



**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment
at All Levels in Support of Inclusive and Sustainable Development (2nd session)**

Towards an enabling multilateral trading system for inclusive and sustainable development

Geneva, 8 – 9 December 2014

BACKGROUND NOTE BY THE SECRETARIAT

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Multi-Year Expert Meeting

Towards an enabling multilateral trading system for inclusive and sustainable development

Background note by the secretariat
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Outline of the Document (TD/BC.I/MEM.5/5)

Introduction

1. Changing landscape of trade and development
2. Multilateral trade negotiations
3. Evolving regional trade agreements
4. The way forward: Towards an enabling multilateral trading system

Conclusion



Context

- The international community is set to define the post-2015 Sustainable Development Goals (SDG)
 - e.g., End poverty; end hunger & achieve food security; ensure access to energy; promote inclusive & sustainable growth; sustainable industrialization; reduce inequality; address climate change
 - Trade is expected to play a key catalytic role by promoting broad-based economic growth, structural transformation, job creation, and acting as an enabler for other substantive goals
- Positive national policies, as well as an enabling economic environment, will be central in harnessing the potential of trade for inclusive and sustainable development
- An open, transparent, inclusive, non-discriminatory and rules based Multilateral Trading System (MTS) remains an integral part of an enabling economic environment and a global public good to be supported and upheld



Context (cont'd)

- The international trading system needs careful review to deal with development priorities in a context of fragmented production, multipolarization, and regionalization
- Trade provides means to overcome constraints posed by small domestic markets, allowing access to larger external markets, skills, technology and capital, which enable a better use of productive resources and catalyse structural transformation
- Over the past decades, it underwent a multitude of transformative shifts in its size, structure and patterns, creating opportunities and challenges for a new growth path towards the new post-2015 development agenda



Changing Trade Landscape

- The volume of world trade in goods and services increased fivefold from 1990 to 2013
- Since 2002, trade has steadily grown faster than GDP annually, except in 2009
- The increase in trade was accompanied by rising real GDP per capita

- Per capita income grew faster during last decade than in previous decades in most developing regions

Average real gross domestic product per capita growth rates, 1970–2012

	1970–1980	1980–1989	1990–2000	2000–2005	2005–2012
World	1.87	1.45	1.43	1.68	0.87
Developing economies	3.43	1.29	3.12	3.90	4.39
Transition economies	4.03	2.46	[4.87]	6.73	3.00
Developed economies	2.60	2.64	2.01	1.53	0.11
Developing Africa	1.53	[0.96]	0.06	2.79	1.72
Developing America	3.49	[0.31]	1.41	1.22	2.34
Developing Asia	3.88	3.18	4.65	5.33	5.65
Least developed countries	[0.45]	[0.10]	0.83	4.20	3.69

Source: UNCTADStat.

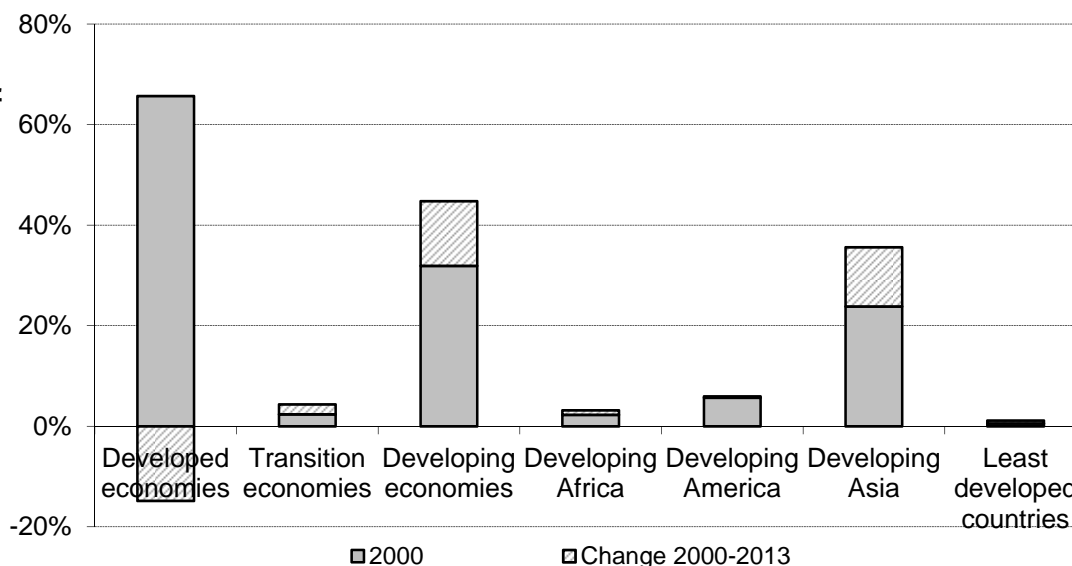


Participation of Developing Countries

- The share of developing countries in world merchandise exports has climbed from 24 % in 1990 to 45 % in 2013
- There is substantial variation in trade performance across countries, which has given rise to a multipolar world economy
- Trade participation is heavily skewed: the 20 largest exporters, mainly from developed and Asian regions, represent 70 % of world exports

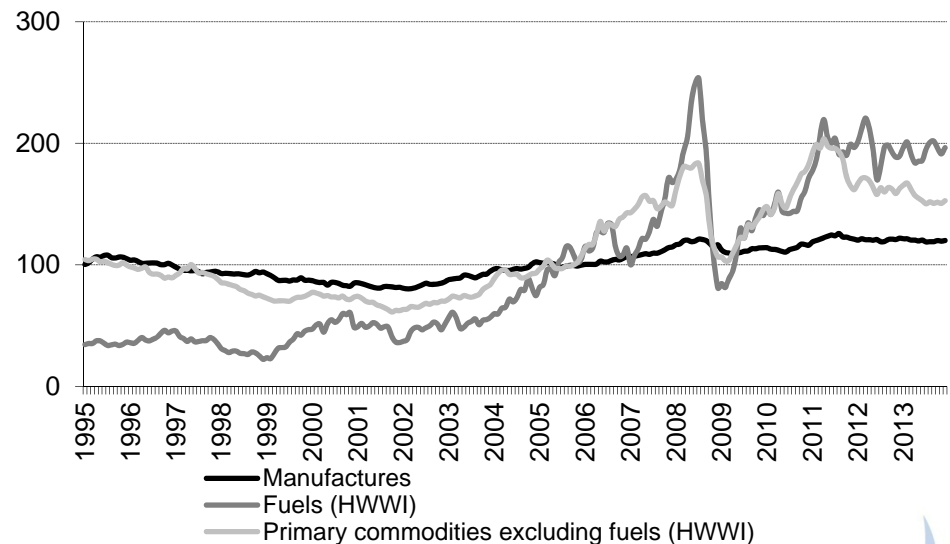
Share of developing countries in world goods exports 2000 and 2013

- Btw 2000-2012, 75 developing countries an average export growth of 10 % p.a. BUT 60 of them registered persistent current account deficits



Price Evolution of Traded Goods

- Rising commodity prices have underpinned the growth in the nominal value of world trade and improved terms of trade for commodity exporters
- Many LDCs & sub-saharan Africa remain essentially marginalized: undiversified commodity exporters are vulnerable to price reversals and short-term volatility
- High commodity prices have accentuated traditional specialization patterns and discouraged diversification (de-industrialization)
- Food price hikes in 2007-2008 heightened food-security concerns
- In 2012, only 4 of the total 13 developing country regions had a positive trade balance in basic food

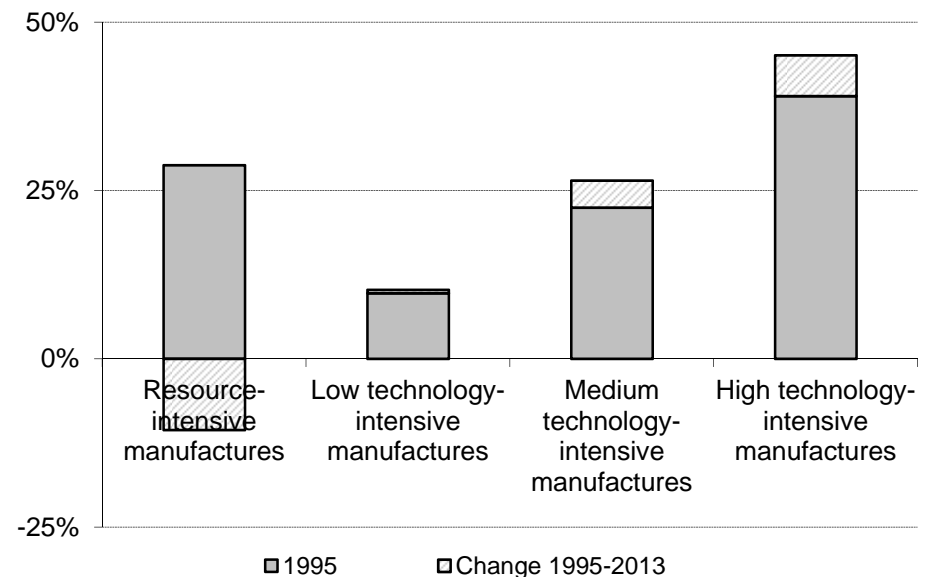


Trade within Global Value Chains

- World trade expansion has been marked by technical advances, falling trade costs, an open trading environment and the rise of GVCs
- Since late 1990s, the expansion of trade has been driven by the expansion of trade within GVCs in the production of goods such as electronics and automotive products

- GVC trade is intra-industry and intra-regional mostly
- GVC trade has been accompanied by the increased technology-intensity of developing countries' manufacturing exports

Change in share of product categories in developing country manufacturing exports by technology intensity



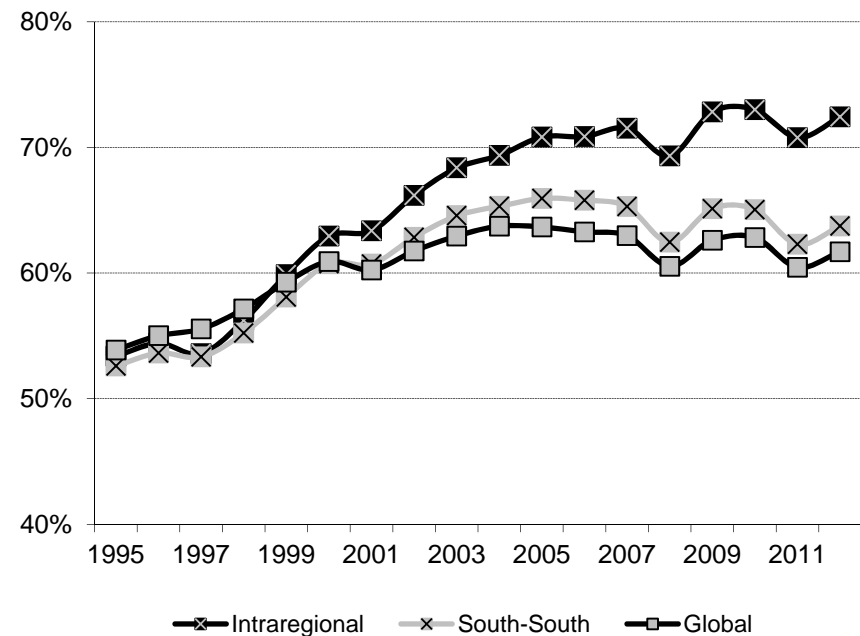
GVCs and Development

- GVC trade entails greater trade in intermediate goods to deliver the final product (55% of world trade in 2012)
- Trade in GVCs has allowed countries to specialize in specific tasks performed in a certain production segment (“vertical specialization”), opening opportunities for fast-track industrialization at a lower cost
- However, the result has been “thin industrialization” in many cases as countries specialized in low-skill labour intensive activities without the ability to upgrade
- The degree of value added varies across value chain; in particular services like R&D, product design, marketing, etc. often add more value than assembling for instance



GVCs and South-South Trade

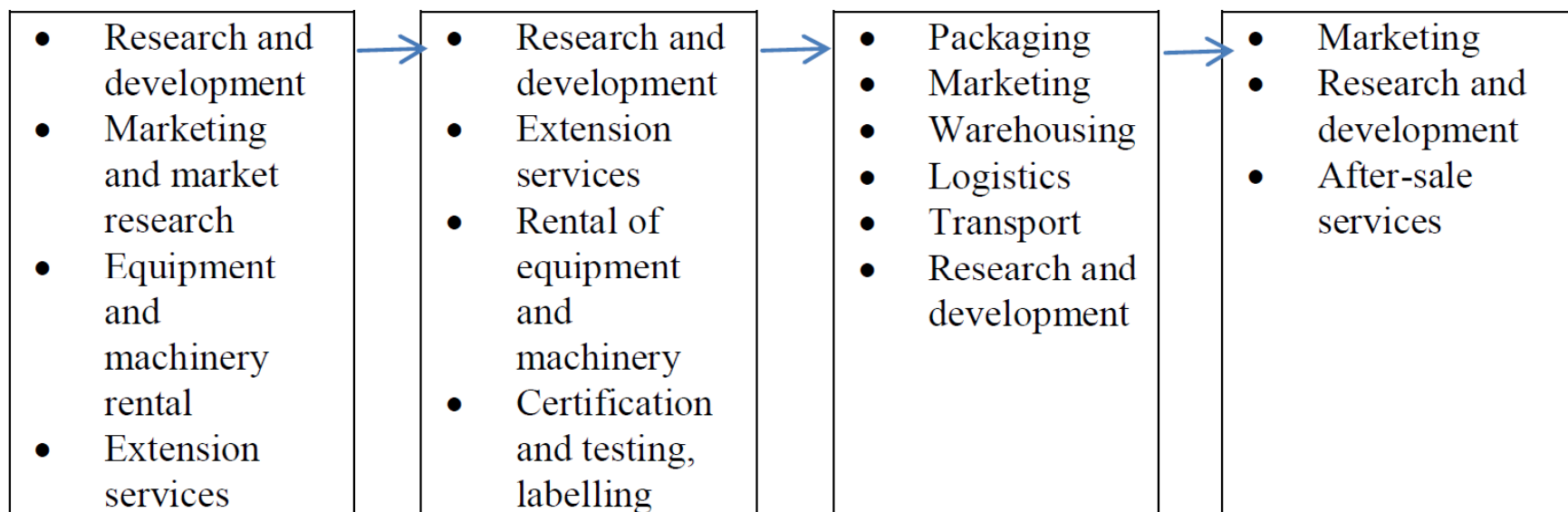
- Dynamic growth in South-South trade, particularly intraregional trade, is in large part a reflection of growing GVC trade
- South-South trade represents $\frac{1}{4}$ of world exports and outpaced global exports in all developing regions between 2000 and 2012
- Asia accounts for 84 % of global South-South trade, half of its export are intraregional and this trade tends to be more technologically intensive than other exports
- Asia has emerged as a major production platform to supply consumer markets, mainly in developed countries



Increased Importance of Services

- The services economy and trade has been instrumental for sustained world trade growth as the sector helps improve efficiency and competitiveness in other sectors
- Services are inputs to merchandise, including agriculture

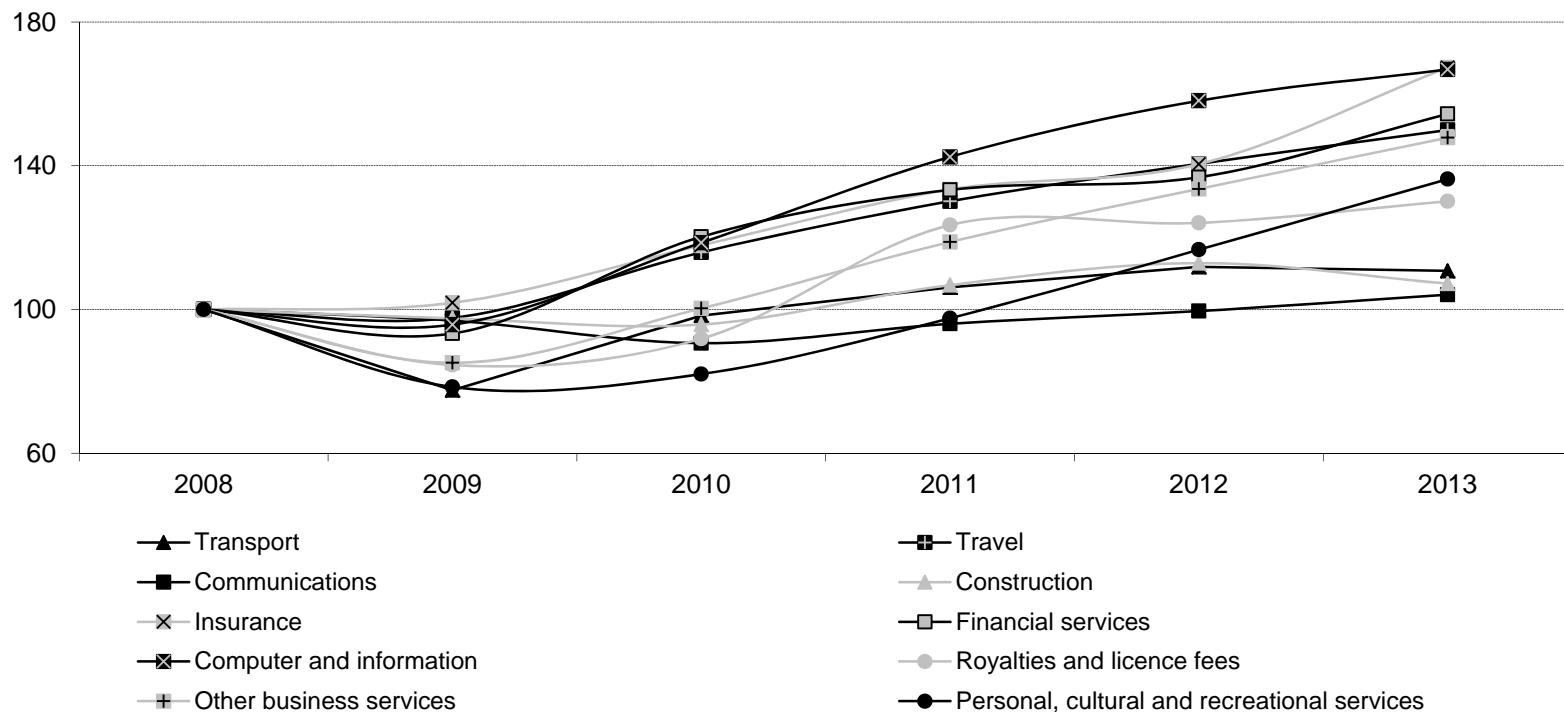
Specialized services associated with agricultural production in different stages of the value chain



Source: N Oddone and R Padilla Pérez, 2014, El mejoramiento de las cadenas de valor a través de los servicios profesionales y de soporte, International Centre for Trade and Sustainable Development, *Puentes*, Vol. 15, No. 3.

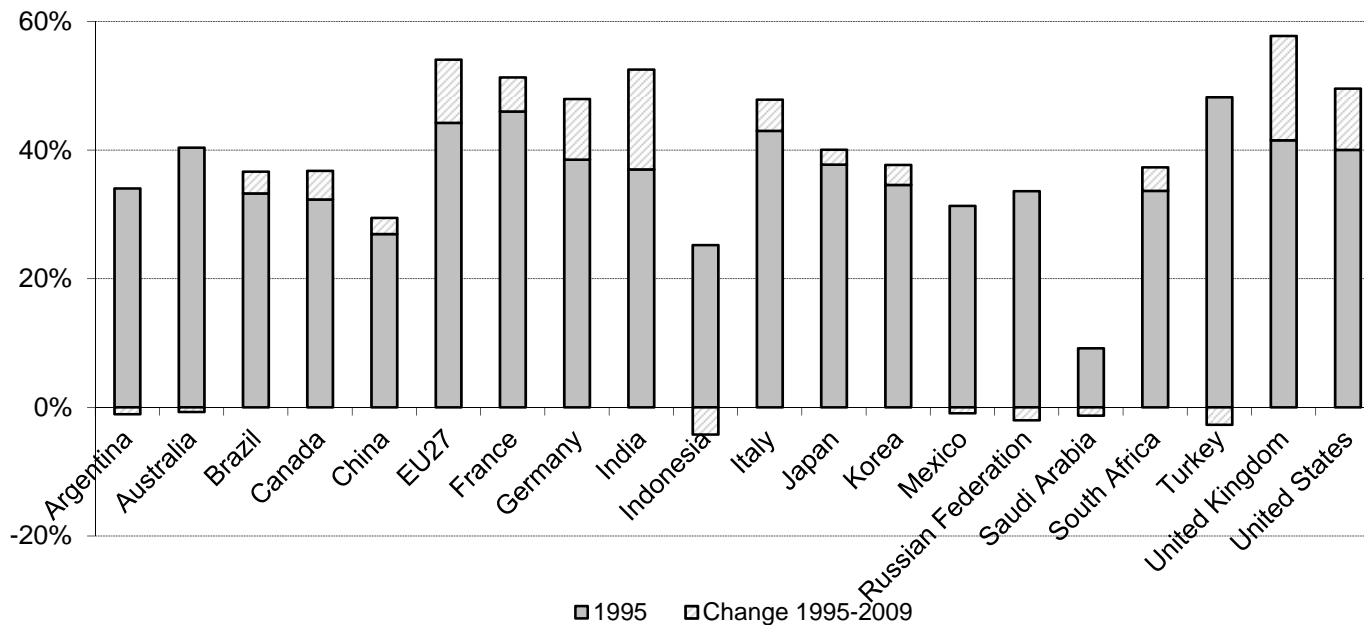
Developing Countries in Services Trade

- In 2012, services represented 14% of total exports of goods and services of developing countries, their share increased particularly in construction and computer and information services
- Exports in business and ICT services outpaced those of other services.



Service Value Added in Gross Exports

- Services activity are pivotal for GVC trade, as many services are incorporated in the gross value of exported goods as inputs and often capture a substantial proportion of value added
- 45% of world goods export value in 2009



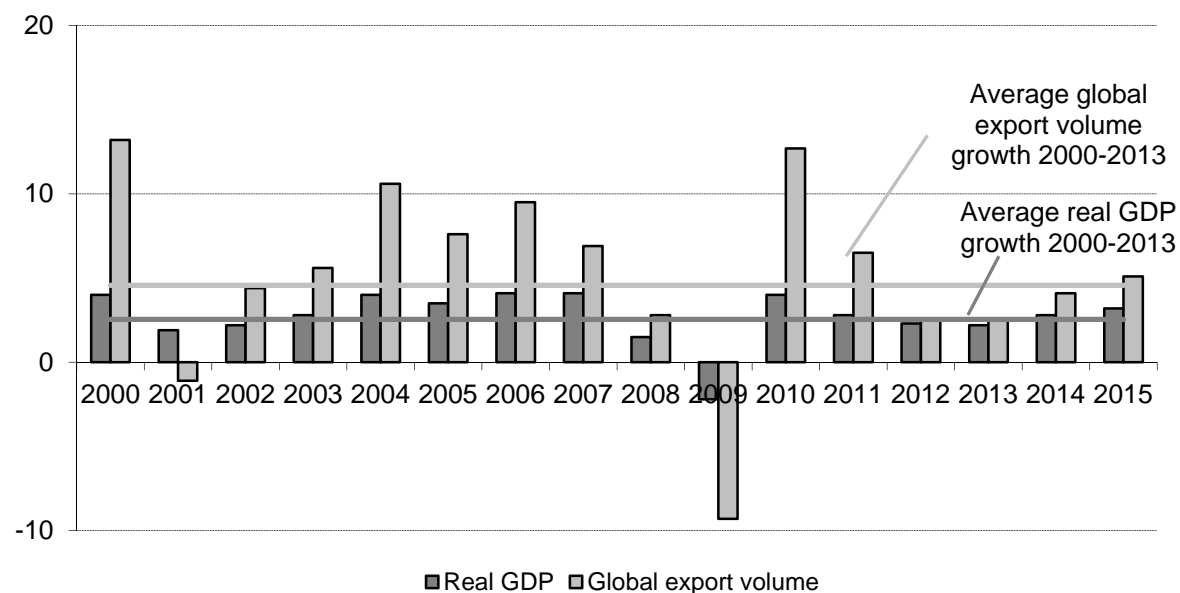
Services

- **Services trade increasingly occurs through FDI**
 - Over 70% of world FDI outflows (\$1.5 trillion in 2010-2012) were in services activities
 - UNCTAD estimates the value of all sales by affiliates at \$35 trillion in 2013, and if half of this is assumed to be in services, trade through foreign affiliates could be in the order of \$17 trillion, 3 times greater than global cross-border services exports
 - Developing countries' share in global FDI outflows increased from 0.4% in 1990-1992 to 10% in 2010-2012
- **Services trade may also occur through the cross-border movement of people supplying services (Mode 4, professional and business services)**
 - This trade appears to be on a rising trend inferring from a continued growth in global remittances flows (\$542 billion in 2013, of which \$404 billion received by developing countries)
- **Financial inclusion is important for inclusive development & poverty alleviation**



Real GDP and Exports Performance

- Current trade growth rate below the 2000-2013 average reflecting a near stagnation of the world demand
- This pace of growth is among the weakest since 2002
- Declining elasticity of GDP to trade reflects structural changes or a cyclical development?



Policy Issues for Inclusive & Sustainable Development

Many countries face challenges in making economic growth inclusive and sustainable:

- Global unemployment rate remains around 6%, with some 200 million people unemployed (30 million more than pre-crisis level, affecting particularly youth and long-term rates)
- Informal employment remains at 40-50% in developing countries;
- Global income inequality has risen. The share of world labour income in GDP fell from 60 in 1980 to 54% in 2011
- Poverty ratios are still above 45% in low-income countries

Transmission of efficiency gains from trade to broad-based development is not automatic:

- Conscious policy efforts at macro and sectoral level are required, including coherent and integrated policies for diversification, structural transformation, technological upgrading and job creation;
- An enabling economic environment is important in underpinning such policy efforts.



Multilateral Trade Negotiations

- Doha Round was launched in 2001 under a single undertaking while giving priority to implementation difficulties and SDT
- Recurrent setbacks and growing prevalence of alternative negotiating fora affected the negotiating process
- MC9 adopted a set of decisions (Bali Package):
 - Agreement on Trade Facilitation (TFA);
 - Agriculture (food security, TRQ, export competition, and cotton);
 - Development-related issues (DFQF, preferential rules of origin, operationalization of the LDC waiver, SDT monitoring mechanism)
- The recent General Council Decisions (27 November) unblocked the stalemate following the failure to adopt a legal protocol for TFA in July 2014
 - Adopted a legal protocol for TFA
 - Clarified the Bali decision on food security (peace clause in place until “a permanent solution is agreed and adopted” Efforts to agree & adopt by December 2015)
 - Post-Bali Work Programme is now to be developed by July 2015



Trade Facilitation

- The TFA is the first binding multilateral agreement negotiated since the Uruguay Round (addressing some 40 customs procedures)
- Contains an unprecedented form of SDT for developing countries establishing a link between their implementation capacity, provision of capacity-building support and the timing and level of commitments
 - To address the concern over implementation costs
 - The Trade Facilitation Facility is being set up
- The early harvest nature of TFA raised concern over its effect on a single undertaking and the linkage with other negotiating areas (eg, food security issue)
- The WTO General Council adopted on 27 November a Protocol amending the WTO Agreement to insert TFA



Agriculture

- High food prices had led many countries to introduce public stockholding programmes for food security purposes
 - Procurement of wheat and rice at subsidized administered prices from low-income and resource-poor farmers
- The original proposals sought to introduce some reform of AoA, including by exempting relevant price support from the scope of the AMS
- At Bali, in the absence of permanent solution, an interim peace clause was adopted & a permanent solution was to be negotiated by 2017
- The 27 November General Council Decision:
 - Peace clause will be in place until a permanent solution is agreed and adopted, including after 2017
 - All concerted efforts will be made to adopt a permanent solution by 31 December 2015
 - Negotiations will be held in CoA SS in dedicated sessions



Development Issues

- DFQF market access is an agreed international development target contained in the MDG 8 and in the Istanbul Programme of Action
- The Bali outcome urged, but did not require, an expeditious improvement of DFQF coverage by 2015 for those countries that had not provided such treatment for 97 % of tariff lines
- Regarding preferential rules of origin, non-biding guidelines for making rules of origin simpler and more transparent
- LDC group submitted a collective request regarding the operationalization of services waivers in July 2014 identifying sectors & modes of their export interest



The Way Forward (1)

- The difficulties of WTO Members in implementing the TFA has created new uncertainties over the prospects for the post-Bali work on the Doha Round
- Some key principles of the post-Bali Work Programme:
 - Balanced approach to agriculture, non-agricultural market access and services
 - Centrality of the development dimension
 - Need to focus on “doables”
- Views differ on differing negotiating approaches, whether to use the 2008 draft modality texts on agriculture and NAMA as the basis for future work
- However the current trade environment differs from the one of 2008 (e.g., Commodity prices, the level & users of domestic support)



The Way Forward (2)

- The relative incidence of NTMs (sanitary and phytosanitary, technical standards) on developing countries export has increased (incidence is about twice as great as that of tariffs)
- Post-Bali work programme is likely to be influenced by parallel plurilateral and regional processes:
 - Environmental goods: July 2014: 14 countries representing 86 % of the global environmental goods trade launched plurilateral negotiations for an environmental goods agreement
 - TISA: 23 WTO Members and representing 70 % of global services trade
 - Information Technology Agreement: negotiations on expanding product and country coverage



Evolving Regional Trade Agreements

- Can be the most significant challenge to the MTS
- As of June 2014, some 585 notifications were made to WTO, 379 were into force
- 21st century RTAs are characterized by a range of behind the border regulatory measures, including investment, competition policy, capital movement, intellectual property rights and government procurement
- Mega RTAs has brought a quantum leap in the recent trend towards trade agreements, over which many developing countries have no control
- **South-South RTAs deepened & expanded, including towards “developmental regionalism” (eg, CFTA)**
- Need for an optimal mix of multilateral and regional processes, with a strong multilateral oversight



Comparison of mega-RTAs

Comparison of mega-regional trade agreements

<i>Regional trade agreements</i>	<i>Number of members</i>	<i>Share in world exports</i>	<i>Intra-group exports as a percentage of global exports</i>	<i>Intra-group imports as a percentage of global imports</i>	<i>Combined gross domestic product as a percentage of world gross domestic product</i>	<i>Number of bilateral agreements among the parties</i>
Pacific Alliance	4	2.7	3.9	4.5	2.8	6
Regional Comprehensive Economic Partnership	16	27.3	42.0	47.4	29.5	23
Trade in services agreement	23	70.3	na	na	67.3	
Trans-Pacific Partnership Agreement	12	26.0	46.3	38.3	38.9	25
Tripartite Free Trade Agreement	26	1.7	11.9	12.9	1.6	4
Transatlantic Trade and Investment Partnership	2	43.9	17.3	14.3	45.4	0

Source: UNCTADStat and WTO.



Mega RTAs

- By inducing deeper liberalization and high-standard regulatory harmonization covering an increasing share of world trade, MRTA could further affect incentive for multilateralism
- It is often argued that mega RTA would create a new template for future trade and investment cooperation
- From a development perspective, MRTA and the 21 century RTA more generally might represent a risk for weaker and more vulnerable developing countries
- RTA may limit countries' policy space to implement proactive trade and industrial policies for development purposes
 - State-owned enterprises
 - Investor-State disputes
 - Regulatory coherence & harmonization



Towards an enabling MTS (1)

Legitimacy of the MTS as a global public good:

- Transparency & monitoring of trade protectionism
 - G-20 members put in place 93 new trade-restrictive measures during the period from mid-May 2014 to mid-October 2014 (eg, trade remedies)
 - 962 of a total of 1244 trade restrictive measures since the global crisis (= \$ 757billion, or 4.1% of world imports)
- Continues to head towards universality attracting new members (accession)
- WTO's DSM continues to be used
- Careful reflection is needed on how the negotiating function of the MTS can be strengthened, in the presence of parallel plurilateral and regional negotiating processes
 - Negotiating efficiency & equity
 - the appropriate level of contributions from developed and developing countries (architecture for SDT)
- Challenges in reinforcing its relevance and credibility by delivering negotiated outcomes in the Doha Round and by strengthening its architecture to better respond to changing economic realities



Towards an enabling MTS (2)

The possible future agenda of the MTS?

- Shifting focus of trade liberalization approaches in favour of deeper liberalization, considering increasing trade within GVCs?
 - “Whole of supply chain” perspective that addresses the trade-investment-services-know-how nexus;
 - Address tariff and non-tariff regulatory barriers
- Addressing the interface of trade with other public policy spheres that emerged as a source of new trade frictions
 - Relationship between trade and climate change and green growth
 - Address high food and energy prices and related access concerns
 - Trade and finance (exchange rates)
- Bearing in mind that tariff and industrial policies continue to be used in developing countries to build productive capacity, create employment and promote upgrading within GVCs



Conclusion

- The expected broad-based contribution of trade to various post-2015 sustainable development goals would require policies supporting a positive interface between trade and related public policies
- Evolving national policy needs and priorities would call for an enabling environment assuring a fair and open trading environment and reserving space for countries to implement such policies, so that development dividends can be equitably shared among countries and within an economy
- In this context, it is necessary to reinvigorate the MTS as a global public good with renewed impetus, credibility and relevance;
- Coherence between multilateral and RTA should be reinforced so that these arrangements can be turn into an effective enabling environment for development





Thank You



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