CHAPTER 9

TRADE IN THE POST-2015 DEVELOPMENT AGENDA

Contributed by the United Nations Conference on Trade and Development

Abstract: *"Sustainable development must be an integrated agenda for economic, environmental and social solutions. Its strength lies in the interweaving of its dimensions. This integration provides the basis for economic models that benefit people and the environment; for environmental solutions that contribute to progress; for social approaches that add to economic dynamism and allow for the preservation and sustainable use of the environmental common; and for reinforcing human rights, equality, and sustainability. Responding to all goals as a cohesive and integrated whole will be critical to ensuring the transformation needed at scale." (Paragraph 84 of the UN Secretary-General's Synthesis Report on the Post-2015 Agenda).*

INTRODUCTION

The year 2015 may witness a significant directional shift in the development paradigm. In July, the member states of the United Nations (UN) will present a new development agenda for the 2015-30 timeframe, the primary focus of which is to achieve development that is sustainable in the social, economic and environmental dimensions. Also in July, at the third international conference on Financing for Development (FfD) in Addis Ababa, the international community is expected to present its collective position towards mobilising public and private financial resources and other means of implementation needed when implementing the new development agenda (See paragraph 4, United Nations, 2014a).

Following the official adoption of the post-2015 development agenda at the UN Summit in September 2015, the 21st annual session of the Conference of the Parties (COP21/CMP11) to the United Nations Framework Convention on Climate Change (UNFCCC) will take place from 30 November to 11 December 2015 in Paris (the conference also serves as the 11th session of the Meeting of the Parties to the 1997 Kyoto Protocol). It is hoped that the adoption of the post-2015 development agenda generates strong momentum to achieving a new universal climate change agreement, which will put the world on track to a low-carbon, sustainable future (UN Climate Change Newsroom).

International trade has been the engine of rapid economic growth achieved by many developing countries in the past 15 years, which coincided with the implementation years of the Millennium Development Goals or the MDGs. For least developed countries (LDCs), much of the growth stemmed from rising revenues from commodities such as fuels and minerals, which did not necessarily benefit the majority of the populations in exporting countries (UNCTAD, 2014). But the ongoing negotiations on the post-2015 development agenda, with the sustainable development goals (SDGs) at its core, suggest that the world should transform its natural resource-dependent growth pattern to a more inclusive, sustained and sustainable one (United Nations, 2014b). How will this influence the way international trade contributes to a country's socioeconomic development in developing countries, particularly in LDCs?

Against the above background, this chapter discusses: 1) the expected framework and contents of the post-2015 development agenda; 2) the role of international trade as a financial and non-financial means to achieve development; and 3) possible new challenges to the global partnership, including aid for trade, to ensure the development-enabling power of trade in the post-2015 development paradigm.

TRADE IN THE FRAMEWORK OF THE SUSTAINABLE DEVELOPMENT GOALS

How the post-2015 development agenda is being set

The idea of what a development agenda in the wake of the MDGs could be took form around the turn of the century through various consultations and surveys involving governments, non-governmental organisations (NGOs) and the business sector, as well as millions of interested citizens.

Some common views arose from these national, regional and thematic consultations (for more details on the outcomes of these consultations, see the 2014 report by the United Nations Development Group, "Delivering the post-2015 development agenda: opportunities at the national and local levels"). Most consultation outcomes indicated the need for the future agenda to build on the achievements made under the MDGs while addressing work left undone. At the same time, many consultations stressed the new agenda should not be a simple extension of the same set of development goals. They highlighted the importance of it tackling emerging global challenges, which included, among other things, a worldwide increase in economic inequality and the potentially colossal impact of conventional growth on the planetary ecosystem and the problem of climate change.

The gap between the rich and poor countries widened substantially from 2001-15: while many developing countries exhibited remarkably rapid economic growth, the poorest 20% of the world's population (in 2008 this represented 1.4 billion people who lived on less than USD 1.3 a day) received less than 1% of the additional income this growth generated (UNCTAD, 2013a).

With regard to possible interlinkages between socioeconomic development and environmental sustainability, the 2012 UN Conference on Sustainable Development (also known as Rio+20) achieved a breakthrough agreement among the UN member states. It reaffirmed that "integration of environment and development concerns [...] will lead to the fulfilment of basic needs, improved living standards for all, better protected and managed ecosystems and a safer, more prosperous future" (Agenda 21, 1992 Earth Summit). Moreover, its outcome (titled The Future We Want) elaborated that integrating environmental and development concerns would mean promoting sustainable development in all three dimensions, i.e. socially, economically and environmentally (United Nations, 2012). The outcome also led to an establishment of an, an inclusive multi-stakeholder consultative process whose mandate is to identify a set of SDGs open working group (paragraphs 246-248, United Nations, 2012,).

Having conducted 13 sessions of multi-stakeholder consultations since January 2013, the open working group agreed on a set of 17 SDGs (Box 9.1) and linked them to 169 targets to be taken as "an integrated, indivisible set of global priorities for sustainable development" (United Nations, 2014d).

BOX 9.1 Sustainable development goals (SDGs) as proposed by the open working group

Goal 1. End poverty in all its forms everywhere

Goal 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

Goal 3. Ensure healthy lives and promote well-being for all at all ages

Goal 4. Ensure inclusive and equitable quality education and promote life-long learning opportunities for all

Goal 5. Achieve gender equality and empower all women and girls

Goal 6. Ensure availability and sustainable management of water and sanitation for all

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

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Goal 10. Reduce inequality within and among countries

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable

Goal 12. Ensure sustainable consumption and production patterns

Goal 13. Take urgent action to combat climate change and its impacts

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

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

Source: United Nations (2014d).

The proposed SDGs incorporate all of the eight goals listed in the MDGs and further extend its scope to include those related to economic development (e.g. inequalities, economic growth, decent jobs, industrialisation and energy) and an institutional framework required for peace and justice. The SDGs also expand and clarify the goals related to environmental sustainability, which includes climate change, cities and human settlements, ocean and marine resources and sustainable consumption and production patterns. The proposed SDGs was adopted by the 68th session of the UN General Assembly as "the basis for integrating sustainable development goals into the post-2015 development agenda" in the intergovernmental negotiations on the post-2015 development agenda (United Nations, 2014e).

The post-2015 development agenda will be universal, transformative and integrated

In December 2014, just a month before the start of the intergovernmental negotiations, the UN Secretary-General Ban Ki-moon released his Synthesis Report on the Post-2015 Agenda as a substantive input to the above-mentioned intergovernmental negotiations.

The Synthesis Report provides his own summary of the discussions on the post-2015 development agenda and demonstrates what may be the overarching principles of the post-2015 development agenda, namely the agenda should be: 1) universal; 2) transformative; 3) and integrated across the three dimensions of sustainable development.

Universal agenda means that they are applicable to all countries, not only to developing countries, as was the case with the MDGs. The universality also implies that all stakeholders, not only the governments, should be involved in such a way that we achieve the SDGs relying on a "shared responsibility for a shared future".

Transformative agenda means that it should transform our economies, environment and society in a way that will make "our patterns of growth more inclusive, sustained and sustainable" (paragraph 54, United Nations, 2014b). The concept of a transformative agenda was first elaborated by the High-Level Panel of Eminent Persons (HLPE) on the post-2015 development agenda, which was been convened by the UN Secretary-General in 2012. The HLPE's final report recommends that the post-2015 development agenda should be driven by five major transformative shifts, including in the way we incorporate environmental and climate change concerns into social and economic development (United Nations, 2013a). Many of the illustrative goals and targets presented in the report have been incorporated in the open working group's proposal on the SDGs.

A major implication of a transformative agenda is that in addition to meeting the quantitative targets within a given time frame – as was the case with the MDGs – the process of implementing the agenda should also reinforce sustainability in all three dimensions.

Finally, the agenda should be integrated. On this point the synthesis report stipulates that: "Sustainable development must be an integrated agenda for economic, environmental and social solutions. [...] This integration provides the basis for economic models that benefit people and the environment; for environmental solutions that contribute to progress; for social approaches that add to economic dynamism and allow for the preservation and sustainable use of the environmental common; and for reinforcing human rights, equality, and sustainability" (paragraph 82, United Nations, 2014b).

The emphasis on the interlinkages between social, economic and environmental aspects of development may have resulted directly from the difficult experiences many LDCs had in their efforts to attain the MDGs. The difficulty stemmed from the fact that the MDG framework, while effectively addressing what should be achieved as mostly social development goals, did not indicate how they could be achieved.

During the MDG implementation phase, it became clear that pursuing social development goals requires addressing the root cause of the problems, which was found in most cases in the underlying fragility of countries' economy. Poor economic performance constrained countries' resource bases required for eliminating poverty or promoting health and education. Continuing undernourishment, poor health and low educational attainment prevented many households and workers in LDCs from improving their productive capacity, hence prolonged their poor economic performance. Few LDCs managed to escape this vicious circle in the MDG years (UNCTAD, 2014).

With a view to integrating goals, targets and the means of implementation into one cohesive and integrated whole, the UN Secretary-General's Synthesis Report suggests that the 17 SDGs be framed into six essential elements comprising: 1) dignity, to end poverty and fight inequality; 2) people, to ensure healthy lives, knowledge and the inclusion of women and children; 3) prosperity, to grow a strong, inclusive and transformative economy; 4) planet, to protect our ecosystems for all societies and our children; 5) justice, to promote safe and peaceful societies and strong institutions; and 6) partnership, to catalyse global solidarity for sustainable development. (see Figure 9.1).

Figure 9.1 Six essential elements of the SDGs

Source: The UN Secretary-General's Synthesis Report (2014)

How trade is treated in the SDGs ?

Increasing synergies across different goals may also be achieved by clustering targets under different goals according to a common issue that different target address, that are closely related to international trade.

International trade can significantly increase a country's income-generating capacity. As such, trade has been treated as an engine for economic growth and development in the global partnerships, including the previous FfD Conferences in Monterrey (2002) and in Doha (2008). With respect to the SDGs, the Rio+20 outcome reaffirmed that trade was one of essential means of implementation of a sustainable development strategy (paragraph 281, United Nations, 2012).

BOX 9.2.1 Trade-related targets and how they relate to the WTO provisions

Goal 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

2.b: Correct and prevent trade restrictions and distortion in world agricultural markets, including by the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round

Goal 3. Ensure healthy lives and promote well-being for all at all ages

3.b: Support research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration, which affirms the right of developing countries to use to the full the provisions in the TRIPS agreement regarding flexibilities to protect public health and, in particular provides access to medicines for all

Goal 10. Reduce inequality within and among countries

10.b: Implement the principle of special and differential treatment (SDT) of developing countries, in particular least developed countries, in accordance with WTO agreement

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

14.6: By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, and eliminate subsidies that contribute to IUU fishing, and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the WTO fisheries subsidies negotiations (taking into account ongoing WTO negotiations and WTO Doha Development Agenda and Hong Kong Ministerial Mandate)

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

17.10: Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the WTO including through the conclusion of negotiations within its Doha Development Agenda (DDA)

17.12: Realise timely implementation of duty-free, quota-free (DFQF) market access on a lasting basis for all least developed countries consistent with WTO decisions, including, through ensuring that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access

Source: United Nations (2014d).

There are about 20 targets in different SDGs that are related to international trade (see Box 9.2). These trade-related targets can be classified into two groups: one that addresses an institutional framework, i.e. the multilateral trade rules under the World Trade Organization and one that is related to trade in its functional form, i.e. importing and exporting goods and services.

Box 9.2.2 lists only selected targets (the list is non-exhaustive) which include those targets that are interlinked with a country's capacity to increase gains from trade. The outcome of these trade-related targets will positively influence a country's supply capacity and the competitiveness of its goods and services in the international market.

BOX 9.2.2 Targets related to the functional nature of trade (non-exhaustive)

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

8.2: Achieve higher levels of productivity in economies through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors

8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation and encourage formalisation and growth of micro, small and medium-sized enterprises, including through access to financial services

8.9: Devise and implement policies by 2030 to promote sustainable tourism which creates jobs, promotes local culture and products

8.a: Increase aid-for-trade support for developing countries, particularly LDCs, including through the Enhanced Integrated Framework for LDCs

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

9.3: Increase the access of small-scale industrial and other enterprises, particularly in developing countries, to financial services, including affordable credit, and foster their integration into value chains and markets

9.b: Support domestic technology development, research and innovation in developing countries, including by ensuring a policy environment conducive to, among other things, industrial diversification and value addition to commodities

Goal 10. Reduce inequality within and among countries

10.c: By 2030, reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

14.7: By 2030, increase the economic benefits to SIDS and LDCs of the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism

Goal 15. Protect, restore and promote the sustainable use of terrestrial ecosystems […] and halt biodiversity loss

15.7: Take urgent action to end the poaching and trafficking of protected species of flora and fauna and address both the demand and supply of illegal wildlife products

15.c: Enhance global support of efforts to combat the poaching and trafficking of protected species, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities

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

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

Source: United Nations (2014d).

TRADE AS A MEANS OF IMPLEMENTING SUSTAINABLE DEVELOPMENT GOALS

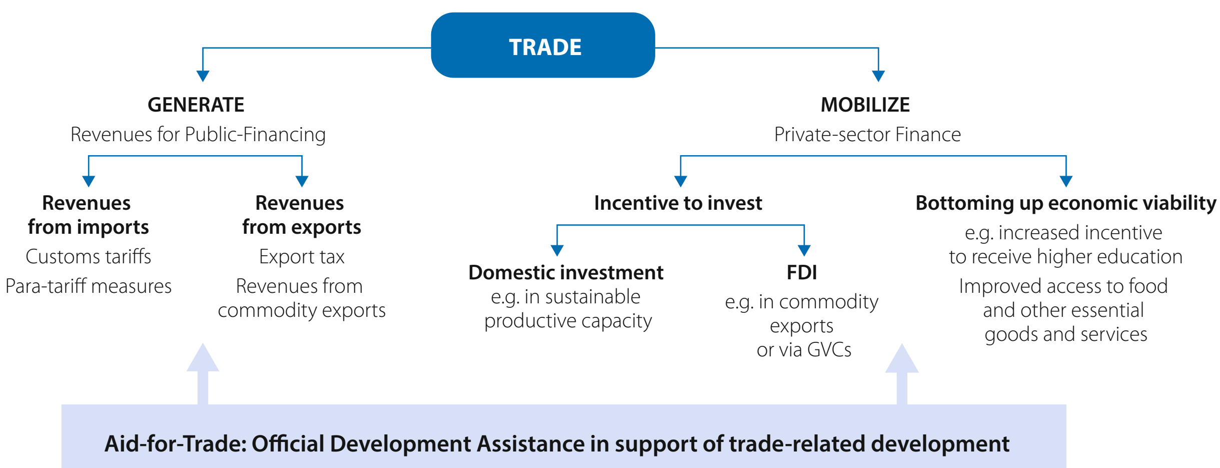
As seen in the previous section, the SDG framework as it stands today treats international trade as a means to achieving inclusive and sustainable development in the coming decades. Trade is considered one of the non-financial means of implementation because of the positive impact that trade-related actions can generate upon a country's socioeconomic developmental capacity (UNCTAD, 2014e).

The SDG framework also suggests certain actions to be taken by the global partnership with a view to enhancing the development-enabling power of trade. These are presented as targets under goal 17 (i.e. targets 17.10-17.12). The upcoming conference on FfD in Addis Ababa in July 2015 may further detail what the international community can do to help developing countries make the best use of international trade in their efforts to achieve SDGs (UN, 2015).

This section maps out two specific channels – public and private financing – through which importing and exporting of goods and services can generate or mobilise financial resources and non-financial economic dynamism.

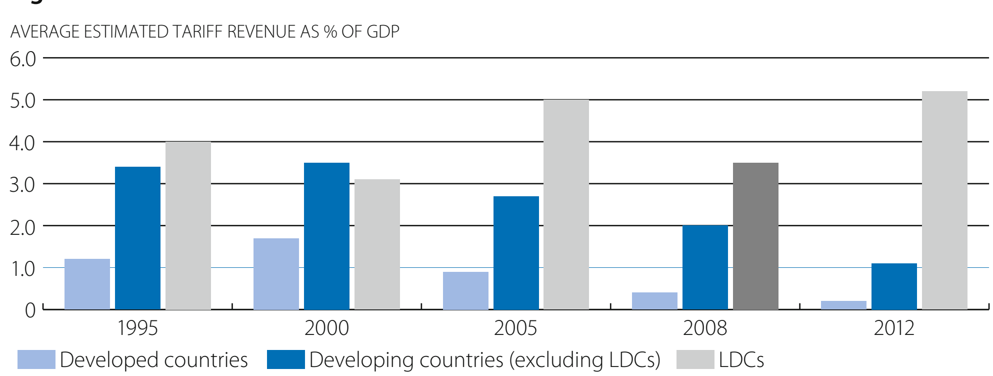
International trade could be the single most important external source of development financing, particularly to small developing countries and LDCs. On average, the value of these countries' total trade (i.e. imports plus exports) amounted to 60% of their GDP in the years 2008-12, having increased significantly from an average 27% of GDP in the years 1986–90. This increase in the trade-to-GDP ratio occurred against GDP growth of around 7% during the period 2000–11, compared to 3% for developing countries as a whole (see the World Bank, World Development Indicator and UNCTAD Globestat).

Figure 9.2 Trade - Financing paths



Source: UNCTAD

Figure 9.3 Estimated Tariff revenues as % of GDP



Source: UNCTAD

StatLink http://dx.doi.org//10.1787/888933241571

Trade as a source of public domestic finance

A government can raise public revenues from international trade in three major ways: 1) via tax on goods (and services) imported (i.e. tariff revenues); 2) via tax on goods (and services) exported (e.g. export tax); and 3) proceedings from exports, such as commodities (services are in parentheses because taxes on services involve various regulatory channels, such as licencing fees, and they are also indirectly taxed when they are integrated in goods).

On average the magnitude of tariff revenue in LDCs can be as large as 5% or more of their GDP, as compared to around 1% in the case of non-LDC developing countries. Moreover, the relative size of tariff revenues in LDCs has remained significant in the past 10-15 years, compared to a clear downward trend in non-LDC developing countries. This has been due to a massive increase in LDCs' imports during the period, which grew at the annual average of 17% between 2000 and 2010. During the same period, the average applied rate of import duties was only slightly reduced over the period, from 8% in 2002 to 7% in 2012.

Assuming that a high level of economic growth and associated import growth continues in LDCs, tariff revenues are likely to remain a significant source of public revenues. Measure such as customs automation e.g. via the UNCTAD Automated System for Customs Data (ASYCUDA) would help LDCs improve efficiency in customs revenue collection and substantially reduce trade costs. The ASYCUDA, an integrated customs management system for international trade and transport operations, is designed and developed for customs administrations, helping the trade community comply with international standards when fulfilling import-, export- and transit-related procedures and streamline procedures of cargo control and the transit and clearance of goods. The ASYCUDA has improved trade facilitation in over 90 countries, territories and regions.

Export taxes are levies on the value or quantity of products exported. They are most frequently applied to extractive commodities, such as ores, minerals other base metals and fossil fuels, and agricultural commodities. Export taxes have been increasing since the 2008-09 financial crises. Recent research based on a cross-country dataset for the years 2000-11 suggests that on average the ad valorem export tax rate on unprocessed commodities is around 20 % and on semi-processed and finished products it ranges between 13% and 17% (Solleder, 2013). Information on total export tax receipts in proportion to total public revenue is hard to obtain as export taxes are collected through various channels.

Governments can also raise a significant amount of public revenue from commodity exports, e.g. via contractual schemes such as production sharing and/or state equity (UNCTAD, 2014). Revenue raised through commodity exports may be pooled as a fund. An example would Sovereign Wealth Funds (SWFs), which are state-owned investment funds that direct exporting countries' windfall gains into international bond and stock markets. SWFs bourgeoned during the recent commodity boom years: of an estimated USD 4.7 trillion held in SWFs by the end of 2011, over 40 % – USD 2 trillion – was from commodities and owned by developing countries (Ibid.). In certain cases, revenue from commodity exports is used for fiscal stabilisation when overall tax revenue falls below the expected level. Such a measure can insulate the domestic economy from external shocks arising from commodity price volatility (UNCTAD, 2013b).

International trade is thus an important source of public revenue to LDCs, many of which are highly specialised in the export of commodity ores, metals and fossil fuels. As shown in Table 9.1, when all the trade-related revenue (i.e. the aggregate revenue from import and export duties, tax on exports and other trade-related revenue) are put together, it accounts for a significant portion of the total public revenue in low income countries (World Bank World Development Indicator, 2013). Another estimate by Cage and Gadenne (2014) suggests that trade-related revenue for sub-Saharan African countries, many of which are LDCs, may make up around a quarter of their total public revenue.

TABLE 9.1 Trade-related revenue (as % of total public revenue)

	2000	2011
High income	1	1
Middle income	7	5
Low & middle income	8	6
East Asia & Pacific	9	8
Europe & Central Asia	6	3
Latin America & Caribbean	7	5
Middle East & North Africa	10	5
South Asia	15	14
Sub-Saharan Africa	...	25*

Source: World Bank World Development Indicator (2013); Cagé and Gadenne (2014).

Trade as a source of private domestic finance

In addition to the above-mentioned direct revenue-generating paths, participation in international trade can mobilise a significant amount of private-sector financial resources by encouraging domestic or foreign investment in the productive capacity for trade-related goods and services. International trade can also boost the income-generating capacity of domestic businesses by fostering a vent for surplus, creating jobs and improving the overall economic prospects of a country, which are essential requirements for the eradication of absolute poverty.

Foreign direct investment remains the most stable and long-term source of international private financing for developing countries. FDI flows to developing countries reached USD 778 billion in 2013, exceeding the total FDI flows to developed countries. For LDCs, FDI is a relatively important source of finance, accounting for around 21% of the total external sources of finance received in 2012. Moreover, while FDI amounts to less than 10% of the value of gross fixed capital formation in developing countries, in LDCs it reaches around 15% (UNCTAD, 2014b).

The link between trade and FDI flows has been tightened in recent years as a result of the rise of GVCs (United Nations, 2014f). Today, roughly 60% of goods and services traded are intermediate and capital goods, suggesting the evolving nature of production-sharing schemes across the globe. Over the past 20 years, FDI flows and trade flows have expanded significantly. In the years between 1990 and 2010, there was a strong positive relationship between FDI from OECD countries to developing countries and the improvement of the latter's market access conditions to international markets (Fugazza and Trentini, 2014). The predominant portion of FDI from OECD countries to non-OECD countries during the same period was used for the creation of an export platform. This explains well the recent parallel growth of FDI and trade via networks of GVCs, i.e. South-South exports of intermediate goods and South-North exports of final goods through bilateral and regional trade agreements.

Remittances are a significant source of income to developing countries, particularly to LDCs, growing by an estimated 6.0% to reach USD 414 billion in 2013, well above total ODA (World Bank, 2012). In 2013, remittances received by LDCs reached USD 31 billion, compared to USD 28 billion in FDI and USD 43 billion in ODA. Remittances directly boost the level of disposable income of private households in LDCs and can make a significant impact on the household's investment decisions, including investment in education and training. A study of 77 developing countries found that a 10.% rise in remittances led to a 3.1% reduction in the percentage of the population living on less than USD 1.3 a day (UNCTAD, 2011).

TABLE 9.2 Composition of external sources of finance, 2012

	LDCs	Developing and Transition Economies
ODA	38	6
Remittances	26	20
FDI	21	40
Other investments	13	11
Portfolio investments	1	23
TOTAL	100%	100%

Source: UNCTAD World Investment Report (2014).

Trade as a non-financial means of enhancing economic viability

Trade also plays a key role as a non-financial means to development by improving the economy's income-generating capacity and bolstering its economic viability from the bottom up, which in turn reduces the overall financing needs for achieving development goals such as poverty alleviation.

In the simplest cases, trade improves a developing country's access to goods and services that are essential to providing a life of dignity for all, such as essential medicines, vaccines, medical equipment and certain health care services. Access to these essential goods and services via trade – and by further reducing trade costs for acquiring them – can improve the cost-effectiveness of a country's public expenditure in areas such as healthcare when the availability of such goods and services are still limited in the domestic market. For example, there is evidence that improving international trade logistics – which reduces trade costs – can help increase vaccination rates in developing countries as specific handling procedures are required for such products (United Nations, 2013b).

Trade can contribute to inclusive development, especially when trade results in job creation for economically disadvantaged segments of the society, such as women. In Lesotho, trade-led expansion of the apparel industry generated over 30 000 new jobs between 1999 and 2004, most of which have been filled by women. Lesotho's clothing industry has grown to be the country's single largest employer, with some 48 000 jobs in 2004, which confirms that trade policy – in this case, preferential access to the US markets under the Africa Growth and Opportunity Act (AGOA) – can play a catalytic role in generating formal jobs for people, including underprivileged and relatively unskilled women (UNCTAD, 2012a). Beyond job creation, however, there are still major challenges in terms of vulnerability and inequality. The jobs that were made available to women in the apparel industry were concentrated in the low-wage segment, with limited opportunities to develop skills. And the stability of the jobs very much depends on the continuation of the preferential market access.

The catalytic impact of trade is maximised when business linkages connect the trade sector with the non-trade sector. In this way increased trade generates jobs not only in export sectors but also in sectors that facilitate imports and exports, such as transport, packaging, marketing and financial services.

As regards impacting social development, economic opportunities arising from trade can provide people with a greater incentive to obtain a higher education or skills training. In India, for example, growth in services exports based on IT, such as call centres and offshore administrative services, increased the demand for female workers, which in turn increased the enrolment of girls, particularly in English-language schools (Oster and Millet, 2013).

Trade in the post-2015 development paradigm

> Progress in sustainable development will depend on vibrant economies and inclusive growth to keep pace with growing populations and longer life expectancies, and to generate employment, wages, and revenues for social programmes. (Paragraph 133, Synthesis Report of the UN Secretary-General)

This section examines how the new development paradigm under the post-2015 development agenda will affect the possible contribution of international trade to LDCs' capability to achieve inclusive and sustainable development.

This question can be approached by examining: 1) if the current international trade trend would facilitate or impede the role of trade as a means for development; 2) if and how the global focus on sustainable development would influence LDCs' capacity to use trade for sustainable development purposes ; and 3) a possible new approach of international development co-operation, in particular aid for trade, to meet new challenges.

The focus is placed on LDCs because they face a relatively greater challenge in achieving the SDGs, which are in general more ambitious than the MDGs. Moreover, as discussed above, the qualitative as well as quantitative contribution of international trade to their socioeconomic development can be much greater than to other countries.

HOW DOES TRADE HELP LDCs ACHIEVE THE SDGs?

The global market is fast moving towards a tariff-free environment through a proliferation of preferential trade agreements (PTA) at bilateral, regional and inter-regional levels. By mid-2014, there were 585 PTAs notified to the WTO, of which 379 are currently in force. However, most PTAs bypassed LDCs, particularly those in sub-Saharan Africa.

The proliferation of RTAs can reduce the value of preferential market access that is enjoyed by LDCs. Imagine that the EU, which provides LDCs with the "Everything-but-Arms (EBA)" arrangement, forms a RTA with non-LDC countries. This will reduce if not eliminate the gap between the EBA rate (i.e. zero per cent) and the tariff rate that applies to the RTA member countries. That is, the "relative" preferential margin (RPM) of LDCs is eroded. An UNCTAD study, which looked into the impact of RPM erosion on exports from sub-Saharan African countries (many of which are LDCs), estimated that one unit fall in the RPM would reduce these countries' exports on average by 0.30 percentage point (Nicita and Rollo, 2013). The study concluded that any erosion of preferential margins due to the proliferation of RTAs outside sub-Saharan Africa would imply a reduction in the probability of exports from sub-Saharan Africa, both for existing flows and for potential flows.

The proliferation of PTAs outside LDCs may have a serious implications for the usefulness of the SDG target 17.12, which calls for a "timely implementation of duty-free, quota-free market access [. . .] for all LDCs". Even if this target is achieved, i.e. all the exports from LDCs face zero tariffs in major importing markets, its impact upon the promotion of LDCs' exports may be limited in face of continuing tariff liberalisation by developed and non-LDC developing countries on a bilateral, regional and global basis. This calls for additional action by the international community if the aim is to provide LDCs with significantly improved exporting opportunities.

How the transformative agenda affects the use of trade as a means of implementation

As discussed in section A.2, the post-2015 development agenda is intended to be a transformative agenda, placing a strong emphasis on reshaping the way we live to make it more environmentally sustainable. It stresses that today's economic development should not undermine the opportunities of future generations' development.

For instance, under SDG 12 (Ensure sustainable consumption and production patterns), countries are expected to "achieve sustainable management and efficient use of natural resources by 2030" (target 12.1) and "rationalise inefficient fossil-fuel subsidies that encourage wasteful consumption" (target 12.c). SDG 7 (Ensure access to affordable, reliable, sustainable and modern energy) suggests that countries "increase the share of renewable energy in the global energy mix by 2030" (target 7.2).

A "transformative" agenda may have significant impacts on the trading environment surrounding LDCs, directly or indirectly.

First, an increase in environmental sensitivity for instance can reduce the demand for natural resource-based commodities, especially fossil energy-related products. This can gradually reduce export-related public revenue of commodity-dependent LDCs, at the time when they will be facing rising financing needs for achieving sustainable development. UNCTAD World Investment Report 2014 estimates the total investment needs of LDCs in the sectors related to sustainable development amounts to nearly USD120 billion a year, while the current investments in LDCs in these sectors are around USD40 billion a year. The "key SDG sectors" include transport, water and sanitation, climate change mitigation and adaptation, bio-diversity, and biodiversity maintenance, among others. Separately, the final report from the Intergovernmental Committee of Experts on Sustainable Development Financing indicated that the financing need to meet SDGs could amount to US$ 200 billion annually, which exceeds even the highest-ever level of ODA in the year 2013, at USD 134.8 billion in net terms (United Nations, 2014f)

To meet these financing needs, LDCs need special and targeted support from the international community, with a view to attracting the required resources from domestic and foreign investors. They must leverage ODA for additional private funds, provide technical assistance to improve productive capacity and reduce trade costs (UNCTAD, 2014b). Such support is crucial for commodity-dependent LDCs to broaden and deepen horizontal and vertical linkages between the commodity sectors and other sectors of the economy, while improving efficiency by ensuring the best use of windfall revenue from commodity exports (UNCTAD, 2014c).

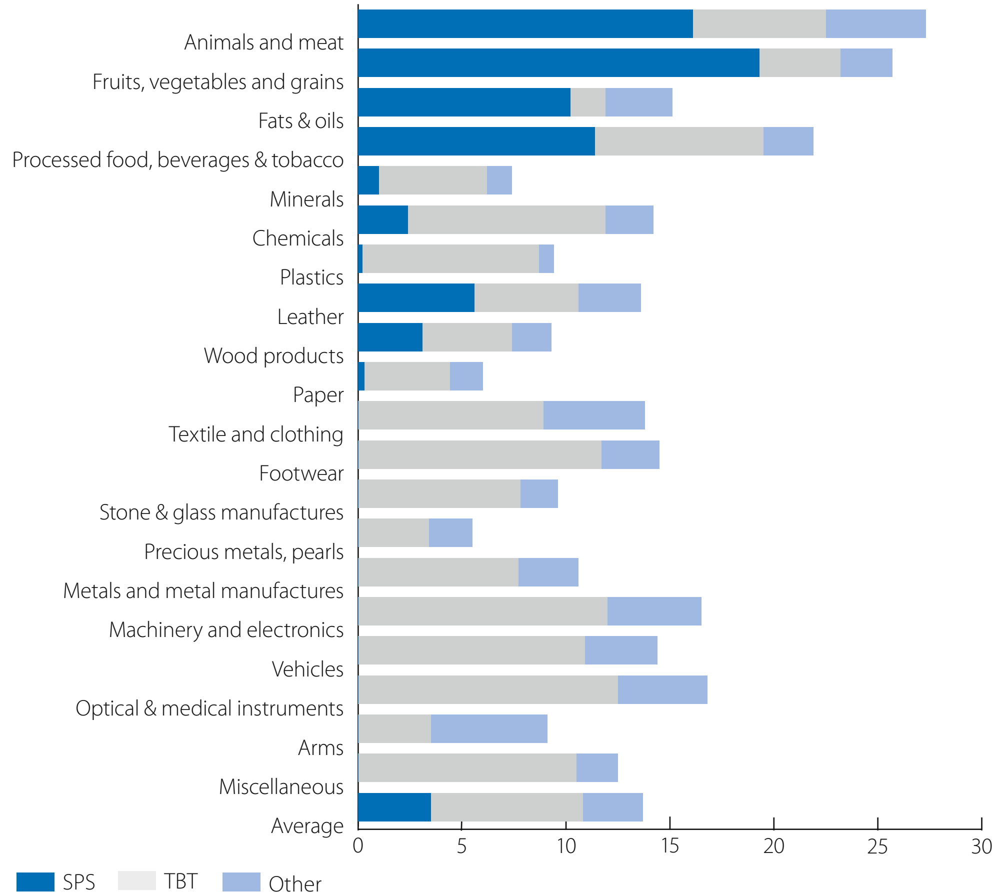
Second, a transformative agenda can influence trade in the framework of the post-2015 development agenda through non-tariff measures (NTMs). NTMs are measures other than ordinary customs tariffs that can make a quantitative impact upon the import flows of the country applying such measures (UNCTAD, 2010). The majority of NTMs identified today are so-called technical measures, which set the quality standard of the products concerned to ensure sound socioeconomic and environmental living conditions (e.g. food safety and environmental protection measures). More than 50 % of exported products of developing countries face some types of technical NTMs (UNCTAD, 2012b).

The overarching objective of most of the technical measures is to protect, among others, human safety, and the environmental sustainability. That is, they closely resonate with the SDGs, in particular Goal 2, 3, 12, 13 and 15 that cover food security, healthy lives and actions to achieve sustainable ecosystems. In this context, it is most likely that, in attempt to achieve SDGs, countries across the globe are likely to increase such technical measures in the coming years.

The problem is that an increased use of such measures in one country implies an increased cost in other countries' exports. The aggregate impact of SPS and TBT measures on trade costs is high, particularly for LDCs, both in terms of the entry costs and the transaction costs. A recent UNCTAD study provides estimates of average *ad valorem* equivalents (AVEs) of selected NTMs at the sectoral level (Cadot et al., 2015). The results are relevant: on average, NTMs in the livestock and agricultural sectors impose import barriers equal to around a 26-27% tariff. Over 20 % stem from SPS and TBT measures in these sectors. Various other sectors that developing countries export in have AVEs higher than 15%. This is overwhelmingly the result of technical measures (see Figure 9.5).

Another UNCTAD study investigated the effect of the EU's SPS measures for 21 broad categories of agricultural goods. It found that the potential trade-distorting effect imposed by such measures was asymmetric across different exporting countries. More precisely, the EU's SPS measures generate higher burdens to exporters from low income countries than other countries (Murina and Nicita, 2014). Overall, the trade distortionary impact of the SPS measures on lower income countries' agricultural exports was about USD 3 billion – roughly equal to 14% of their total agricultural exports to the EU – in addition to the reduction in exports due to competing exporters. These results are consistent with the hypothesis that while many middle and high income countries have the internal capacity to comply with SPS measures, lower income countries do not.

Figure 9.4 Ad valorem equivalents of SPS, TBT and other NTMs, by sector



Source: Cadot et al. (2015).

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Can the global partnership help LDCs overcome potential rise in trade costs?

What could be done to lessen the negative impact of technical and regulatory measures in the international market – whose incidence is likely to increase in the coming years – upon exports of LDCs? The difficulty of the issue is that the problem arises as a side-effect of other countries' policy measures aiming at improving the well-being of their people and protecting the environment. The solution for such problems would require actions from the global partnership, including the Aid-for-Trade Initiative.

Unlike tariffs or non-tariff barriers such as quotas, eliminating SPS and TBT measures for the sake of LDCs' export promotion is not an option. Here, the global partnership can redress the root causes of trade costs upon LDCs' exports incurred from NTMs while at the same time help LDCs themselves develop the capacity to effectively use such policy measures for meeting their own SDGs linked to food security, health and environmental protection.

One of the sources of trade costs arising from NTMs is the cost of acquiring information on NTMs, particularly on SPS/TBT measures in importing countries. The challenge multiplies when different importing countries apply different SPS and TBT measures on the same product. Furthermore, information on such measures is scattered across various regulatory agencies in a country, which makes gathering the relevant data difficult and costly. One existing action by the global partnership to address the information deficit of LDCs and other developing countries is the Transparency in Trade (TNT) initiative. TNT is an inter-agency programme of UNCTAD, the World Bank, the International Trade Centre and the African Development Bank. It facilitates the international effort to collect official data and information on NTMs applied in different countries and improves transparency by classifying different measures under a common taxonomy jointly developed by different international agencies (UNCTAD, 2012c). To date, data for 51 countries has been collected and coverage of over 90 % of world trade is envisaged for 2015.

Another source of trade costs, closely related to the above, is the disparity across countries of the targeted level of product quality standards or required processing methods of a given SPS or TBT measure. The global partnership may encourage increased harmonisation of national standards based on the international standards (e.g. those that are internationally agreed on and scientifically proven), which will remove many of the restrictions to trade, as production processes do not need to be customised to meet requirements particular to each export market.

Harmonisation can be attempted multilaterally, but an increasing number of bilateral, regional and mega-regional agreements incorporates an ambition to mutually recognise or harmonise SPS and TBT requirements. Potential benefit of bilateral or regional harmonisation on reducing trade costs of developing countries has been debated. Shepherd (2007) presents empirical evidence that the harmonisation towards international standards increases export diversification into new markets, while bilateral harmonisation does not. The study estimates that a 1.0% increase in country-specific standards leads to a 0.7% decrease in partner-country export variety, while a 1% increase in internationally harmonised standards actually increases export variety by 0.3%. Both effects are larger in absolute value terms for low-income countries than for high-income countries, thus highlighting the importance of the international harmonisation of standards from a development point of view. Disdier, Cadot and Fontagné (2012) indicate that the effect of technical requirements contained in North-South trade agreements results in developing countries adopting the more stringent requirements of the developed markets, thereby increasing the sellability of their products. However, these higher standards also lead to higher costs in the South, thereby reducing the competitiveness of the markets in the South.

Another source of trade costs is the lack of technical, financial and administrative capacity of LDCs in designing and implementing the technical measures necessary to achieve their own SDGs. As discussed, the measures that are seen as NTMs are policy measures that are pertinent to achieve goals related to health, safety and the protection of the ecosystem. The global partnership, such as the Aid-for-Trade Initiative, could provide support to LDCs designing their own policy measures, in a way that it will improve LDCs' administrative and technical capacity in dealing with these measures, which in turn will reduce the compliance costs they are facing with the NTMs in their export markets.

WHAT WILL BE THE IMPLICATIONS FOR THE AID FOR TRADE INITIATIVE?

At the time of the second FfD Conference (the Doha Declaration), a critical aim of aid for trade was considered to be to "help developing countries, particularly LDCs, with trade policy and regulations; trade development; building productive capacities; trade related infrastructure; trade-related adjustment and other trade-related needs." These elements will no doubt remain relevant as the expected outcome of aid for trade.

However, the new development paradigm under the post-2015 development agenda may require aid for trade to adopt a new approach – an integrated approach. This is about ensuring the achievements made under aid for trade lead to an inclusive and sustainable development outcome. Perhaps more importantly, the design and the implementation framework of aid for trade projects must be inclusive and sustainable. In this respect, what is the Aid for Trade Initiative expected to contribute to the post-2015 development agenda?

The aid-for-trade monitoring exercise indicated that many partner countries, as well as donor countries, have high hopes that aid-for-trade can contribute to improving a country's capacity to achieve the goals of the post-2015 development agenda. Expectations are particularly high regarding aid for trade's contribution to economic growth and poverty eradication through inclusive and sustainable development and financing for development. This confirms that countries themselves see trade as an effective enabler, or a means of implementation, of the post-2015 development agenda (see Figure 9.5).

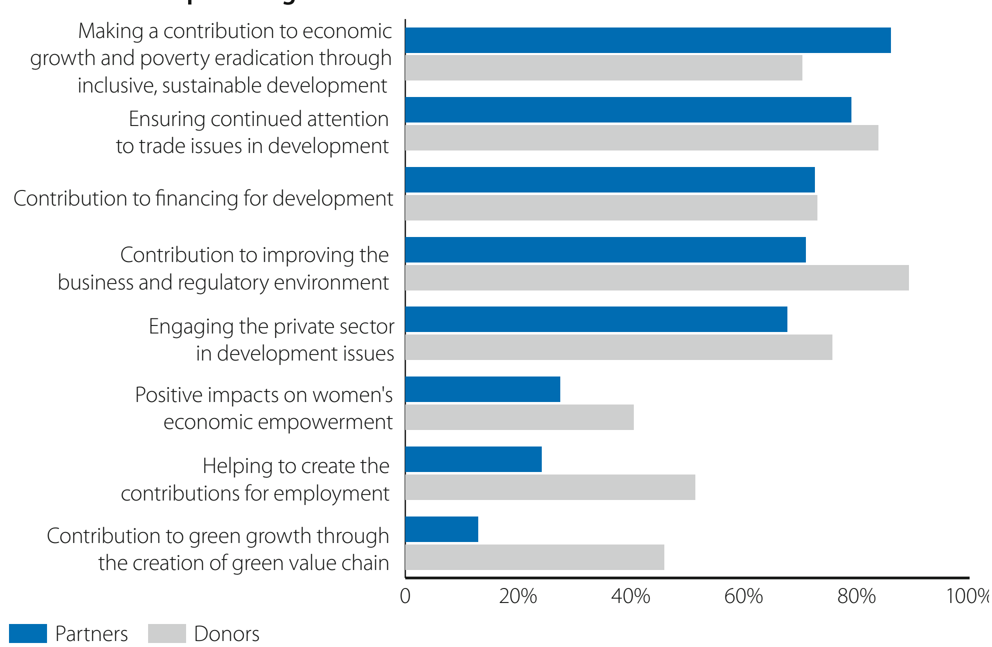
The response also indicates that countries – particularly partner countries – are yet to be convinced that economic development and social and environmental outcomes, such as improving women's economic empowerment or achieving green growth, are bolstered by aid for trade.

What would be key contribution of reduction in trade costs to achieving inclusive and sustainable development? To this question, both partner and donor countries responded that a direct contribution would be upon increase in exports and employment, and diversification in export markets. Interestingly, only partner countries associate a reduction in trade costs with diversification in export products and increasing domestic private sector investment, which are closely associated with structural transformation of their economies (Figure 9.6).

The above responses also reconfirm the importance of the Aid-for-Trade Initiative designed and implemented with an integrated approach. Trade policy in the post-2015 development paradigm will be a part of a holistic development strategy. The expected outcome of a trade policy would not only promote trade but also make trade bring the country closer to achieving inclusive and sustainable development. That is, the Aid-for-Trade Initiative is expected to help countries achieve policy coherence between trade promotion and economic development on the one hand and social and environmental development objectives on the other.

The United Nations Inter-Agency Cluster on Trade and Productive Capacity may provide a useful example on how to achieve policy coherence at the national level (see United Nations Inter-Agency Cluster on Trade and Productive Capacity: Delivering Aid for Trade, 2014). Launched in April 2008, fifteen UN entities are collaborating in this inter-agency mechanism which creates an integrated approach for delivering joint programmes and operations related to trade and productive capacity improvement (current members of the cluster are UNCTAD, UNIDO, FAO, ILO, UNCITRAL, ITC, WTO, UNDP, the five UN Regional Commissions, UNEP and UNOPS). Being a unique UN-wide effort, the cluster co-ordinates the trade-related development contributions of different entities to the global agendas of the Aid-for-Trade Initiative, the MDGs, the upcoming SDGs and the post-2015 development agenda.

Figure 9.5 Contribution of the Aid for Trade Initiative to the post-2015 development agenda



Source: Joint OECD/WTO monitoring exercise (2015)

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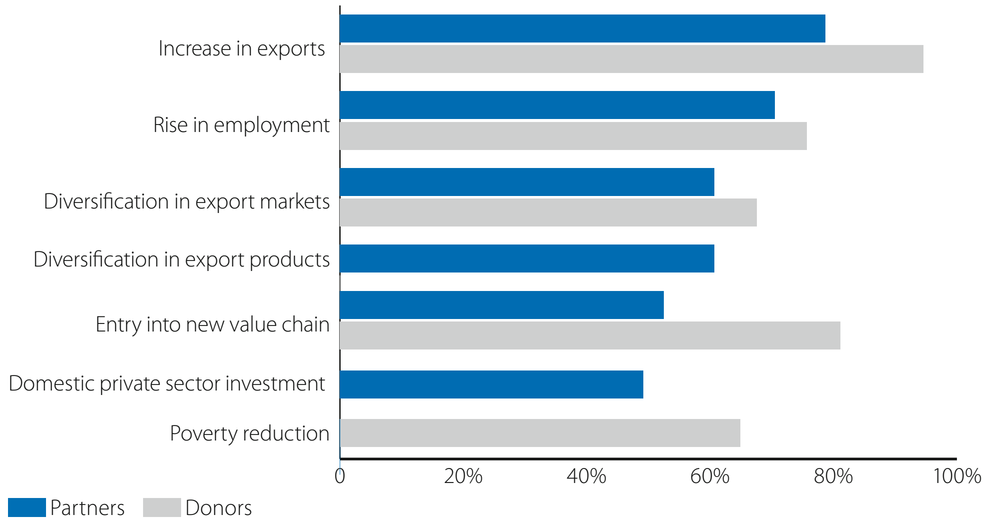
Figure 9.6 Contribution of a reduction in trade costs to inclusive and sustainable development



Source: Joint OECD/WTO monitoring exercise (2015)

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CONCLUSIONS

Trade has been an engine of economic growth and a source of financial and non-financial means for development. In particular to LDCs, international trade has been an essential source public revenue, domestic private sector investment and capital formation required for improving productive capacities and structural transformation.

The post-2015 development agenda, which aim at inclusive and sustainable development in all three (social, economic and environmental) dimensions, requires a significantly increased amount of financing needs. This would increase the importance of international trade as a source of public/private financing for development for developing countries particularly LDCs. However, the "transformative" nature of the post-2015 development agenda may affect the future trade flows in such a way that increase trade costs facing LDCs exports via, *inter alia*, a rising number of NTMs in LDCs' market countries.

For the Aid-for-Trade Initiative to help LDCs use international trade in their effort to achieve inclusive and sustainable development, it needs to be designed and implemented with an "integrated" approach. That is, in addition to achieving trade promotion and diversification via, e.g. strengthening productive capacities, the Aid-for-Trade Initiative may aim at helping countries reinforce the channels through which trade "outcomes" can exert positive influence over social, economic and environmental outcomes.

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