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Report of the Secretary-General

Summary

The present report prepared by the United Nations Conference on Trade and Development is submitted pursuant to General Assembly resolutions 69/205, paragraph 4, and 68/199, paragraph 24. The role of trade as a powerful enabler of growth and development is recognized in the draft sustainable development goals. Trade has the potential to support a broad range of development goals by promoting economic growth, creating jobs, enabling the efficient use of resources and raising standards of living. However, translating efficiency gains from trade integration into broad-based development and poverty reduction requires deliberate policy actions. Such policy efforts must be supported by an enabling economic environment, and a universal, rules-based, open, non-discriminatory and equitable multilateral trading system is an integral part of such an environment. Despite recurrent setbacks, multilateralism remains a global public good that must be supported and upheld. It is incumbent upon the international community to work towards concluding the Doha Development Round and revitalizing this important global partnership for inclusive and sustainable development.

* A/70/150.

I. Introduction

1. The year 2015 is a defining moment for the international trade and development community. The Heads of State and Government of Member States will meet from 25 to 27 September to adopt the post-2015 development agenda. Meanwhile, the third International Conference on Financing for Development, held from 13 to 16 July in Addis Ababa, has set a global action agenda for mobilizing resources to finance development in the post-2015 context. These will be followed by the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held from 30 November to 11 December in Paris, and the Tenth Ministerial Conference of the World Trade Organization (WTO) , to be held from 15 to 18 December in Nairobi. The emerging 17 goals and 169 targets under the sustainable development goals are universal, integrated and transformative in nature, and international trade is expected to act as a powerful enabler of the desired transformative shifts. Within the United Nations system, the United Nations Conference on Trade and Development (UNCTAD) serves as the focal point for the integrated treatment of trade and development, as well as interrelated issues in the areas of finance, technology, investment and sustainable development. The fourteenth quadrennial session of UNCTAD, to be held from 14 to 18 March 2016 in Lima, will provide an excellent opportunity to forge international consensus on the means for translating decisions related to trade and development into action.

II. Trends in international trade and development

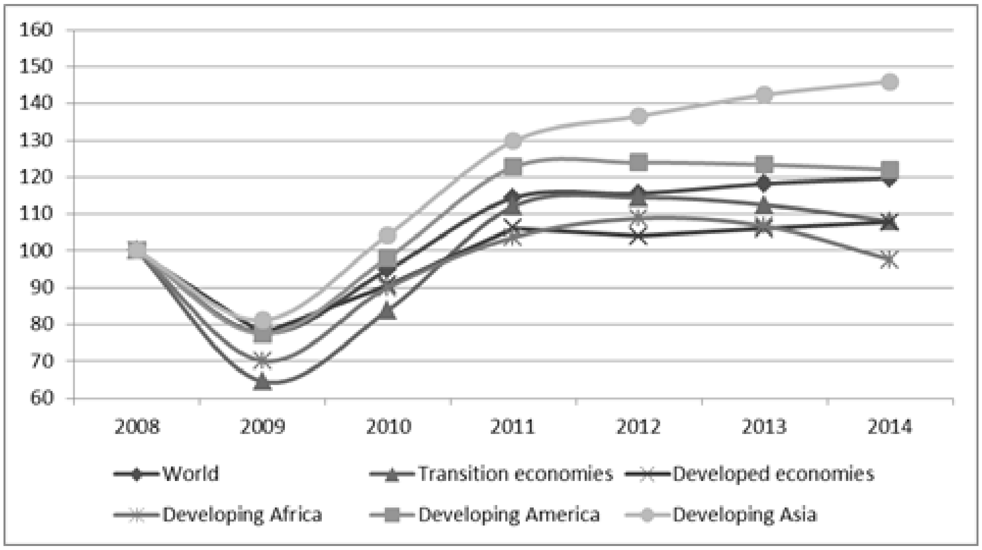
2. After a modest increase of 3.2 per cent in 2014, world trade volume is expected to expand in 2015 by 3.8 per cent.[1] The slow pace of trade expansion reflects that of the global economy. World output grew by 3.2 per cent in 2014 in constant purchasing power parity terms, and is estimated to improve slightly to 3.4 per cent in 2015. With the major economies facing the risk of "secular stagnation" and China's economic slowdown increasingly confirmed, weak global demand would continue to weigh on trade prospects. It is notable that the ratio of world trade growth to world output growth was one-to-one for 2012-2014 as compared to the two-to-one ratio observed prior to the global crisis. Since the 1990s, intensive trade in intermediate goods associated with global value chains has resulted in a faster pace of growth in trade than in output. Some 60 per cent of world trade consists of intermediate goods and services. Among the possible reasons for the decline in the responsiveness of trade to output growth is the deceleration of global value chains trade, as major exporters increasingly source inputs domestically.

3. In 2014, the nominal value of world merchandise exports reached $18.9 trillion. Most developing regions and transition economies saw their exports contract or decelerate (see figure I). Only developing countries in Asia continued to expand their exports, reaching $6.9 trillion, although their exports have recently started to show signs of deceleration. The relative dynamism of developing countries in Asia is a reflection of their strong engagement in global value chains. One manifestation of this trade associated with such chains is the intensity of intraregional trade. Intraregional trade between developing countries in Asia

[1] World Economic Situation and Prospects 2015: update as of mid-2015.

expanded rapidly and now accounts for 54 per cent of their total exports. Intra-African trade is also increasing, albeit from a lower base. After having grown rapidly, South-South trade has stagnated since 2011 at $5 trillion, while trade between developed and developing countries grew quickly and represented 40 per cent of world trade in 2013.

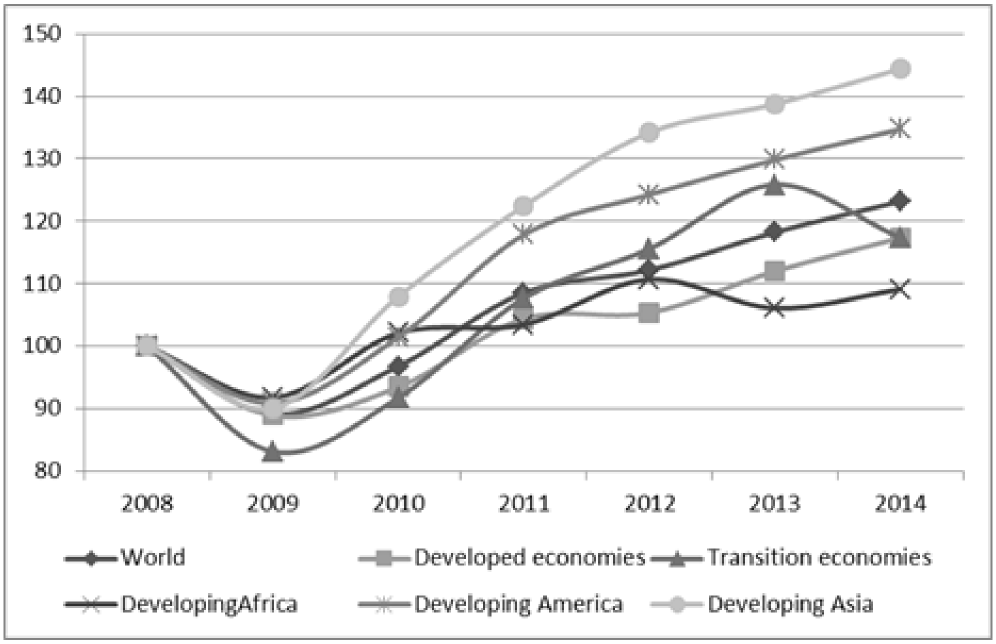
Figure I
Evolution of merchandise exports by region, 2008-2014 (index 2008=100)



Source: UNCTAD.

4. The nominal value of world commercial services exports almost doubled in value over the past 10 years, reaching $4.9 trillion for the first time ever in 2014. Most of the growth came from developing countries, in particular in Asia and Latin America and the Caribbean (see figure II). A closer look at the composition of their exports reveals that their relative dynamism was sustained by travel and “other commercial services”, which includes construction, financial, telecommunications and other business services. This contrasts with exports in transport and goods-related services, which stagnated, keeping pace with merchandise exports.

Figure II
Evolution of services exports by region, 2008-2014 (index 2008=100)



Source: UNCTAD.

5. Cross-border services trade data capture only a part of services trade, as services trade increasingly occurs through foreign direct investment (FDI) and the cross-border movement of natural persons. UNCTAD estimated the value of all sales by affiliates at $36 trillion in 2014.[2] If half of this is assumed to be in services, trade through foreign affiliates could be estimated to be in the order of $18 trillion, nearly four times greater than global cross-border services exports. In 2012, services accounted for 63 per cent of global FDI stock. The cross-border movement of people supplying services is particularly important in professional and business services, as well as services related to agriculture, manufacturing and mining. This trade is on a rising trend, given the continued growth in global remittance flows (see box 1). In 2014, developing countries received $436 billion in remittances, and global remittances flows stood at $583 billion.[3]

[2] *World Investment Report 2015* (United Nations publication, Sales No. E.15.II.D.5).
[3] World Bank, Migration and Development Brief 24 (Washington, D.C., 2015).

Box 1

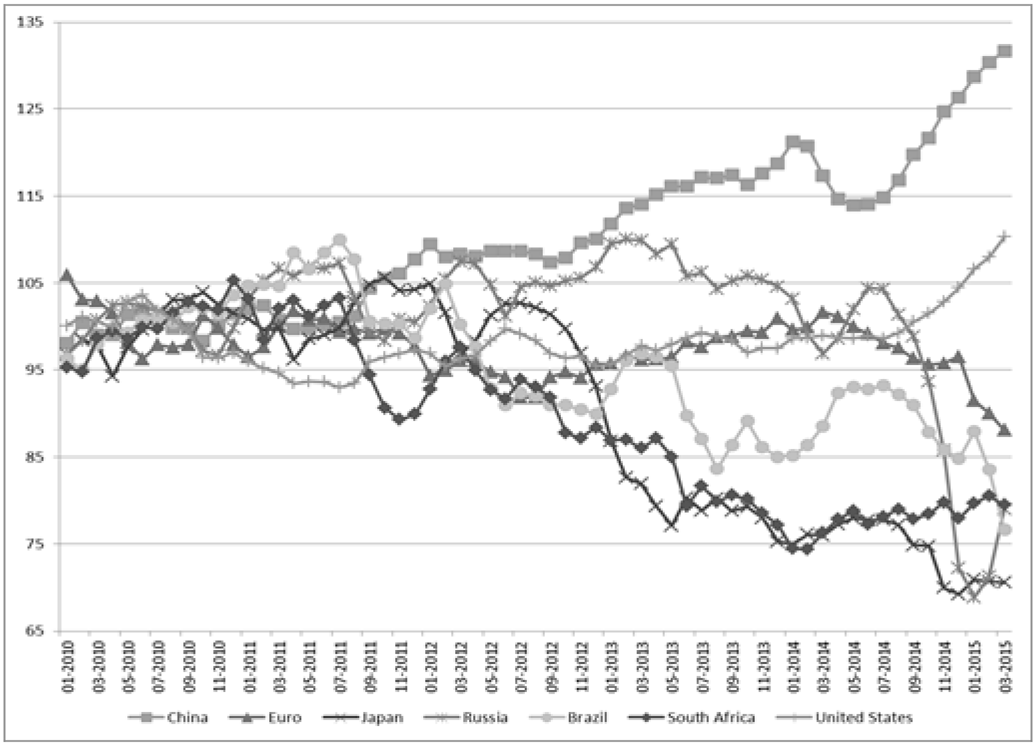
Remittances and financial inclusion

Remittances are instrumental for financing for development. Representing 26 per cent of total financial inflows, they are the second most important source of external finance after official development assistance (38 per cent) in the least developed countries, but they are private flows. A 10 per cent rise in remittances may contribute to a 3.5 per cent reduction in the share of people living in poverty. The effective use of financial services and tailor-made financial products can contribute to harnessing this potential, as the high costs of remittance transfers have often restricted flows, and the underuse of financial services have constrained their productive use. Target 10.c of the sustainable developments goals is to reduce to less than 3 per cent the transaction costs of migrants' remittances and eliminate remittance corridors with costs higher than 5 per cent by 2030. It is estimated that a 5 per cent reduction in remittances costs might yield $15 billion in savings.

Source: TD/B/C.I/EM.6/2.

6. Increased fluctuations in exchange rates have affected the relative export competitiveness of nations (see figure III). With the growing expectation of a widening divergence between the monetary policies of the United States Federal Reserve Bank and other central banks, exchange rate fluctuations have been significant in both nominal and real terms. In real effective terms, there has been a significant appreciation of the Chinese yuan renminbi and the United States dollar, which has had the effect of reducing the export competitiveness of both countries. A sharp nominal appreciation of the dollar has also strongly influenced dollar-denominated trade and commodity price statistics. Some other currencies witnessed a substantial depreciation, as in the case of the Japanese yen and the euro, as the economies with which they are associated continued their expansionary monetary policy, and the Brazilian real and the Russian rouble, as energy prices plummeted.

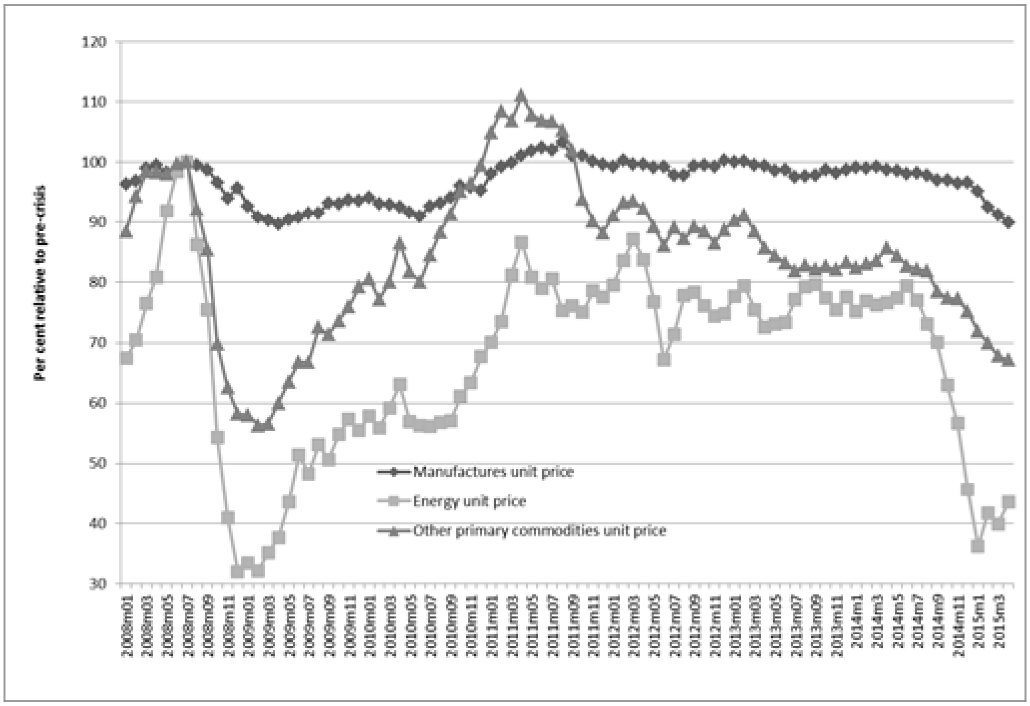
Figure III
Real effective exchange rate of selected economies (index 2010=100)



Source: UNCTAD.

7. Regarding commodity prices, energy prices dropped sharply in 2014 (see figure IV). The Brent Crude oil price dropped by over 50 per cent from June 2014 to January 2015, reaching a five-year low of $45 per barrel. This is because supplies have been rising, in particular in North America, and energy demand remains weak in some large developing economies. The oil price is projected to average $55 per barrel in 2015 and $70 per barrel in 2016.[1] The combined effect of the changes in exchange rates and commodity prices was such that the increase in world trade volume was more than offset by the decline in world trade unit value since April 2011. In 2015, the terms of trade will worsen substantially in commodity-exporting regions, adversely affecting their export earnings and external balance.

Figure IV
Evolution of trade unit prices of manufactures, energy and other commodities



Source: UNCTAD Country Profiles Database, April 2015.

8. As the world economy has yet to recover from the doldrums, job creation remains sluggish globally. Currently, approximately 200 million people are unemployed, the vast majority of whom are in developing and transitional economies. The global unemployment rate stood at 5.9 per cent in 2014, affecting women (6.3 per cent) and the youth (13 per cent) more severely. On average, developed countries tend to exhibit higher unemployment rates than developing countries. However, the actual magnitude of unemployment in developing countries may be underestimated, given the large informal economy that exists in such countries. According to the International Labour Organization (ILO), employment creation is still not sufficient to close the jobs gap, as there are 61 million fewer jobs in 2014 than there would have been without the 2008 crisis.[4]

III. Trade and the sustainable development goals

9. There is no doubt that trade helps to create the conditions necessary for growth and development. Trade provides the means to overcome constraints posed by small domestic markets and gives countries access to larger external markets, as well as skills, technology and capital, which in turn enable a better use of productive resources to catalyse structural transformation. It has the potential to support a broad range of development goals, including poverty eradication, gender equality and environmental sustainability, by promoting economic growth, creating jobs,

[4] ILO, *World Employment and Social Outlook — Trends 2015* (Geneva, 2015).

enabling an efficient use of resources and raising standards of living. The sustainable development goals implicitly recognize the contribution of trade in many regards, and goal 17 on the means of implementation makes this recognition explicit (see table below). The achievement of many goals and targets implicitly and explicitly relies on universal access to basic services and infrastructure. Priority attention must be given to strengthening the services sector (see TD/B/C.I/MEM.4/8).

Table
Sustainable development goals: select trade-related goals and targets

Goal 1. End poverty in all its forms everywhere

1.1 By 2030, eradicate extreme poverty for all people everywhere

Goal 2. End hunger, achieve food security

2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect

Goal 3. Ensure healthy lives

3.b Provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health

Goal 7. Ensure access to affordable reliable, sustainable and modern energy for all

7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

Goal 8. Promote sustained, inclusive and sustainable economic growth

8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation

8.a Increase Aid for Trade support for developing countries … including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries

Goal 9. Build resilient infrastructure

9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure

9.3 Increase the access of small-scale industrial and other enterprises to financial services

Goal 10. Reduce inequality within and among countries

10.a Implement the principle special and differential treatment for developing countries

10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances

Goal 14. Conserve and sustainably use the oceans

14.6 By 2020, prohibit certain forms of fisheries subsidies

Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda

17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020

17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

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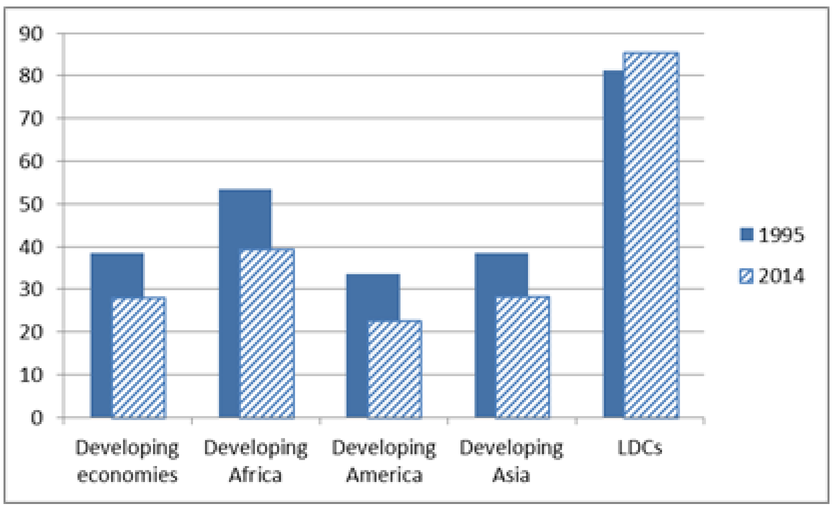
10. Robust growth in international trade was at the source of the income growth in many developing countries in recent decades. The volume of world trade in goods and services increased fivefold from 1990 to 2013. Since 2002, trade grew faster than gross domestic product (GDP) annually for most years, and the share of exports in GDP in developing countries rose from 25 per cent in 1990 to 41 per cent by 2008 before retreating to 35 per cent in 2013. Developing countries have substantially increased their share in world trade, in particular in merchandise exports, which increased from 32 per cent in 2000 to 45 per cent in 2014, and in services exports, which increased from 24 per cent in 2005 to 29 per cent in 2014. Least developed countries' share in merchandise exports has surpassed the symbolic level of 1 per cent since 2008 and reached 1.12 per cent in 2014, almost doubling its share since 2000, when it stood at 0.56 per cent). In 2013, the export earnings of least developed countries amounted to $213 billion, more than twice their combined receipts of official development assistance, foreign direct investment and remittances. This coincided with rising incomes, economic growth and poverty reduction. The pace of per capita income growth accelerated in the period from 2000 to 2010 for most developing regions.

11. However, this positive overall picture masks important variations between countries. Between 2005 and 2013, 63 developing economies experienced an average annual export growth rate of over 10 per cent, but 4 countries witnessed export contraction, and 68 had a persistent trade deficit. Variations between countries are also revealed in the levels of participation in global trade. The 20 largest exporters, which are mainly developed and Asian economies, represented 70 per cent of world exports in 2013. Commodity-dependent economies continue to be vulnerable to sudden shifts in terms of trade. Such uneven trade performance serves as a reminder that inequality between countries, as well as inequality within countries, remain a persistent development challenges that require policy attention.

12. Even when trade derived from global value chains allowed countries to specialize in specific production segments rather than entire industries and opened opportunities for "fast-track industrialization", this was not free from risks. In some cases, it has led to "thin industrialization", in which a country specializes in low-skill, low-productivity activities that are less conducive to long-term development. That is because trade may create short-term incentives to specialize in activities that reflect economies' existing factor endowments. For instance, labour-intensive, resource-intensive and low-skill technology-intensive exports represented more than 80 per cent of total manufactures exports from least developed countries in 2013, and this share has increased since 1995 (see figure V).

Figure V
Share of labour-intensive, resource-intensive and low-skill technology-intensive manufactures exports in total manufactures exports by region, 1995 and 2014
(Percentage)

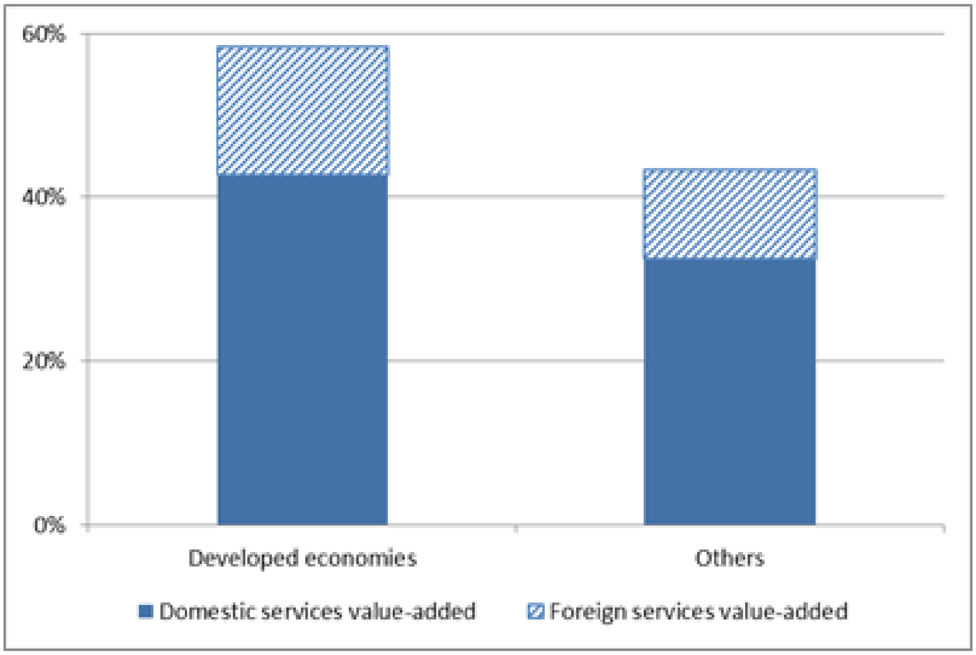


Source: UNCTAD.

13. The rapid growth in trade associated with global value chains has been enabled by the "servicification" of national economies and the increased tradability of services. The international fragmentation of production requires efficient professional, business and infrastructure services (namely energy, transportation, telecommunications, information and communications technology and financial services), and some valueadded services (including research and development, product design and marketing) actually capture a substantial proportion of value added. The proportion of the services value-added to the gross value of exports represented almost 60 per cent in developed countries and over 40 per cent for developing countries in 2011 (see figure VI). It is notable that imported foreign valueadded services accounted for a sizable 15 per cent in developed countries, and this share had increased significantly since 1995. This has made services a major option for export diversification, but services sector development and trade have yet to be fully explored in many developing countries (see TD/B/C.I/MEM.5/5).[5]

[5] Mashayekhi, Mina et al., *Services, Trade and Development* (UNCTAD, 2011).

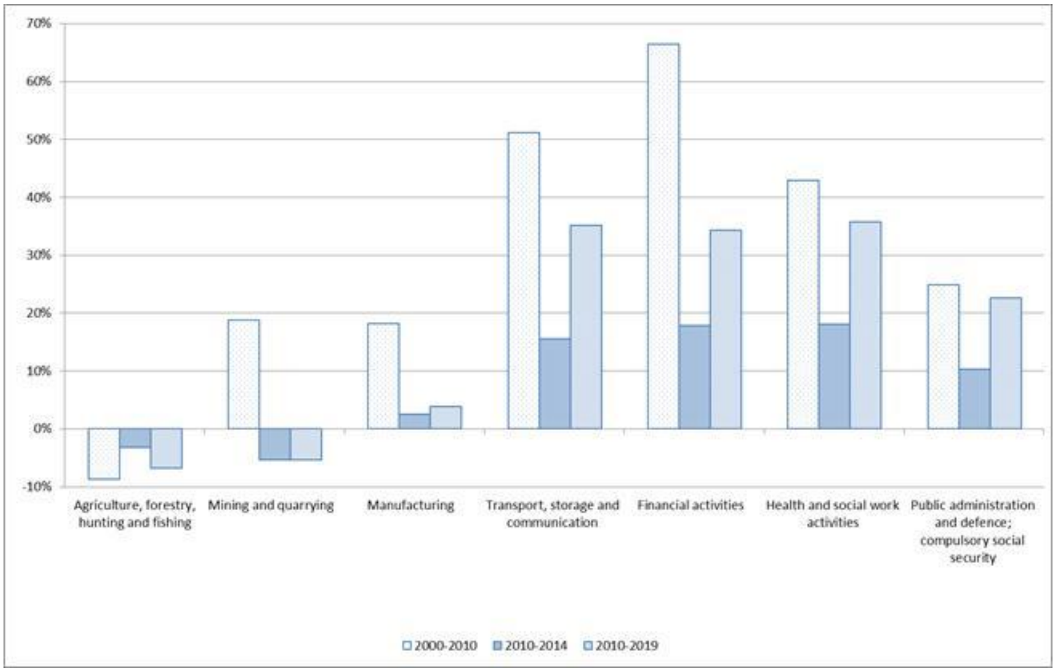
Figure VI
Domestic and foreign services value added share of gross exports, 2011



Source: UNCTAD.

14. Furthermore, while promoting productive employment remains a key concern under sustainable development goal 8, it is mainly in the services sector that new jobs have been created in developing countries since 2000, in particular transport, storage and communications and financial activities (see figure VII). In these economies, the traditional agriculture and mining sectors have seen negative employment growth, while the manufacturing sector saw a weak employment creation since 2010. Since the 1990s, emerging developing countries have experienced a reallocation of the labour forces away from industry and towards services. However, the weak dynamic in employment generation in the manufacturing sector remains a matter of concern, as industrial employment plays a critical role in structural transformation.

Figure VII
Sectoral employment growth for selected sectors in developing and transition countries



Source: UNCTAD calculation based on ILO, Trends Econometrics Models.

15. Some illustrations of the complex trade-development nexus highlighted above indicate that translating static efficiency gains from trade into inclusive and sustainable development is not an automatic process but requires deliberate policy actions. It requires coherent and integrated policy intervention that is supportive of structural transformation in order to build broad-based productive capacities that would be conducive to diversification, technological upgrading and job creation. Industrial development and technology policies are important in exploring the dynamic comparative advantages that can be used to achieve the desired structural transformation. A sound regulatory and institutional framework is central to supporting all sectors of the economy, in particularly the fast-growing services economy and trade. Flanking policies are needed to enhance overall competitiveness, facilitate adjustments and support greater inclusiveness. UNCTAD assists countries in achieving such coherence through its work on trade policy frameworks (see box 2).

Box 2

Lessons from UNCTAD services policy reviews

UNCTAD services policy reviews help countries to conduct a thorough assessment of their services economy with overall and sector-specific policy recommendations and action plans. The lessons learned from these exercises commonly point to the importance of policy coherence and coordination aimed at building complementarity between services and other sectors and prioritizing services relevant to value chains; a multi-stakeholder approach to services policymaking that involves the private sector, public-private partnerships and coalitions of service industries; data availability for evidence-based policymaking; effective regulations, institutions and governance to enhance services' competitiveness, access, quality and affordability; productive technology and a business environment that are enabling, including for small and medium enterprises, and aimed at formalizing the informal economy; labour skill development; and a capitalization on regional and international integration, productive and infrastructure capacity-building and regulatory cooperation.

Source: TD/B/C.I/MEM.4/5.

16. Positive international support, including through the aid for trade initiative, remains vital to developing countries in building productive and trade capacities and reaping effective development benefits from trade. According to the Organization for Economic Cooperation and Development (OECD), since 2006, a total of $246.5 billion has been disbursed for financing aid for trade programmes for 146 developing countries,[6] mainly in Asia and Africa, which received 38 and 35 per cent of that amount, respectively. Over three quarters of total aid for trade has been directed at four sectors: transport and storage, which accounted for 29 per cent of the total; energy generation and supply, which accounted for 21 per cent; agriculture, which accounted for 18 per cent; and banking and financial services, which accounted for 10 per cent. It is critical that sufficient resources be mobilized and impacts maximized to support a beneficial trade integration of developing countries. The United Nations system, including through UNCTAD, is contributing to these collaborative efforts.

IV. Developments in the multilateral trading system

17. A universal, rules-based, open, non-discriminatory and equitable multilateral trading system remains a central component of a global partnership for sustainable development under sustainable development goal 17.10. The Doha Round provided a unique opportunity to enhance the system's openness and equity while rebalancing its rules and norms in favour of development. However, progress in its development dimension remains limited. The centrality of multilateralism is also affected by parallel plurilateral and regional processes.

[6] WTO, Aid for Trade at a Glance 2015: Reducing Trade Costs for Inclusive, Sustainable Growth.

A. Overview

18. The Doha Round was launched in 2001 and sought to address a broad range of issues related to market access and rules in addition to the two built-in agenda items on agriculture and services. The negotiations were to give priority attention to developing countries' implementation difficulties and special and differential treatment with a view to redressing the existing imbalances. The original goal was to conclude the Round by 2004. Recurrent setbacks were increasingly perceived as affecting the credibility of the multilateral trading system. The outcomes of the Ninth Ministerial Conference of the World Trade Organization, held in Bali, Indonesia, from 3 to 6 December 2013, regenerated confidence and paved the way for negotiations on the rest of the Round. Outcomes included the Agreement on Trade Facilitation, which was the first binding multilateral agreement since the Uruguay Round, and the decision on public stockholding for food security purposes, which addressed, on an interim basis, the concerns of some food-insecure developing countries by instituting the "peace clause"[7] and laying out a road map towards achieving a more permanent solution.

19. Following the Ninth Ministerial Conference, WTO members had until 31 July 2014 to adopt a legal protocol to amend the WTO Agreement to incorporate the Agreement on Trade Facilitation, and the latter would then be open for acceptance until 31 July 2015. This timeline was not met, due to the concern of some developing countries regarding the implications of the early harvest for the Agreement on Trade Facilitation in terms of food security issues. This stalemate was unblocked by the General Council's decisions of 27 November 2014, which cleared the path towards launching a process aimed at developing a clearly defined work programme by July 2015 to conclude the Round. Ongoing discussions have underlined key principles: (a) the need for a balanced approach to agriculture, non-agricultural market access and services; (b) the centrality of the development dimension, in particular least developed country issues; and (c) the need to focus on "doables". This work is expected to intensify in view of the July deadline and as the date of the tenth Ministerial Conference approaches.

20. A major stumbling block in the negotiations has been the question of how to adapt, or recalibrate, negotiating approaches to evolving economic and policy realities and, more specifically, whether or not to use the 2008 draft modality texts on agriculture and non-agricultural market access as a basis. For instance, an argument has been put forward, mainly by the developed countries, that greater contributions by developing countries are warranted because their economic weight has increased significantly over the years and higher commodity prices and policy reforms have led to a substantial reduction in the developed countries' use of trade-distorting agricultural support and an increased use of the developing countries' use of such measures, including for food security purposes. Many developing countries have underlined the continued relevance of the persistent development challenges they face, such as pervasive in-country poverty, food insecurity and nascent industrial bases, which entails a need to adequately prioritize development flexibilities and special and differential treatment.

[7] This was an effort to refrain from levelling legal challenges against countries that breach their domestic support commitments related to public stockholding programmes.

21. Existing WTO norms and disciplines constitute the cornerstone of a rules-based multilateral trading system, as provided for under sustainable development goal 17.10, and serve as a guarantee against protectionism and discrimination. During the global crisis, protectionist measures were relatively well-contained, essentially thanks to countries' adherence to WTO norms and self-restraint. A recent WTO report for the period from October 2014 to May 2015 shows a slight deceleration in the application of new trade-restrictive measures by the Group of 20 (G-20) economies.[8] During that period, G-20 economies applied 119 new trade-restrictive measures, which represented a decrease from previous years. However, the stock of restrictive measures continues to increase owing to the slow pace in previous restrictions being removed. Of the 1,360 restrictions recorded since October 2008, 1,031 measures are still in place and affect an estimated import value of $191.8 billion, or 4.6 per cent of global imports.

22. The effectiveness of the rules-based multilateral trading system hinges upon the effective enforcement of its rules. The WTO dispute settlement mechanism is widely regarded as a success. As at June 2015, the dispute settlement mechanism had received 495 requests for consultations over the 20 years of its existence, more than the 300 disputes the General Agreement on Tariffs and Trade dealt with in 47 years, and handled disputes covering over $1 trillion of trade flows. Some parties to a given regional trade agreement even used the mechanism rather than those provided by the trade agreement, suggesting the legitimacy enjoyed by the mechanism. However, there is a current trend towards rising tensions in trade relations. Recent disputes have involved systemically complex issues of compliance with past rulings issues related to the negotiating agenda, namely the issue of agricultural subsidies, as well as emerging issues that have a bearing on other public policies such as public health, industrial policy, renewable energy and natural resources. This lends support to the long-standing case for updating WTO rules and disciplines through negotiations to better reflect twenty-first century trade realities.

23. Universality is an important element of the global partnership, as required under sustainable development goal 17.10. This has been pursued through accession processes. Thirty-four countries have signed WTO protocols of accession since 1995, bringing the number of members to 161, with Seychelles being the most recent country to become a member. Recently, the accession package for Kazakhstan was adopted in the working party, and the accession of Afghanistan and Liberia is in sight and could possibly occur before the tenth Ministerial Conference. Those countries have undertaken important policy reforms to make their trade regime WTO-compatible. A major challenge has been negotiating balanced terms of accession consistent with their development. Since the creation of the WTO, UNCTAD has provided support to acceding countries in meeting such challenges.

B. Agriculture

24. Agricultural negotiations contribute to increasing trade opportunities for developing countries, in line with sustainable development goal 17.11. With respect to the market access pillar, the 2008 draft modalities text has foreseen tariff cutting on the basis of a tiered formula whereby various linear cuts are applied to three different tariff bands and higher tariff bands are subject to deeper cuts. The recalibration exercise has centred around the question of whether this approach should be adapted or changed and how to do so. Some ideas floated thus far have

[8] WTO, Report on G-20 Trade measures (mid-October 2014 to mid-May 2015).

highlighted the use of some form of an overall average reduction approach. For instance, Paraguay has called for the use of an across-the-board average tariff reduction, to be complemented with a request-offer approach, which is based on the exchange of requests for other countries' market opening and offers to open their own markets.Another idea was to adopt a request-offer approach for all of agriculture, non-agricultural market access and services. A group of developing countries concerned about food security issues called the Group of 33 has stressed the continued validity of special products and special safeguard mechanisms, given the fact that recent market changes, namely higher and more volatile food prices, continue to adversely affect food supply and the livelihood of subsistence and small-scale farmers. The recent discussion has sought to explore the option of modifying the draft 2008 text to include different tariff-cutting parameters or complementing the tiered formula with some form of average cuts (see box 3).

Box 3

Simulating the impact of agriculture negotiations on African, Caribbean and Pacific countries

An analysis by the UNCTAD Computable General Equilibrium compared the effects on African, Caribbean and Pacific countries of the tiered formula foreseen in the 2008 modalities and the Paraguayan formula of across-the-board average cuts and found that the trade impacts for those countries would be modest, entailing less than a 1 per cent change in the imports and exports of those countries. This is mainly due to the fact that the extent of cuts in applied tariffs would be limited under both approaches.

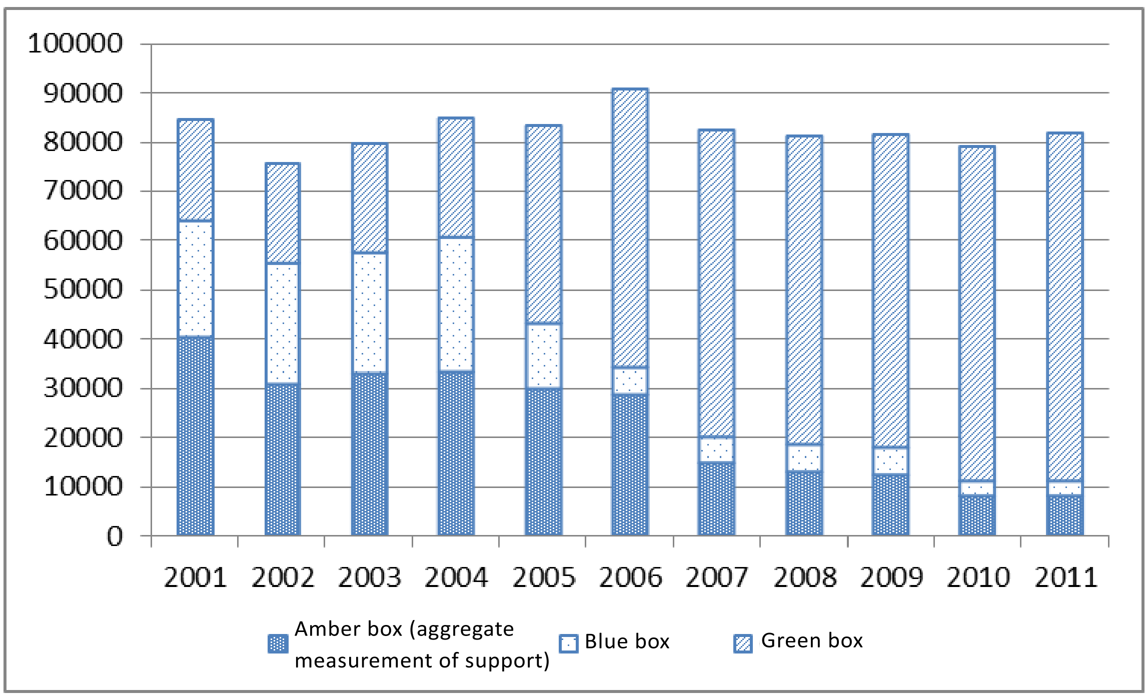
	Average agriculture applied tariffs			*Average tariffs facing agricultural exporters*		
Region	*Base (percentage)*	*2008 modalities (percentage)*	*Paraguay (percentage)*	*Base (percentage)*	*2008 modalities (percentage)*	*Paraguay (percentage)*
West Africa	11.7	11.6	11.6	2.4	2.4	2.4
Central Africa	13.5	13.2	13.3	5.6	5.5	5.5
East Africa	14.5	14.4	14.4	4.3	4.0	3.9
Southern Africa	4.1	4.0	4.1	16.9	10.8	9.6
Caribbean	11.0	10.9	9.8	14.3	13.4	12.8
Pacific	11.9	11.8	11.1	1.7	1.6	1.6

With respect to tariffs on such countries' agricultural exports, the limited reduction in trade-weighted average tariffs could be explained by the increase in trade with other developing countries, as many of them would not be making substantial tariff cuts. Another reason is that, as almost one third of exports from African, Caribbean and Pacific countries go to the European Union under preferential conditions, such countries would see little improvement in their market access conditions but be affected by preference erosion. Both scenarios improve the prospects of Southern Africa and the Caribbean in particular. On the import side, both scenarios have little impact on the countries' tariffs, given the gap between bound and applied rates. Global welfare gains are $45 billion under the 2008 modalities scenario and $47 billion under the Paraguayan formula.

Source: UNCTAD.

25. Substantial reductions in trade-distorting agricultural subsidies help to correct distortions in agricultural markets, in line with sustainable development goal 2.b, on ending hunger and achieving food security. In the area of domestic support, the 2008 modalities foresaw disciplining a new category of support, namely overall trade distorting support, which includes all sub-categories of trade-distorting support, and applying product-specific caps. The idea was to limit the opportunities for escaping from the reduction commitment by changing the nature of support measures or targeted products, which has been called “box shifting” and “product shifting”. Recent discussion has addressed the question of whether numerical limits on the overall trade-distorting domestic support should apply to all countries and whether *de minimis* support, which is defined as 5 per cent of domestic production for developed and 10 per cent for developing) countries, should be increased, reduced or granted with any special and differential treatment for developing countries. This reflects the fact that there has been a substantial reduction in trade-distorting support in traditional users and a faster increase in the use of non-trade distorting green-box support (see figure VIII). Those countries would largely be able to meet the reduction commitments in allowance levels without reducing actual spending levels.

Figure VIII
Composition of domestic support in the European Union (in millions of euros)



Source: International Centre for Trade and Sustainable Development.

26. In accordance with the November 2014 General Council decision, the search for a permanent solution to the issue of public stockholding for food security continues. Possible options considered include allowing larger aggregate measurement of support entitlement for developing countries by raising the *de minimis* threshold from 10 to 15 per cent, which would qualify as “green-box” price

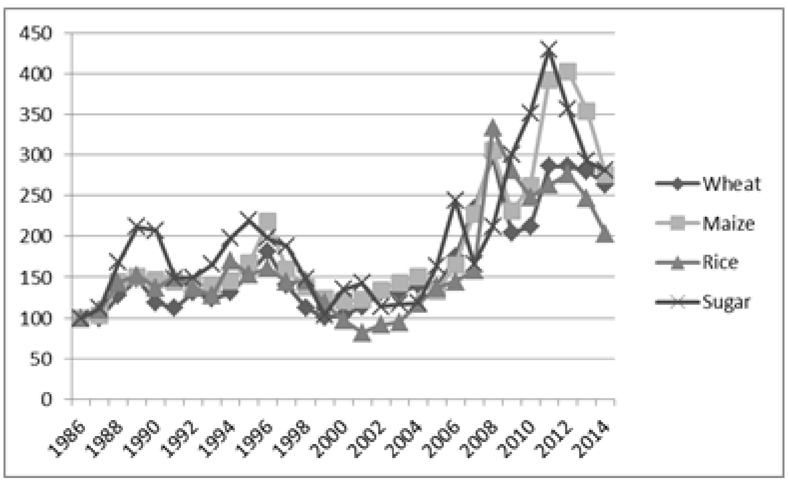
support under the food stockholding programme, or redefining the subsidy calculation method by using a three-year rolling average instead of a fixed reference price. Any permanent solution should contribute to the achievement of sustainable development goal 2.b on food security (see box 4).

Box 4

Food security under the World Trade Organization Agreement on Agriculture

Public stockholding for food security purposes in developing countries is permitted under the WTO Agreement on Agriculture subject to the condition that the difference between the acquisition price and the external reference price is accounted for in the aggregate measurement of support. Since the external reference price was fixed as the average price for a product for the period 1986-1988, when the commodities price level was low (see figure below), the Group of 33 has found this calculation method inadequate, as it could inflate the amount of implied subsidies, particularly given recent high food prices and subsequent high administered prices.

Yearly food commodity indices 1986-2014 (index 1986=100)



Source: UNCTAD.

Since most developing countries had made no aggregate measurement of support commitment during the Uruguay Round, the only trade-distorting subsidy entitlement available for them is *de minimis* support. Therefore, the difference between the acquisition price and the external reference price should be within a *de minimis* limit. The Group of 33 saw the risk of the implied subsidies, as calculated above, breaching that limit.

C. Non-agricultural market access

27. Improved industrial market access conditions increase trade opportunities for developing countries, in line with sustainable development goal 17.11, and enhance diversification, technological upgrading and innovation, in line with sustainable development goal 8.2. According to the 2008 draft modalities, tariff reductions in

non-agricultural market access were to be based on the Swiss formula, which would reduce higher tariffs more than proportionately. The key issue in the negotiations has been how to ensure real market access while also fulfilling the “less than full reciprocity” principle for developing countries. Discussions on recalibrating this approach, as in the area of agriculture, have been limited to the suggestion that the request-offer and/or average cuts approaches be used. The issue of non-tariff barriers is not yet addressed under the post-Bali discussion, but their use is on the rise.

28. Possible outcomes may be influenced by the ongoing plurilateral negotiations outside the Doha Round. Of the 52 parties to the WTO Information Technology Agreement, 25, which represent over 90 per cent of the world trade in information technology products, are engaged in plurilateral negotiations on expanding the product coverage of the Agreement. It is expected that an agreement could be reached by the date of the tenth Ministerial Conference and help to increase access to information and communications technology in line with sustainable development goal 9.c. In 2014, 14 countries, representing 86 per cent of the global environmental goods trade, launched plurilateral negotiations on the Environmental Goods Agreement, and 17 countries are currently involved in those negotiations. The negotiations would build on a list of 54 environmental goods identified by the countries of the Asia-Pacific Economic Cooperation and define a list of environmental products guided by the end use of the products, such as waste management or renewable energy generation, to reduce import tariffs to below 5 per cent by the date of the tenth Ministerial Conference. This is relevant to sustainable development goal 13 on combating climate change and other environment-related goals, including goals 14 and 15.

D. Services

29. The contribution of services to the achievement of the sustainable development goals is crucial. The achievement of many goals and targets implicitly and explicitly relies on universal access to basic services and infrastructure. These include health (goal 3), education (goal 4), water and sanitation (goal 6), energy and resilient infrastructure (goal 7), and innovation (goal 9), as well as telecommunications, access to financial services, sustainable tourism and transport. Several cross-cutting goals, especially goal 1, on ending poverty, goal 8, on inclusive and sustainable economic growth and employment, and goal 10, on inequality, as well as environment- and gender-related goals and targets all presume efficient, environmentally clean and equitable functioning of the services sector.

30. There has been limited engagement on services, as negotiating attention has been focused primarily to agriculture, despite the stated objective of adopting a balanced approach to various core issues. Major players are also engaged in the plurilateral negotiations for a trade in services agreement outside the Doha Round. These negotiations involve 24 WTO members, representing 70 per cent of global services trade, and are aimed at comprehensive and ambitious services liberalization with substantial sectoral coverage. It is notable that some key emerging developing countries are not part of this process. In the absence of a broad consensus, the future agreement would take the form of a preferential services agreement in line with article V of the General Agreement on Trade in Services. The negotiations are based on the General Agreement’s positive list approach, and national treatment

commitments would be applied horizontally. The negotiations also address regulatory disciplines such as licensing, financial services, telecommunications, e-commerce and the movement of professionals. The existence of multiple services-related regional trade agreements among participants in the negotiations on a trade in services agreement implies that the effect of such an agreement on intra-group services trade may be limited. The participants' overall export interests may primarily lie in countries not participating in the negotiations. There is need to ensure that the agreement is compatible with the rules of the General Agreement.

31. Preferential market access on services for least developed countries is instrumental for the objective of doubling the least developed countries' share in world trade by 2020 in line with sustainable development goal 17.11. Consistent with a road map for the operationalization of a services waiver for the least developed countries, the least developed countries group submitted a collective request in July 2014, on the basis of which a high-level meeting was held in February 2015 at which countries could signal their services preferences (see box 5). The least developed countries' collective request had addressed horizontal and sectoral market access and national treatment restrictions in many sectors, including travel, tourism, banking, transport, logistics, education, information and communications technology, business process outsourcing and the creative industry. The barriers affecting mode 4 supply were given particular attention, including those relating to the recognition of educational and professional qualifications, as well as costly application fees and burdensome documentation for visas, licences and work permits.

Box 5

World Trade Organization high-level meeting on services preferences for least developed countries

At the high-level meeting, 25 countries expressed their intentions, and 18 of those announced their specific preferences. These addressed such sectors as tourism, financial, transport, logistic, construction, distribution, professional, computer-related and other business services, as well as all modes of delivery, such as the removal of some equity requirements in mode 3 and the elimination of economic needs and labour market tests in mode 4. As regards mode 4, the indicated measures included facilitating domestic regulation aspects, particularly the recognition of qualifications by professional associations. Some countries indicated extended periods of stay for business visitors, trainees and intercompany transfers, and the waiving of visa fees and quotas. Several confirmed that they provided least developed countries with the same treatment they were giving under regional trade agreements or the future trade in services agreement. To what extent these could be translated into commercially meaningful services preferences to meet the expectations of the least developed countries remains to be ascertained. The least developed countries appreciated the UNCTAD services policy reviews, which they used to develop their collective request. As at July 2015, nine countries had provided notification of their initiatives, and formal notification is expected by 31 July 2015.

E. Trade facilitation

32. Trade facilitation is expected to reduce trade costs and contributes to increasing developing countries' exports, in line with sustainable development goal 17.11, and promoting diversification, technological upgrading and innovation, in line with sustainable development goal 8.2. OECD research using the trade facilitation index finds that comprehensive implementation of all measures in the Agreement on Trade Facilitation would reduce trade costs by 11.8 per cent in developed countries and by 14.6 to 17.4 per cent in developing countries.[9] Improvements in formalities such as the streamlining of border procedures and automation of the border process are found to have the greatest impact on trade cost savings. Many of the specific trade facilitation measures are shown to have a high return on investment, as they help to reduce costs and increase revenue collection.

33. The November 2014 General Council decision had maintained the deadline of 31 July 2015 for members to provide notification of their legal acceptance of the Agreement on Trade Facilitation. The Agreement will enter into force when two thirds of members have accepted it. As at July, 8 countries have completed ratification, and some 60 countries, including 3 least developed countries, have submitted notification of their "category A" commitments, or provisions they have identified for immediate implementation. This is in line with the innovative special and differential treatment provisions that form the integral part of the Agreement, according to which the level and timing of commitments would be directly linked to the countries' implementing capacity, the provision of capacity-building support and capacity acquisition. While recognizing the case of trade facilitation, some developing countries, particularly least developed countries, were concerned that the implementation of some measures would be complex or costly. Measures often not implemented by developing countries include measures pertaining to the publication and availability of information; advance ruling; border agency cooperation; and prior publication and consultation. A Trade Facilitation Agreement Facility has been launched to help developing countries to build implementation capacity.

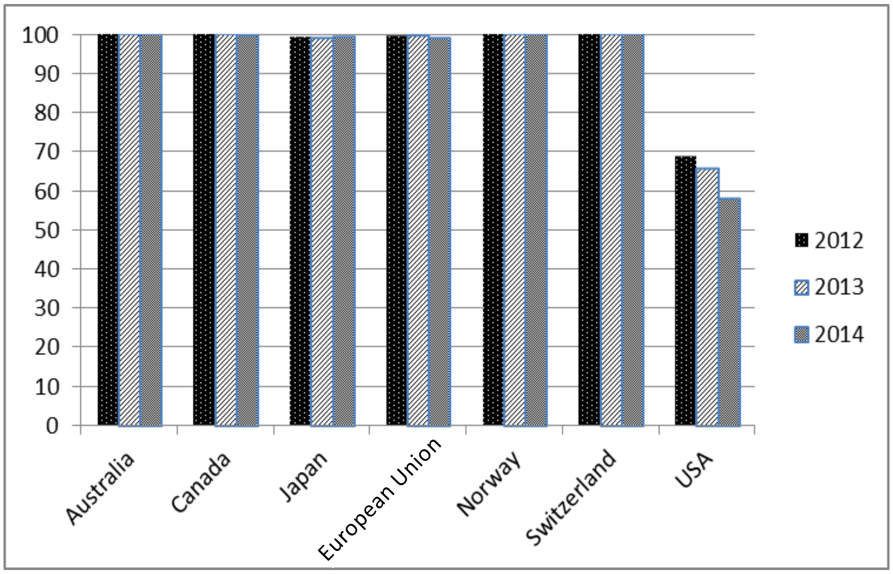
F. Development issues

34. As regards duty-free and quota-free market access for least developed countries, an issue that is also addressed in sustainable development goal 17.12, all developed countries but one have implemented the WTO ministerial decision to grant duty-free and quota-free treatment to at least 97 per cent of tariff lines. For the United States of America, the duty-free and quota-free tariff line coverage remains 84 per cent, without taking into account the United States Act for Growth and Opportunity in Africa. Measured in import value terms, nearly 100 per cent of imports from least developed countries enter duty-free into most developed country markets (see figure IX). In the United States, preferential schemes vary according to the specific least developed countries to which they are applied, and the treatment of apparel, which represents some 90 per cent of bilateral exports for Bangladesh, Haiti and Lesotho, differ across these schemes. Several developing countries,

[9] OECD, Implementation of the WTO Trade Facilitation Agreement: The Potential Impact on Trade Costs.

including China, India, the Republic of Korea and, most recently, Chile, have also extended duty-free and quota-free market access for least developed countries.

Figure IX
Proportion of duty-free imports from least developed countries in developed countries (percentage)



Source: UNCTAD.

35. Simpler and more transparent preferential rules of origin are important to help least developed countries effectively utilize trade preferences under duty-free and quota-free initiatives. An analysis of preference utilization suggests relatively low utilization for such products as apparel, footwear, fruit, tobacco and fish. Conversely, the utilization of the preferences under the United States Act for Growth and Opportunity in Africa by a major beneficiary, Lesotho, is 100 per cent, mainly because the Act contains a special rule on apparel, called the "third country fabric" rule, that allows beneficiaries to source yarn and fabric from any country. Under the new rules of origin of the European Union Generalized System of Preferences, the introduction of a similar single transformation rule has led to increased utilization rates for certain categories of apparel. Facilitating the origin administration may also be useful. Under the new European Union Generalized System of Preferences rules, origin administration will change as from 2017 from the current third-party certification by public authorities to self-certification by registered exporters. This would require important institutional adjustment, which could usefully be supported.

36. Sustainable development goal 10.a underlines the importance of implementing the principle of special and differential treatment for developing countries. Least developed countries continue to make provisions related to special and differential treatment precise, effective and operational, and are working on a list of 25 Agreement-specific proposals regarding such treatment. The issue of cotton remains to be addressed. The recent United States farm bill provides substantially less support to cotton, and domestic cotton production in the United States is likely to trend downward, reducing its cotton supply and exports.

V. Developments in regional trade agreements

37. The increased prevalence of regional trade agreements represents a major transformative shift in the recent evolution of the international trading system and thus has an important bearing on the achievement of sustainable development goal 17.10. As at April 2015, WTO had been notified of some 612 such agreements, 406 which of were in force. In addition to full market opening, recent twenty-first century regional trade agreements encompass a range of behind-the-border measures, including services, investment, competition policy, capital movement, intellectual property rights and government procurement. The emergence of "regional trade mega-agreements" has been a game changer. The Trans-Pacific Partnership Agreement, which is being negotiated among 12 countries, would create a market covering some 800 million people with a combined GDP of $27 trillion. The Transatlantic Trade and Investment Partnership, on which negotiations were launched in June 2013 by the European Union and the United States of America, would cover half of global output and a third of global trade. The Regional Comprehensive Economic Partnership, on which negotiations were launched in 2012, would create a free trade area between the Association of Southeast Asian Nations and its six external partners, covering half of the world's population.

38. With the passage in June 2015 of the United States Trade Promotion Authority law, a real prospect emerged for the conclusion of the Trans-Pacific Partnership Agreement. The Trade Adjustment Assistance programme adopted at the same time provides retraining funding to workers whose jobs are lost because of foreign trade. Among the outstanding issues is the level of intellectual property protection for pharmaceuticals and patents. The investment chapter remains contentious, especially its provisions on an investor-State dispute settlement mechanism that would allow foreign investors to sue host-country Governments for loss of expected future profits. Market access in some sensitive sectors, including dairy, poultry and eggs in Canada, automobiles in the United States of America and rice, beef and pork in Japan, have yet to be finalized, as do product-specific rules of origin for apparel.

39. The main factor shaping twenty-first century regional trade agreements is the need to overcome regulatory divergences and non-tariff measures across markets, as they give rise to market segmentation. The multiplicity of regulatory policies results in international trade costs often being much greater than costs for domestic transactions. Such regulatory barriers are particularly relevant to trade associated with global value chains. The twenty-first century regional trade agreements have been driven by the changing structure of world trade in this century, whereby production factors, including factories, capital, technology and people, rather than final goods, move across borders. This entails a need for seamless trade across borders to reduce trade costs and address the trade/investment/services/intellectual property nexus. These regional trade agreements are therefore oriented towards a deeper and comprehensive integration aimed at creating a viable platform for regional value chains by ensuring a trading environment free of duties and non-tariff-barriers through regulatory harmonization and mutual recognition, as well as through the establishment of a mechanism to ensure regulatory coherence, such as through prior comments on regulations.

40. Substantial economic gains are commonly estimated to result from these agreements, owing in part to the substantial volume of trade covered. However, larger gains are also expected as a result of such agreements' strong regulatory focus, as

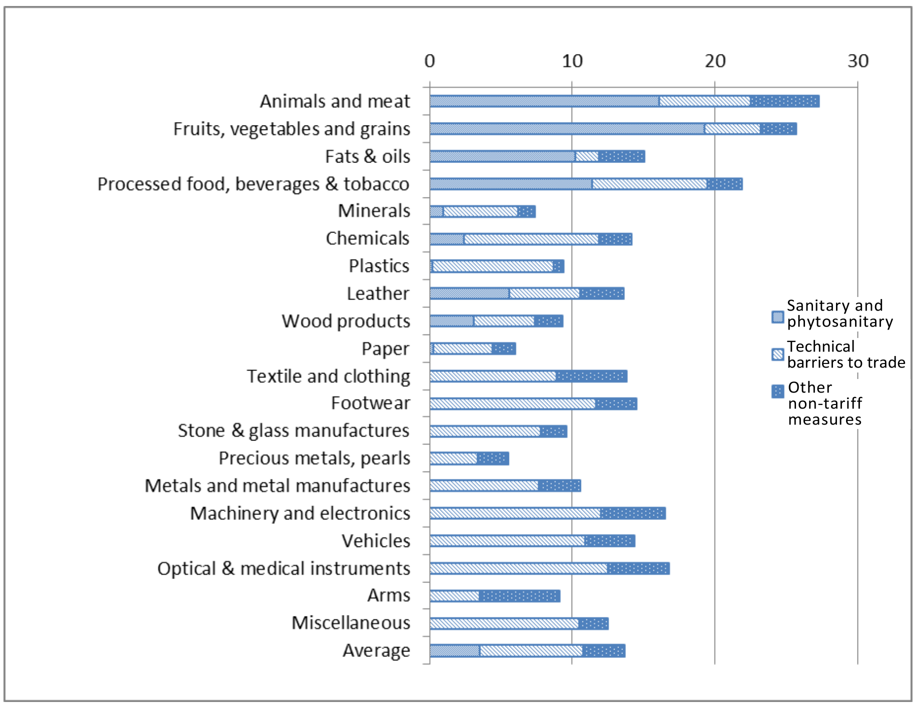
regulatory barriers can represent a much higher level of protection than that of tariffs. In the case of the Transatlantic Trade and Investment Partnership, an ambitious agreement is estimated to increase European Union GDP by 0.5 per cent and United States GDP by 0.4 per cent by 2027. It could increase world income by €238 billion, including €86 billion in third-party countries. The effects of tariff reduction are dwarfed by those of non-tariff barrier reductions through harmonization and mutual recognition measures (see box 6). The trade cost equivalents of transatlantic non-tariff barriers are generally higher than 10 per cent of import value.

Box 6

Trade effect of non-tariff measures

Non-tariff measures, including sanitary and phytosanitary and technical barriers to trade measures, affect over 50 per cent of products exported from developing countries. The incidence of non-tariff measures is on average some 13 to 14 per cent of tariff equivalents, with the highest incidence registered in agriculture, in particular the animal and vegetable sectors, where it is above 25 per cent (see figure below). The aggregate impact of sanitary and phytosanitary and technical barriers to trade measures on trade costs is high, particularly for least developed countries, in terms of both entry and transition costs. Non-tariff measures affect almost 90 per cent of trade in natural resources and 80 per cent of trade in manufacturing.

Ad valorem equivalent of sanitary and phytosanitary measures, technical barriers to trade and other non-tariff measures, by sector (percentage)



Source: O. Cadot et al., *Deep Regional Integration and Non-Tariff Measures: A Methodology for Data Analysis* (UNCTAD, 2015).

However, non-tariff measures are designed to meet certain public policy objectives and therefore cannot be entirely removed. Rather, their disproportionate trade-restrictive effect needs to be addressed. Mutual recognition and the harmonization of requirements, particularly through the application of international standards, are instrumental in reducing trade costs. A 1 per cent increase in internationally harmonized standards is estimated to increase export variety by 0.3 per cent. Conversely, bilateral and regional harmonization could have ambiguous effects, with, for instance, facilitated access to a given partner's market offset by a loss in price competitiveness in other developing markets.

41. The twenty-first century regional trade agreements have implications for developing countries. Regulatory harmonization would serve to reduce trade costs for trade among the parties to a given regional trade agreement, but could raise such costs for developing members if it were to lead to upward harmonization. Larger and smaller developing countries tend not to participate in regional trade mega-agreements. It would therefore be important to minimize the costs of regulatory harmonization for developing countries, including through the use of less stringent standards, mutual recognition and international standards.

42. Stronger regional trade agreement regulatory disciplines that exceed those within WTO or are on matters not yet covered by WTO agreements may constrain developing countries' regulatory autonomy in pursuing proactive industrial and development policy objectives. For instance, the investor-State dispute settlement mechanism is seen to confer greater rights to foreign investors, as only foreign investors can have recourse to the international tribunals such as the International Centre for Settlement of Investment Disputes. There is a concern that this might lead to a regulatory freeze, as regulators at all levels might refrain from taking certain regulatory actions, such as the imposition of environmental regulations, for fear of the legal challenge and large financial compensation packages that could result from such actions, as some regional trade agreements have introduced a broad definition of "investment" and stringent disciplines.

43. Disciplines on government procurement, State-owned enterprises and export taxes could limit the ability of Governments to support domestic industries and small and medium-sized enterprises. Some regional trade mega-agreements have sought to address the potentially anti-competitive effect of the tendency of State-owned enterprises to receive preferential treatment from the Government, including preferential financing. Among the options considered are rules to establish "competitive neutrality", so that State-owned enterprises in competition with the private sector do not have a competitive advantage by virtue of government ownership. Developing countries have stressed the important role of State-owned enterprises in delivering public policy goals. State-owned enterprises are most common in the extraction and energy industries and heavy industries, some services, including telecommunications and financial services, and manufacturing sectors, including the tobacco industry. Recent North-South regional trade agreements, such as economic partnership agreements between the European Union and the African, Caribbean and Pacific countries, have often prohibited export restrictions. However, such measures were often applied to mineral and agricultural goods for development policy purposes and were aimed at, inter alia, preserving domestic supply and prices and supporting downstream processing activities.

44. South-South regional integration has intensified and deepened. Many South-South regional trade agreements have acted as platforms for the development of productive capacity, regional transport networks and infrastructure, and can contribute to the achievement of sustainable development goal 9.1 on regional and transborder infrastructure. Africa's regional integration has seen a major boost as a result of the decision to establish a continental free-trade area by 2017 and the establishment in June 2015 of a Tripartite Free Trade Area among the countries of the Common Market for Eastern and Southern Africa, East African Community and Southern African Development Community.

45. By inducing high-standard, cutting-edge regulatory harmonization covering a large share of world trade, regional trade mega-agreements could further affect incentives for multilateralism at the systemic level. The regulatory template being developed under such mega-agreements might be used as a basis for future multilateral trade negotiations. Most significantly, there is a view that the current regional trade agreement trends might give rise to a two-tiered trading system, in which old trade issues from the twentieth century are addressed in WTO and new issues from the twenty-first century are addressed by regional trade agreements. Such mega-agreements might lead to a further fragmentation of the trading system, differentiating those countries within and outside the system, and run the risk of affecting the relevance of the multilateral trading system in the long run. This highlights the importance of enhancing coherence between the multilateral trading system and regional trade agreements, to ensure an optimal relationship between the two processes so that they can, as a whole, provide an enabling environment. This also appears to point to the case for carefully examining the institutional adaptations to the multilateral trading system that may be required in the long run in order to enhance its relevance and effectiveness as it faces the reality of multiple parallel processes.

VI. Conclusion

46. Trade has a critical role to play in the world's march towards ending poverty by 2030 and bringing about transformative shifts in economies, societies, ecosystems and the environment. The gains that could be achieved by reducing trade distortions and trade costs in line with development imperatives are important. Trade can constitute a major source of development finance. Vibrant trade through global value chains and services can create an enormous opportunity for productive employment, diversification and the upgrading of technology. Services are the backbone of the economy and play a pivotal role in promoting health, education, innovation, infrastructure development and access to energy services, finance and the digital ecosystem. Agricultural trade contributes to poverty reduction and food security, as many poor populations live in rural areas.

47. Deliberate policies and efforts are indispensable for maximizing the potential contribution of trade to ending poverty and achieving gender equality and the sustainable development. Realizing trade's potential in the post-2015 context will require a better understanding of twenty-first century trade realities, which are driven by global value chains and the services economy, and of the increasing interlinkages between the sector and policy dimensions. The multifaceted contribution of trade to various sustainable development goals entails a need for policies that support a coherent interface between trade and related public policies,

including those on development, employment, health, energy, water, education, gender, transport, finance, technology, the environment and migration. Mitigating the risks to the poor through trade adjustment mechanisms is important. It is fundamental that trade policy be made coherent with such public policies and integrated into a coherent development policy framework.

48. Greater coherence in global economic policymaking is also required, and global trade governance should be consistent with the sustainable development goals. Revitalizing the multilateral trading system so that it can become a global partnership for sustainable development, with improved credibility and relevance in the light of twenty-first century development challenges, is critically important. This will require ensuring a fair, equitable and open trading environment, reinforced coherence between multilateral and regional agreements, and policy space in which countries can implement proactive economic, social and environmental policies, including through operational special and differential treatment, so that trade can contribute to broad-based development and reduce inequalities among and within economies.