of tariffs and non-tariff measures for imported production inputs; and (iii) efforts to boost supply efficiency by improving the business environment, transport, logistics, education and training; and (iv) guaranteed long-term commitments in policies (especially those related to trade, intellectual property and fiscal policies) so as to minimize the risk for foreign enterprises and business relationships.

36. Another important element for upgrading production processes is the availability of a pool of skilled labour force with technical, managerial and entrepreneurial expertise. From a policy perspective, there is a need to invest in the development of human skills and capabilities, as well as in knowledge-based services. It is also important to provide qualified foreign labour permits so as to import missing critical skills.

F. Exchange rates

37. Heightened economic uncertainty leads to sudden reversals and volatility in exchange rates, and certain currencies exhibit persistent real appreciation. Over the last three years, the Brazilian real and the South African rand have appreciated by more than 30 per cent and the Indonesian rupiah and the Russian rouble have appreciated by roughly 20 per cent. Slowdowns in manufacturing exports in some of these countries have aggravated concerns over the use of exchange rates as export subsidies and the impact on deindustrialization, leading to discussions on exchange rate misalignments and "currency wars". It has been suggested that contingency trade measures should be allowed in such cases and legal mismatches between the International Monetary Fund (IMF) and WTO should be addressed.

III. Non-tariff measures[11]

A. Typology of NTMs

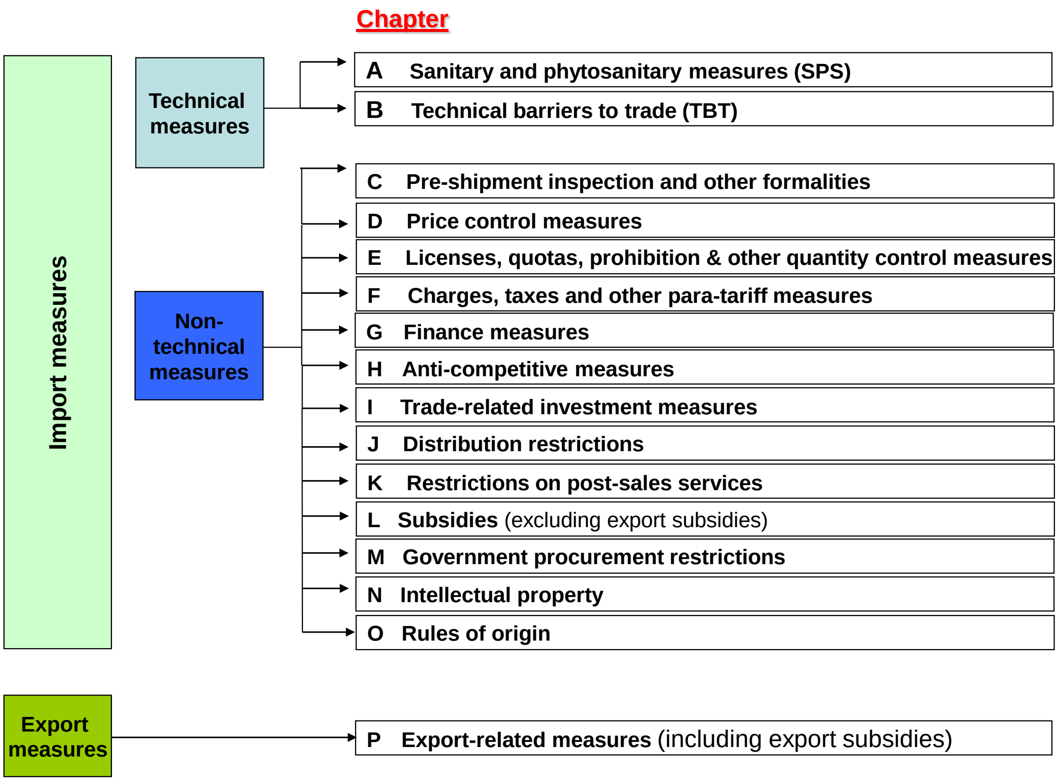
38. NTMs include a very diverse array of policies that countries apply to imported and exported goods. Some NTMs are manifestly employed as instruments of commercial policy (e.g. quotas, subsidies, trade defence measures and export restrictions), while others stem from non-trade policy objectives (e.g. technical measures) such as food safety and environmental protection. The UNCTAD Secretary-General's Group of Eminent Persons on Non-Tariff Barriers agreed upon a definition and new classification system for NTMs (developed by UNCTAD in cooperation with the WTO, see Figure 1).[12] The definition is as

[11] See UNCTAD, 2012. Non-tariff measures in trade, Economic and policy issues for developing countries. Developing Countries in International Trade Studies.

[12] See Group of Eminent Persons on Non-Tariff Barriers: Report to the Secretary-General of UNCTAD,

follows: "*Non-tariff measures (NTMs) are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.*"

Figure 1
NTMs classification system



B. Implications of NTMs

39. Regardless of the intent behind NTMs, they can have important restrictive and distortionary effects on international trade and raise two main issues for developing countries' market access. Firstly, although nominally non-discriminatory, the effect of NTMs can be de facto discriminatory among trading partners, particularly against developing countries because: (a) the latter often have a more limited capability (or incur higher costs) in meeting the requirements dictated by NTMs, due to less advanced production technology, weak trade-related infrastructure and inadequate export services; and (b) they do not have the resources to analyse and understand the nature and implications of NTMs their exports face. Secondly, NTMs are frequently applied to product groups of particular export interest to developing countries, often where they have a comparative advantage. Thus, the overall trade restrictiveness arising from NTMs may be systemically biased, however unintentionally, against developing countries, especially low-income countries and LDCs, as is illustrated in Figure 2.

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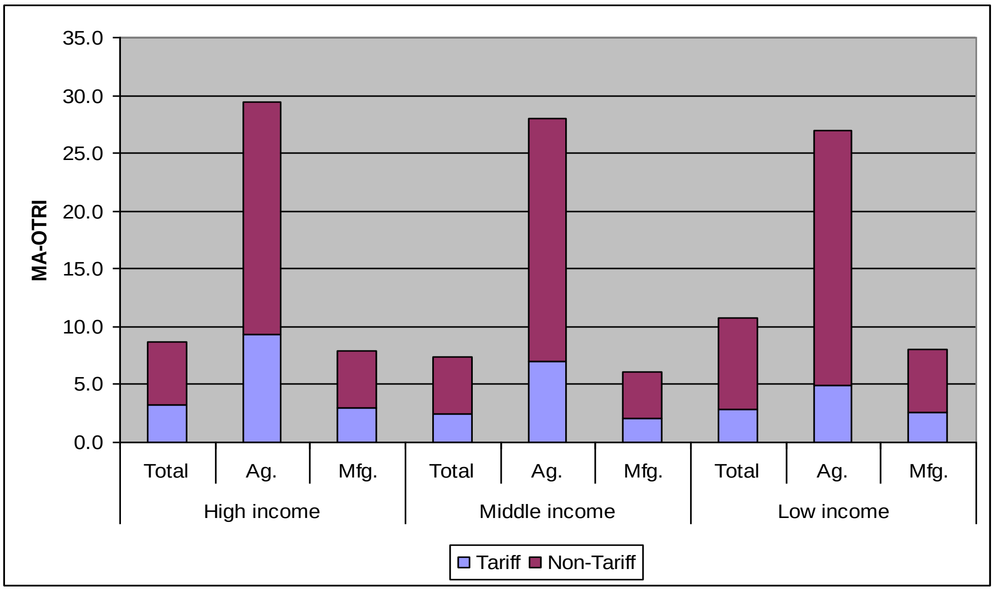
16 December 2009.

Figure 2
Overall level of restrictiveness faced by exports



Source: UNCTAD (2012):
Notes: AG – agriculture; Mfg – manufacturing.

40. On average, NTMs' contribution to market access restrictiveness is over double that of tariffs and is overwhelmingly more important relative to tariffs in extreme cases. In the case of low-income countries, the relatively large impact of NTMs on overall restrictiveness is mainly due to the composition of these countries' exports, which are concentrated in agricultural products that generally face more restrictive market conditions.

41. Exports from developing countries are relatively concentrated in sectors where NTMs are more frequent. Table 2 illustrates the utilization of NTMs (categorized in five broad categories) across economic sectors.

Table 2
Frequency indices of NTM across economic sectors

Sector	*A: SPS*	*B:TBT*	*C:Pre-Shipment*	*D: Price Control*	*E: Quantity control*
Live animals	71.3	36.2	21.3	5.7	33.4
Vegetable products	69.2	31.7	24.0	3.6	27.1
Fats and oil	51.1	26.8	12.9	8.0	20.7
Processed food	57.0	41.7	17.7	3.6	20.3
Minerals products	9.8	25.5	8.1	0.6	10.9
Chemical products	11.3	35.8	6.8	1.7	19.6
Rubber and plastics	1.2	24.1	5.7	0.8	6.3
Raw hide and skins	12.8	23.7	9.9	0.0	12.9
Wood	26.2	30.2	12.4	0.8	15.2
Paper	1.7	18.4	8.2	0.6	11.4
Textile	1.8	34.3	15.6	4.7	16.3
Footwear	0.7	38.8	16.7	3.3	17.9

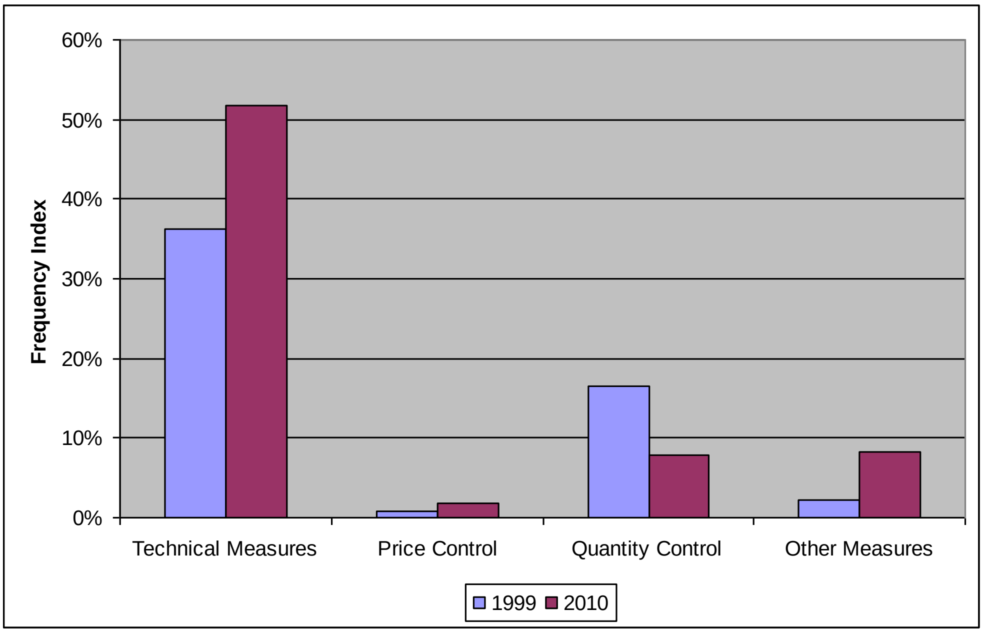
Sector	*A: SPS*	*B:TBT*	*C:Pre-Shipment*	*D: Price Control*	*E: Quantity control*
Stone and cement	3.1	19.0	9.7	1.1	6.3
Base metals	1.6	21.0	9.6	1.2	12.2
Machinery & electrical equipment	1.1	20.8	8.2	0.8	13.1
Motor vehicles	0.3	26.2	8.4	0.7	22.5
Optical and medical instruments	0.4	20.0	7.9	0.2	8.1
Miscellaneous goods	1.6	23.0	7.2	4.1	7.2

Source: UNCTAD (2012).

42. Sanitary and phytosanitary regulations (SPS) are one of the most relevant NTMs for developing countries. Owing to their very nature, the use of SPS is highly concentrated in the agricultural sector, particularly with regard to products of animal origin, as their control is essential for ensuring the health and well-being of consumers and the protection of the environment. As a result, over 60 per cent of food-related products are found to be affected by at least one form of SPS. While technical barriers to trade (TBTs) apply to a much wider set of products and are more uniformly applied across economic sectors, TBTs are still more often applied in sectors of greater export importance for developing countries such as textiles, apparel and footwear. Similarly, pre-shipment requirements and price control measures are more concentrated in agricultural products, textiles and footwear. However, non-technical measures, such as quantity control measures, are applied more or less uniformly across economic sectors.

43. Preliminary data collected by UNCTAD suggests that the use of regulatory measures has increased greatly over the last 10 years. Figure 3 below shows that the overall use of NTMs has increased between 1999 and 2010, with the largest increase in the number of products covered by NTMs ascribable to technical measures (SPSs and TBTs), which applied to about half of traded products in 2010. The use of other types of NTMs, such as pre-shipment inspection and trade defence (or contingency protection) measures, has also risen substantially. As international trade rules increasingly respond to growing societal demands for health, safety and environmental concerns, NTMs are likely to become even more important.

Figure 3
Frequency Index by broad type of NTMs (1999 and 2010)



Source: UNCTAD (2012).

C. How to address NTMs

44. The importance of NTMs and the increased use of regulatory measures require better policymaking and international coordination in minimizing their negative and distortionary effects. Although some types of NTMs can be unilaterally reduced or eliminated, many NTMs are implemented for legitimate purposes (e.g. consumer protection) and thus cannot simply be negotiated away. Rather, the aim should be to reform and harmonize them so as to attain their purposes at the lowest possible cost.

45. At the national level, NTM streamlining should be aimed at reducing costs and increasing competitiveness of firms engaged in international trade. In practice, any implementation, reform and administration of NTMs should target precisely the market failures they are trying to correct in order to minimize the distortionary costs imposed on the economy and trade. In this regard, a Regulatory Impact Assessment (RIA) process could be considered that is transparent, satisfies international obligations, and allows trading partners adequate time to comment on proposed regulations before they go into effect.

46. At the multilateral level, the issue of streamlining NTMs across trading partners has become central, especially in regard to the harmonization of SPSs and TBTs. The argument is that if standards are necessary (e.g. for food safety), then commonly agreed international standards based on scientific grounds should facilitate trade by harmonizing production processes across countries. In practice, the harmonization of standards should remove many of the restrictions to trade, as production processes do not need to be customized to meet requirements particular to each export market. However, because countries typically have large numbers of regulations on the books, streamlining them is a long and complex process.

47. Given the rising importance of NTMs but still limited understanding of their effects, further research and analysis is required to address them meaningfully. UNCTAD is

addressing both research and multilateral cooperation needs in this area, including through two recent initiatives undertaken with other cooperating partners (see Box 2).

Box 2. UNCTAD initiatives on NTMs

Two recent UNCTAD initiatives on NTMs are the Transparency in Trade (TNT) and the United Nations Forum on Sustainability Standard (UNFSS).

TNT represents a coordinated effort among the partner agencies – the African Development Bank, International Trade Centre (ITC), World Bank and UNCTAD – on data collection, classification, dissemination, capacity-building and open-access provision of tariffs and NTMs.

UNFSS is a joint initiative of UNCTAD, ITC, UNIDO, FAO and UNEP to constitute a platform to provide information and analysis on voluntary sustainable standards (VSS), often also termed "private standards" related to occupational safety, environmental, social or animal welfare issues, with special focus on their potential value as tools for developing countries to achieve sustainable development goals. At the same time, UNFSS will also address potential trade or development obstacles these standards may create, particularly their impact on small-scale producers and LDCs.

IV. Competition policy in economic crisis[13]

48. Government responses to the global financial crisis took various interventionist forms: State bailouts of firms, cash injections into financial systems, acquisitions of large firms in financial difficulty were often encouraged by Governments (particularly encouragement of mergers in the financial sector). Also, Governments were encouraged to consider "light touch" enforcement to clear otherwise questionable mergers and alliances. Objectives unrelated to competition such as financial stability impacted upon merger clearance decisions, sometimes facilitated by public interest overrides in some national legislation. There was increased acceptance of the "failing firm defence", enabling otherwise anti-competitive mergers to happen as one of the merging parties would otherwise cease to exist. In terms of remedies, the credit constraints arising from the financial crisis reduced the number of buyers able to purchase divestments, limiting the capacity of competition authorities to impose structural remedies. There were also pressures upon competition authorities to reduce delays and, in some cases, review periods for mergers involving parties in financial distress, to secure financial stability.

49. Concerns about failures of individual financial sector firms undermining confidence in the whole financial system are quite understandable. In difficult economic circumstances, effective enforcement of competition policy does require flexibility and innovative measures from competition authorities, which should also avoid discouraging harmless or economically beneficial activities as a result of perceived or real difficulties in obtaining clearance. Competition authorities would need to explore alternative options, such as parties identifying a buyer prior to completion, longer divestment periods or imposition of behavioural commitments.

50. However, undue pressures to relax merger controls in particular, especially though public interest overrides, pose challenges for competition authorities. Over-relaxation of

[13] See UNCTAD's report on "The role of competition advocacy, merger control and the effective enforcement of law in times of economic trouble". http://archive.unctad.org/en/docs/tdrbpconf7d6_en.pdf

competition rules and enforcement can have adverse consequences on domestic and international competition, impacting negatively on global economic welfare. Inappropriate recourse to the “failing firm” defence to justify anti-competitive mergers should be guarded against – competition authorities should ensure that each case adheres to fundamental competition principles. A balance should be struck between short-term gains in stability and the long-term benefits of sustaining competitive markets. Times of economic trouble are characterized by a distrust or increased intolerance of competition values, with competition sometimes being used as a scapegoat, despite its long-term benefits and instrumentality in relation to economic recovery and growth. In such cases, advocacy activities by competition authorities to explain the issues should be broadened to wider policy areas, while at the same time ensuring that the independence of competition authorities is not compromised.

51. Furthermore, the global nature of markets and the widespread reach of the recent crisis highlight the external impact which economic activities in one country may have on the markets of another. For competition to be enforced effectively, it is vital that countries do not solely pursue their own national interests but take a broader view. In recent years, the EC has recognized the need to “maintain a level playing field and to make sure that national measures would not simply export problems to other member States” and has taken measures to avoid a subsidy race. As the crisis has spread beyond the countries in which it originated, competition authorities should also consider cross-border effects when applying competition policy. Increased coordination and cooperation is fundamental. In this regard, UNCTAD’s Intergovernmental Group of Experts on Competition Policy would have an important role to play.

52. In sum, it is essential that the impact on competition of crisis-mitigation policies be fully assessed from the outset so that the policy objectives they seek to address are not pursued at the expense of competition.

V. Trade and development implications of the Rio+20 outcome

A. Rio+20: The future we want

53. The Rio+20 Conference was organized to secure renewed political commitment for sustainable development; assess progress to date and remaining gaps in the implementation of the outcomes of the major conferences on sustainable development (Rio 1992 and Johannesburg 2002); and address new and emerging challenges. Moreover, to accelerate economic progress and recovery after the global financial crisis, the Conference was focused on a green economy in the context of sustainable development and poverty eradication and on an improved institutional framework for sustainable development. The final Outcome Document entitled “The future we want” adopted in Rio de Janeiro on 22 June 2012 was built upon the common denominator of national positions, reaffirming commitments and actions already adopted in existing major international agreements and providing a platform for enhanced action, this time with a significantly greater role for the private sector and civil society.

54. While some criticized the Conference for missing an opportunity to give new impetus to sustainable development actions by setting concrete targets and a road map to a global green economy, others recalled future opportunities for the United Nations General Assembly to make strides towards the achievement of sustainable development through new mandates issuing from Rio+20, particularly with regard to designating a body to operationalize the 10-year framework of programmes on sustainable consumption and production; launching a new high-level political forum to provide political leadership,

guidance and recommendations for sustainable development; strengthening UNEP; designating a working group to develop a set of global sustainable development goals (SDGs); and designing a facilitation mechanism that promotes the development, transfer and dissemination of clean and environmentally sound technologies.

55. UNCTAD, serving as the sustainable trade focal point for the Conference, organized expert meetings, produced analytical reports such as three issues of the Road to Rio +20: For a development-led green economy, and conducted preparatory meetings of the United Nations Conference on Sustainable Development as well as briefings for member States in Geneva and New York, including on the occasion of UNCTAD XIII.[14]

B. The trade dimension of Rio+20

56. Rio+20 reaffirms that international trade is an engine for development and sustained economic growth and that a universal, rules-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can play a critical role in stimulating economic growth and development worldwide, thereby benefiting all countries at all stages of development. Rio+20 also calls for progress on trade-distorting subsidies and trade in environmental goods and services and for a balanced and development-oriented conclusion to the Doha Development Agenda.

57. Many issues addressed in the Rio+20 Outcome Document have substantial trade implications. These include issues at the centre of a more sustainable and green economy, such as fisheries and energy subsidy reductions, universal access to medicine, technology transfer, and sustainable consumption and production. Although sharp differences between developed and developing country concepts of a green economy precluded a clearer elaboration of the green economy global road map, the Rio+20 Summit provided an update of sustainable development and its enhancement with much broader participation of the private sector and civil society.

58. While Rio+20 emphasizes that a green economy should contribute to eradicating poverty as well as sustained economic growth, enhancing social inclusion, improving human welfare and creating opportunities for employment and decent work for all, and maintaining the healthy functioning of the Earth’s ecosystems, it provides little operational guidance on how a green economy can meet all of these objectives. And rather than promoting a single pathway towards a green economy by all countries, Rio+20 strongly affirms that there are different approaches, visions, models and tools available to each country, in accordance with its national circumstances and priorities, for achieving sustainable development. In this regard, a green economy in the context of sustainable development and poverty eradication is recognized as one important tool among others available for achieving sustainable development, and while it can provide options for policymaking it should not be a rigid set of rules.

59. Importantly, Rio+20 succeeded in defining an extensive set of 16 social, environmental and economic criteria to be met by green economy policies. For any given green economy policy, several of these criteria may be relevant. Several criteria are trade related. For example, green economy policies should respect each country’s national sovereignty over its natural resources; be supported by an enabling environment and well-functioning institutions; take into account the needs of developing countries; strengthen international cooperation for the provision of financial resources, capacity-building and

[14] For further details, see www.unctad.org/greeneconomy.

technology transfer to developing countries; promote productive activities in developing countries; and encourage sustainable consumption and production patterns.

60. But the most trade-relevant Rio+20 criterion for green economy policies is that they should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade; unilateral actions to deal with environmental challenges outside the jurisdiction of the importing country should be avoided; and, as far as possible, green economy policies should ensure that environmental measures addressing transboundary or global environmental problems are based on international consensus. These criteria are indispensable; without them, any one country's pursuit of a green economy could potentially result in a substantial reduction of other countries' access to that country's markets.

61. More specifically, national green economy policies may lead to the introduction of stringent environmental and social standards that could restrict imports of many goods currently exported by developing countries. Such restrictions could arise from bans on non-complying products, or border carbon adjustments that impose "taxes" on imports based on the environmental footprint of their production and transport. Additionally, by raising the competitiveness of national producers, countries' national industrial policies to promote a green economy by providing domestic firms with grants, subsidies and favourable treatment for taxes and government procurement can reduce access to their markets by producers in other countries where such industry support is absent. International cooperation, supported by analysis of economic and trade impacts, will be essential to enable developing countries to enhance and deepen their participation in world trade, not only for goods and services that are inherently "green" but more generally for all goods and services that are progressively becoming "greener".

C. Contribution of UNCTAD to implementation of the Rio+20 outcome

62. While the potential negative impacts of a greening global economy on trade can be clearly identified, it is not clear to what extent they will give rise to new forms of green protectionism. However, there are already indications that signs of green protectionism, or frictions between the pursuit of green economy policies and trade rules, are emerging in some key markets. There is also increasing recognition that a global green economy will present countries with new trade opportunities. No one country is positioned to supply all of the goods and services needed in a green economy. Countries have benefited in recent years from emerging opportunities in sectors such as biodiversity-based natural ingredients, organic agriculture products and renewable energy production and trade. Trade thus has a unique and central role to play in ensuring an inclusive transition to a green economy, by allowing countries to import green products that are not produced domestically in sufficient quantity while providing export gains to those countries able to produce green products competitively.

63. Yet in order to fully realize trade opportunities, including new opportunities arising in a greening economy, Rio+20 recognizes that developing countries need assistance. Moreover, Rio+20 also acknowledges that sustainable development should be given due consideration by the programmes, funds and specialized agencies of the United Nations system, specifically calling upon UNCTAD to further enhance mainstreaming of sustainable development in its mandate, programmes, strategies and decision-making processes in support of the efforts of all countries, and in particular developing countries, to achieve sustainable development. This is closely in line with similar provisions on sustainable development contained in the UNCTAD XIII Doha Mandate (paragraphs 17, 18.b, 41.l, 54, 56.b, 56.g, 56.s and 65.d).

64. To build developing country capacity to benefit from a greening global economy, UNCTAD will launch a technical assistance programme that responds to the increasing demand for green economy capacity-building. Activities within UNCTAD's programme will be designed to assist interested developing countries and regional bodies in identifying their comparative advantages for the production and export of specific green goods and services with dynamic growth trends, including biofuels, biotrade, organic agriculture and ecotourism and both energy technologies and energy services.

65. UNCTAD is also establishing a "Forum on Green Economy and Trade" as a mechanism for international cooperation on trade-related green economy challenges. The Forum will serve as a round-table for technical discussions on focused issues by a broad range of stakeholders, including governmental and non-governmental representatives. It will not serve as a formal negotiation venue but rather as a platform for science-based discussions aimed at building consensus and greater coherence between trade policy and green economy initiatives. By reframing discussions from conflict resolution to conflict prevention, the Forum aims to enhance the ability of the parties involved in trade-related green economy conflicts to find cooperative approaches towards their resolution.