



## TRADE POLICY AND SUSTAINABLE DEVELOPMENT MEETING

Geneva, 6 – 8 October 2015

### **LESSONS LEARNT FROM UNCTAD'S WORK ON TRADE POLICY FRAMEWORKS**

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# *Trade Policy and Sustainable Development*

## **Lessons learnt from UNCTAD's work on Trade Policy Frameworks**

6 October 2015



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# Outline

1. Recent economic & trade trends
2. UNCTAD's analysis on the interface between trade and development:
  - There is a "missing link" in translating trade gains into broad-based & sustainable development
3. Trade and related policies can help create such a link
  - UNCTAD's Trade Policy Frameworks (TPFs)
  - Main objectives, methodology and components of the TPF project
  - Preliminary results



# Recent economic & trade trends

## Slow pace of trade expansion

- After a modest increase of 3.2% in 2014, world trade volume is expected to increase by 3.8% in 2015;
- This reflects the slow pace of the global economy:
  - World output grew 3.2% in 2014 and is expected to grow 3.4% in 2015;
  - Stagnation in major economies and economic slowdown in China contribute to weak global demand affecting trade prospects;
- And there is a decline in trade responsiveness to output growth:
  - Ratio of world trade growth to world output growth was 2:1 before the crisis and only 1:1 in 2012-2014;
  - Among the possible reasons is the deceleration of global value chains (GVCs) trade, as major players increasingly source inputs domestically.



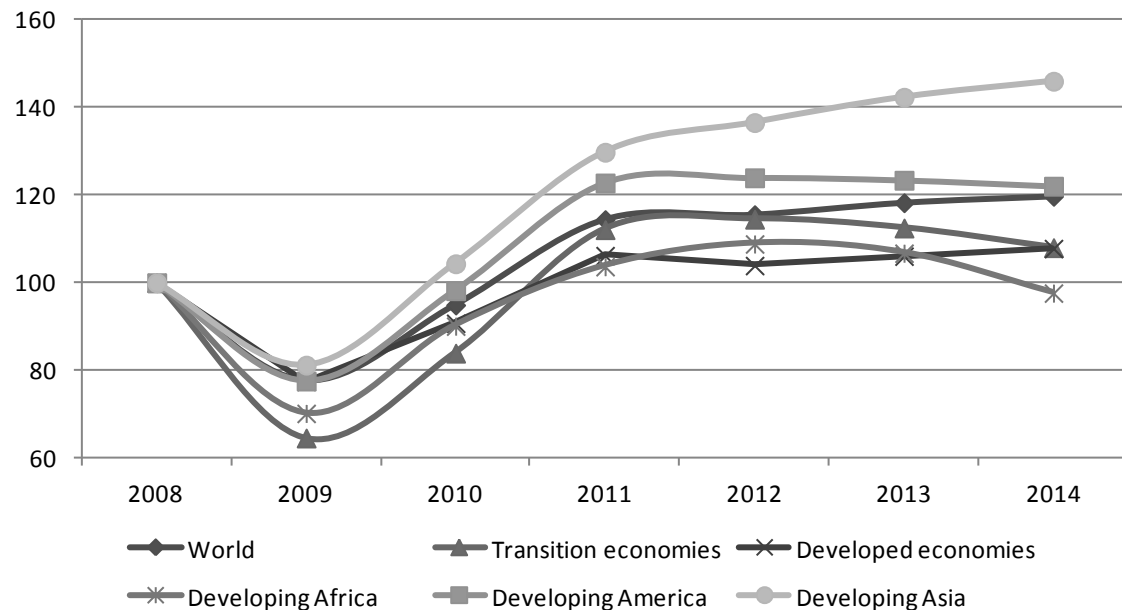
# Recent economic & trade trends

## Deceleration in merchandise trade

- World goods exports reached \$18.9 trillion in 2014:
  - Most developing regions and transition economies contracted or decelerated;
  - Only developing Asia expanded (strong engagement in global value chains, with intraregional trade accounting for 54% of exports) but is now also decelerating;
  - Intra-African trade is also increasing although from a lower base.

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

Source: UNCTAD



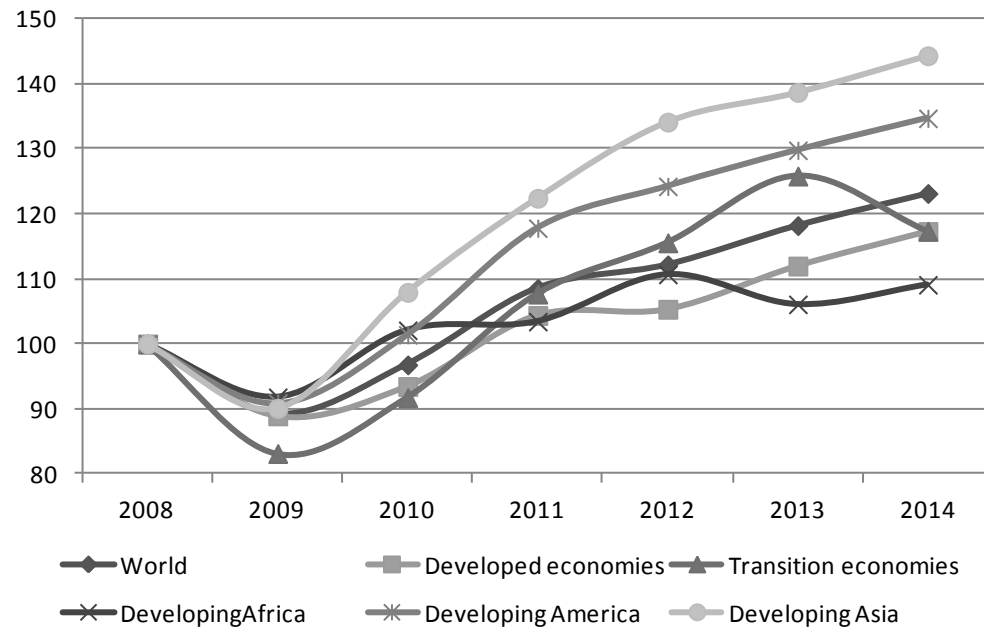
# Recent economic & trade trends

## Strong growth in world commercial services

- World services exports reached \$4.9 trillion in 2014, almost doubled the value over the past 10 years:
  - Growth came mostly from developing countries, in particular Asia and LAC;
  - Dynamism was sustained by travel, construction, financial, telecommunication and other business services. Transport and goods-related services stagnated.

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

Source: UNCTAD



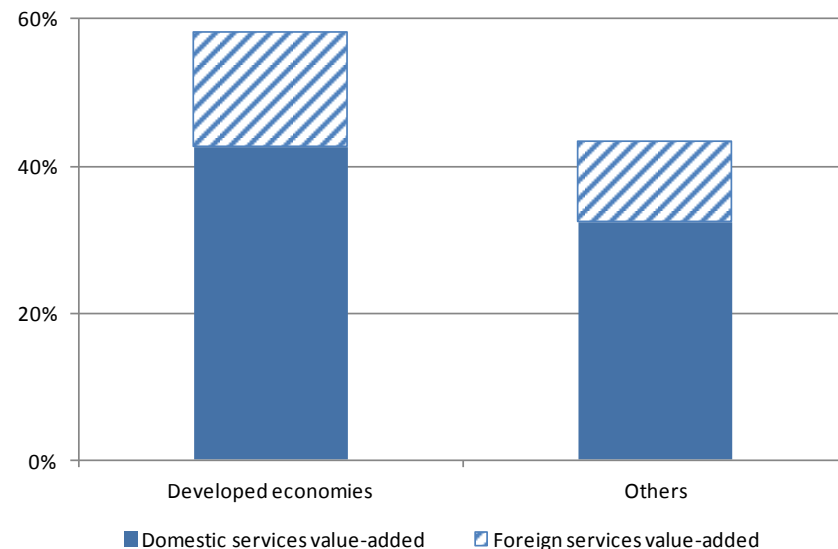
# Trade and SDGs

## Services enable international trade and its diversification

- Servicification and tradability of services promotes trade on GVCs:
  - Fragmentation of production requires efficient professional, business and infrastructure services (energy, transport, telecommunications, ICT, financial);
  - Services value-added represent in 2011 an important part of gross exports (60% in developed economies and over 40% in others. Some services (R&D, product design, marketing) capture a substantial proportion of value added;
  - Foreign services value-added accounts in 2011 for a sizeable 15% in developed countries, a significant increase since 1995, less explored in developing countries.

Domestic and foreign services value added of gross exports, 2011 (%)

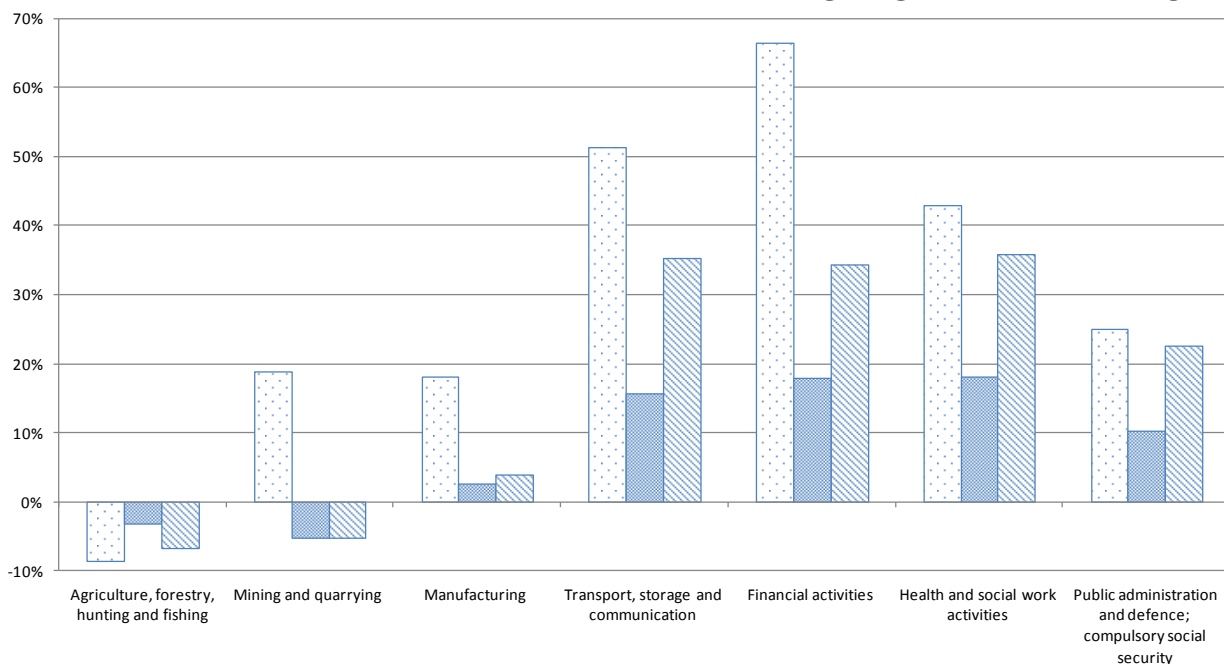
Source: UNCTAD



# Trade and SDGs

## Services are driving employment

- Services are the main creator of new jobs in developing countries since 2000, particularly in transport, communication and financial;
- Agriculture and mining have negative job growth and manufactures a weak job creation since 2010. This is of concern for its role in structural transformation. Since the 1990s, labour shifted from manufactures to services in emerging developing economies.



Employment growth for selected sectors in developing and transition countries, 2000-2010, 2010-2014, 2010-2019 (%)

Source: UNCTAD



# Recent economic & trade trends

## Fluctuations in exchange rates affected export competitiveness

- In real terms, until March 2015 the USD and the yuan appreciated, reducing US and China's export competitiveness and influenced dollar-denominated trade and commodity price statistics;
- Others depreciated, as the EU and Japan (expansionary monetary policy) and Brazil and Russia (falling energy prices).

Real effective exchange rates of selected economies, 2010-2015 (index 2010=100)

Source: UNCTAD



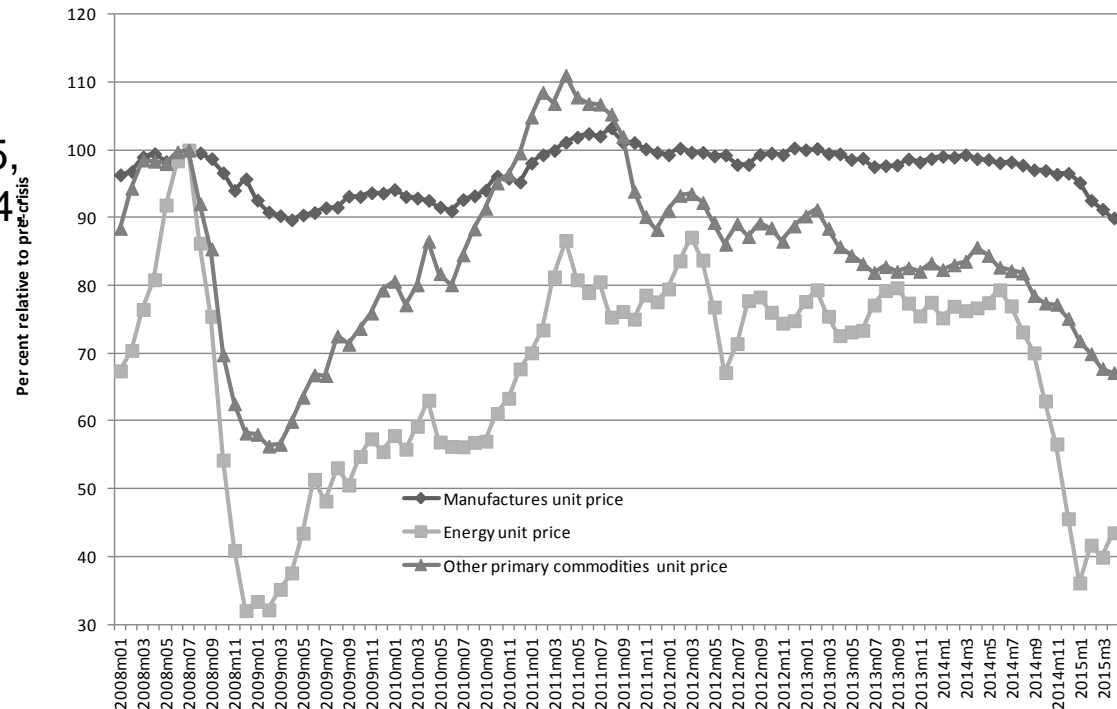
# Recent economic & trade trends

## Dropping energy prices worsen terms of trade in commodity-exporting regions

- Energy prices dropped sharply in 2014:
  - Brent Crude oil price reached a 5 year low of \$45 per barrel in Jan 2015, a 50% drop from Jun 2014
  - Because supplies raised and weak demand;
- The combined effect of exchange rates and energy prices offset the increase in world trade volume with a decrease in unit values since Apr 2011.

Trade unit prices of manufactures, energy and other commodities, 2008-2015 (% relative to pre-crisis)

Source: UNCTAD



# Trade and SDGs

## Trade contributed to growth and development

- Provides access to larger markets, as well as skills, technology and capital, which in turns enable a better use of productive resources and catalyse desired structural transformation;
- This is recognised by SDGs, implicitly and explicitly in goal 17.

## Trade in SDGs

- Goal 1. End poverty;
- Goal 2. End hunger, achieve food security:
  - 2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the elimination of export subsidies and all 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 TRIPS;
- Goal 7. Ensure access to energy:
  - 7.1 Universal access to affordable energy;



# Trade and SDGs

## Trade in SDGs

- Goal 8. Promote sustained, inclusive, sustainable economic growth:
  - 8.2 Economic productivity by diversification, technological upgrading, innovation;
  - 8.a Aid for Trade, including by the Enhanced Integrated Framework to LDCs;
- Goal 9. Infrastructure:
  - 9.1 Quality, reliable and resilient infrastructure, including regional / transborder;
- Goal 10. Reduce inequality:
  - 10.a Special and differential treatment (SDT) for developing countries;
  - 10.c Reduce to less than 3% remittances' transaction costs;
- Goal 14. Oceans:
  - 14.6 Prohibit certain forms of fisheries subsidies;
- Goal 17. Means of implementation:
  - 17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system (MTS) under the WTO, including through the conclusion of the Doha Development Agenda (DDA);
  - 17.11 Increase exports of developing countries, double LDCs% of global exports;
  - 17.12 Duty-free Quota-free market access for all LDCs, including through preferential and transparent rules of origin (RoO) for LDCs.



# Trade and SDGs

## Trade contributed to income and growth, with variations

- Volume of world trade increased 5x in 1990-2013;
- Developing countries increased their share in world trade:
  - Share of merchandise exports increased from 32% in 2000 to 45% in 2014;
  - Share of services exports increased from 24% in 2005 to 29% in 2014;
  - LDCs share of goods exports reached 1.1% in 2014 (almost double since 2000);
- The export earnings of LDCs in 2013 were \$213 billion, more than 2x their combined inflows of FDI, ODA and remittances;
- This overall positive picture masks important variations:
  - In 2005-2013, 63 developing economies exports grew over 10%/year, 4 had export contraction, and 68 had a persistent trade deficit;
  - The 20 largest exporters, mainly developed and Asian economies, represent 70% of world exports in 2013;
  - Commodity-dependent economies remain vulnerable to shifts in terms of trade;
- Uneven trade is a reminder that inequality between and within countries remains a persistent development challenge requiring policy attention.



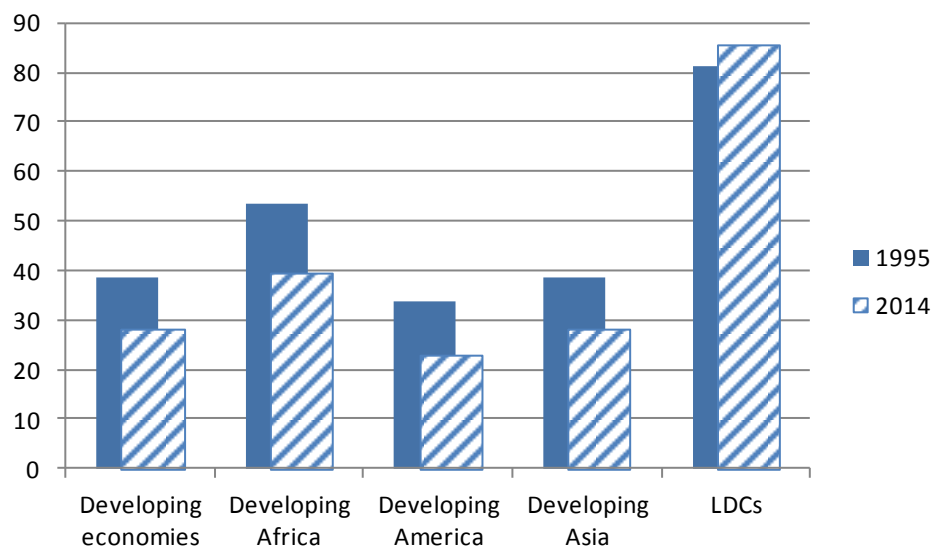
# Trade and SDGs

## The development benefits of trade are not automatic

- Trade in GVCs allowed specialization in specific production segments, opening opportunities for “fast-track industrialization”;
- It has also led to “thin industrialization” in some cases, following short-term incentives to specialize in activities that reflect existing factor endowments, even if they are low-skill and low productivity:
  - These represented more than 80% in LDCs in 2013, more than in 1995.

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

Source: UNCTAD





# **UNCTAD experience in the analysis of the interface of trade and development**

## **What have we learnt?**

# Trade can contribute to improved development prospects

- Development variables:
  - SDGs: Poverty, decent work, food security, access to basic services and infrastructure services, gender equality, sustained transformation of the economic structure
- Trade contribution to development:
  - Income opportunities and job creation
  - Greater availability of goods and services
- Strengthening trade's contribution to sustainable development further requires:
  - Enhanced productive capacities and employment
  - Gains from trade is shared equitably and widely by different segments
  - Greater coherence of trade with complementary and other policies to support different dimension of SDGs





# But translating trade into development benefits entails challenges in ...

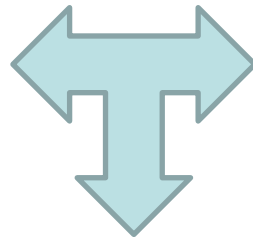
1. Diversifying exports (products, services, markets) and triggering structural transformation
  - Incentives that do not lead to expected trade/investment results
2. Taking advantage of market opening/trade agreements
  - Persistence of non-tariff barriers to trade
    - "Quality" concerns in destination markets (e.g. agro-industrial products)
  - Constraints in supply capacity
    - Human capital
    - Ensuring access to infrastructure and key services for competitiveness
3. Creating forward and backward linkages (domestically, regionally and internationally)
  - Enclaves with no linkages with the rest of the economy
  - Informal sector with low productivity
4. Formulating and implementing appropriate policies
  - Difficulties in the design, monitoring and evaluation of policies



# Different factors influence the capacity of countries to translate trade into development gains

## The external environment:

- Trading conditions
- Economic conditions (growing interdependence, economic volatility)



## The domestic environment:

- Building resilience
- Policy and regulatory frameworks:
  - Supply-side capacity
  - Social impact of trade (flanking policies)
- Institutional frameworks

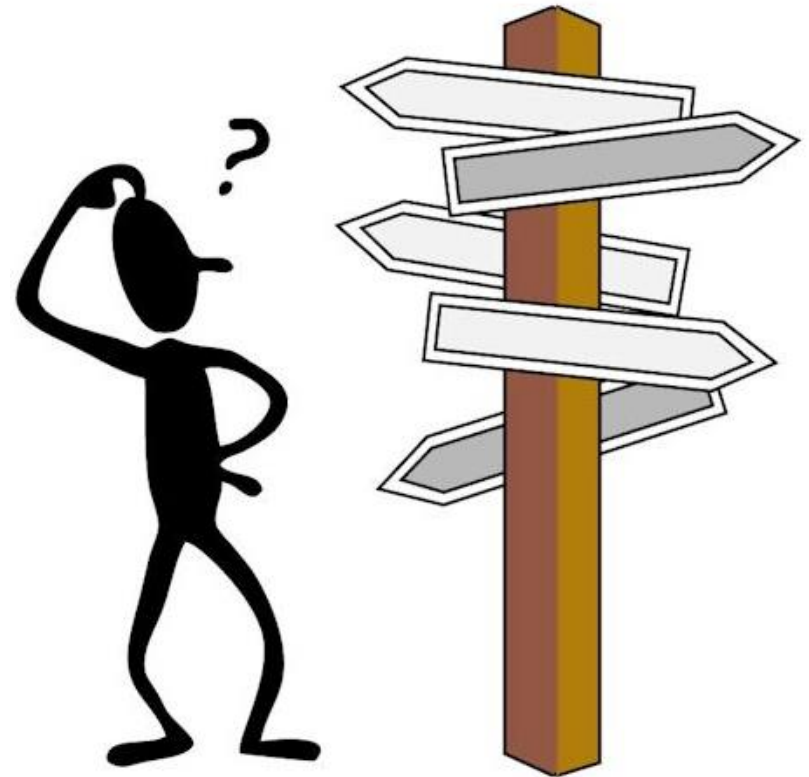
The "pending agenda" for policy reform





# Overcoming the "missing link" successfully

**... and how  
UNCTAD work on  
Trade Policy  
Frameworks help...**



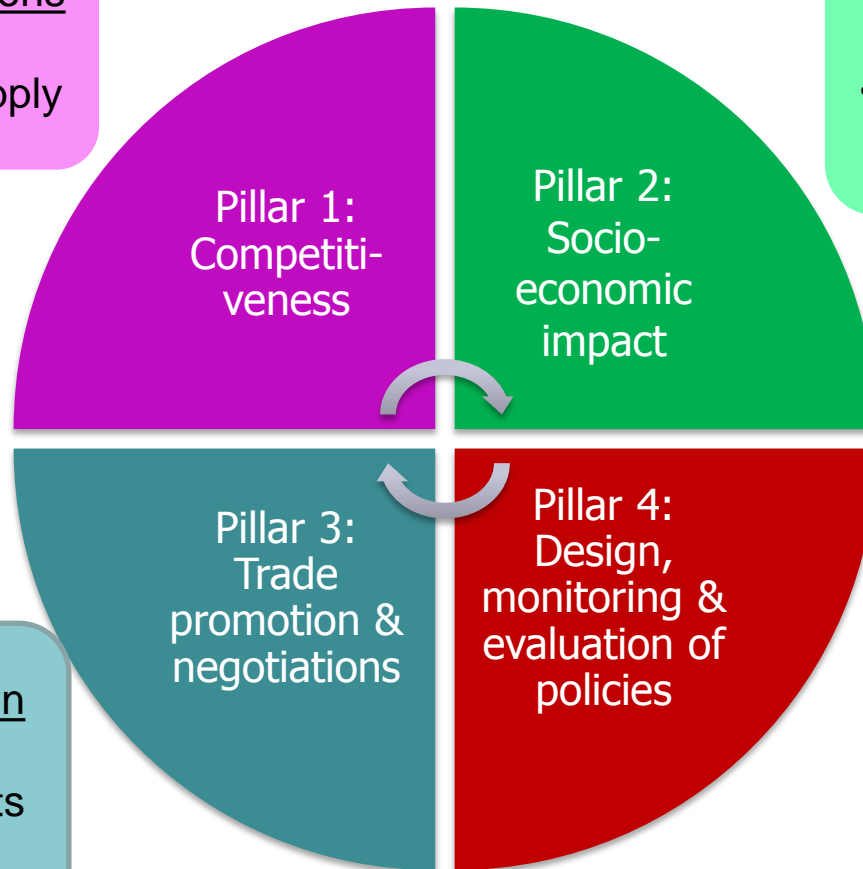
# Helping strengthen coherence among different policy spheres (pillars)

## Pillar 1 is about:

- Policies + regulations aimed at:
- Strengthening supply side capacity

## Pillar 2 is about:

- Policies + regulations aimed at:
- Maximizing impact on socio-economic variables



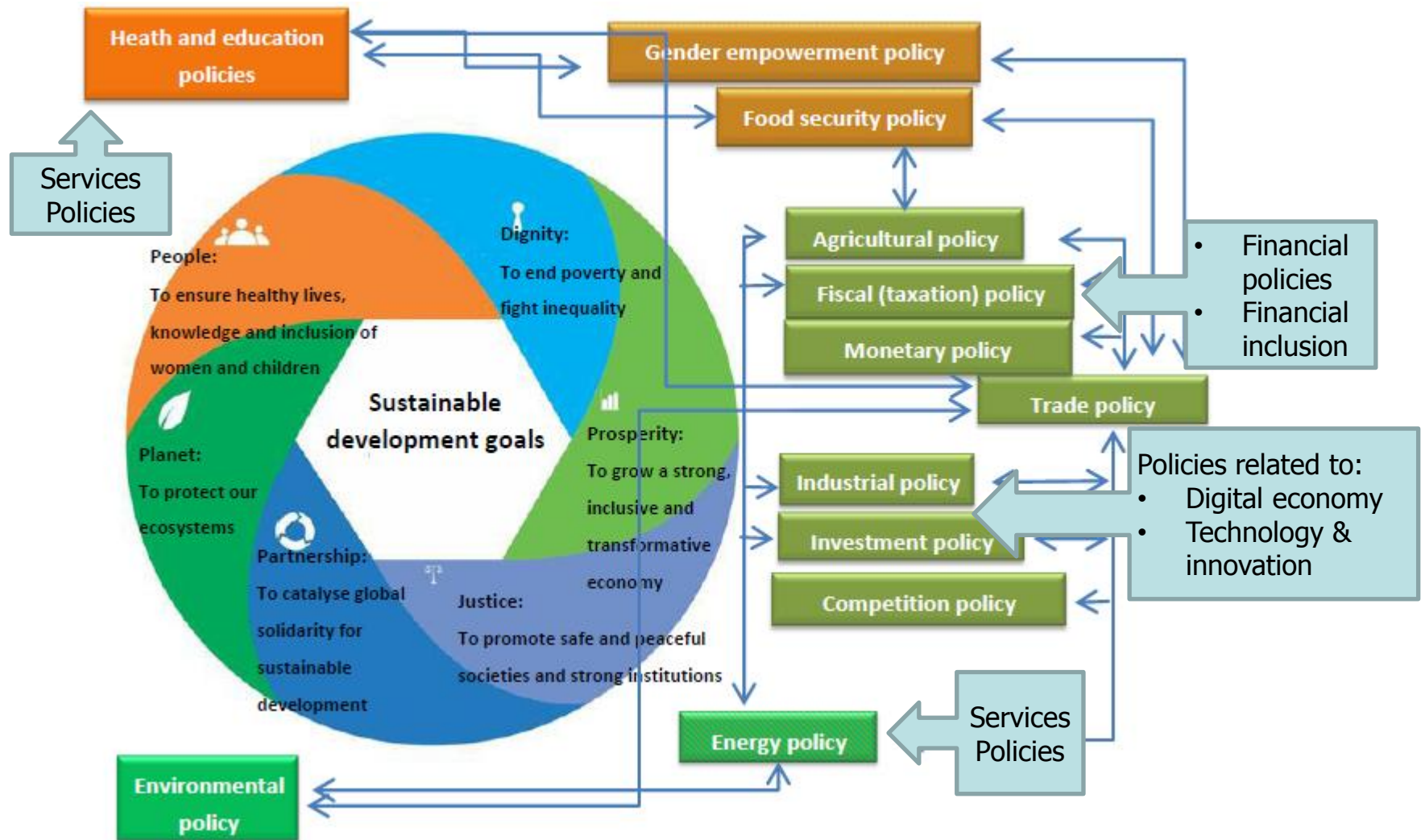
## Pillar 3 is about:

- Policies/regulation aimed at:
- Promoting exports and access to markets

## Pillar 4 is about:

- Institutions
- Strengthening the institutional framework

# ... Another vision of coherence (SDGs)



UNCTAD (2015): "Trade development policies and the post-2015 sustainable development agenda, and formulation of national policies in the context of existing regional trade agreements"

# How UNCTAD can help?

- The Trade Policy Framework can help:
  1. Deepen understanding of the specific context of countries
    - Trade and development linkages
    - Trade performance
  2. Take stock of economic, policy and institutional constraints facing the countries, as well as opportunities
  3. Provide policy recommendations on possible policy reforms and action plans (domestic policies & trade negotiations)
    - More effective capacity to benefit from trade
  4. Promote multi-stakeholder interaction and collaboration regarding policy design
    - Develop local expertise and sustainable and inclusive trade policy making



# UNCTAD Trade Policy Framework studies

## Completed

1. Papua New Guinea
2. Rwanda
3. Jamaica
4. Mexico
5. Tunisia
6. Zambia
7. Angola

## On-going

6. Dominican Republic
7. Panama
8. Algeria
9. Namibia
10. Botswana



# Examples: Recommendations from TPF studies

- Rwanda TPF
  - Improved coherence between broader development goals and the trade policy framework
    - Need to develop regional and national infrastructure and human capital
- Tunisia TPF
  - Maximizing opportunities from participating in the ITA agreement requires active promotion measures to attract IT and IT-related R&D and product and design services
- Jamaica TPF
  - Maximizing opportunities from participating in trade agreements (EPA & CARICOM) requires:
    - Improving indicators and benchmarks to monitor and assess trade policies and understand/address persistent trade barriers





# Cross-cutting lessons

1. Policy coherence and coordination
2. Evidence-based policy-making
3. Effective institutions and governance
4. Enabling productive, technology and business environment
5. Labour skills development

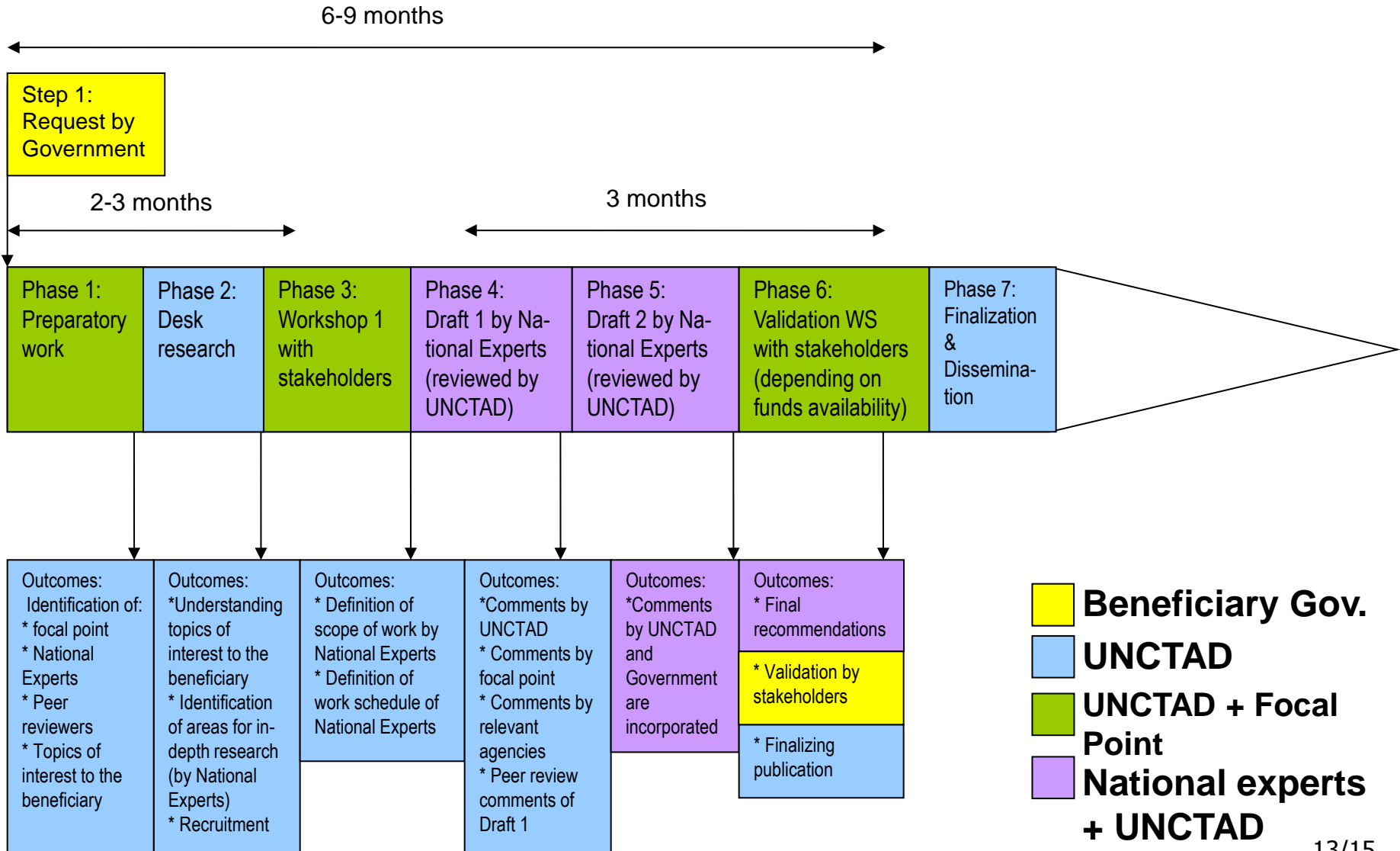


# TPF - Different components

1. Research:
  - Customized to address specific needs of beneficiaries
2. Capacity building:
  - Work with national experts
  - Multi-stakeholder dialogue to discuss policies with diverse stakeholders
    - Including private sector and civil society
3. Recommendations on policy-mix:
  - Improving formulation, implementation and review of trade policy
  - Identifying and promoting niche sectors
4. Experience sharing and information exchange:
  - Regional, inter-regional meetings
  - Best-fit practices



# How is the work undertaken?



# Conclusions

- Maximizing the contribution of trade to sustainable development requires:
  1. Improving trade outcomes
  2. Gains from trade are equitably shared among population
  3. Supported by robust productive capacities and employment
- To achieve that objective
  - Ensuring coherence and linkages among different policy spheres is important
    - Development, macroeconomic, competitiveness and productive capacities (investment, technology, innovation), socio-economic impact, sector-specific plans, institutional frameworks
- UNCTAD's TPF can help improve that coherence
  - To tackle more effectively the "pending" trade agenda
    - Research, capacity building, policy-mix recommendations and experience-sharing



Thank you for your attention

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