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Item 7: Evolution of the international trading system and its trends from a development perspective

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"Harnessing the Benefits of Global Value Chains"

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Ladies and Gentlemen

I am very pleased to address this fifty-ninth session of the Trade and Development Board on the subject of the 'Evolution of the international trading system and its trends from a development perspective'.

The global economy remains fragile. Recovery from the financial and economic crisis remains sluggish and downside risks are substantial. In fact just last week the WTO revised its projections for trade growth in 2012 from the earlier 3.7 per cent growth to 2.5 per cent. Even the picture for South-South trade is less buoyant than before. If the crisis worsens it will put at risk some of the developmental gains of recent years.

Persistent high unemployment is testing many governments' resolve about keeping markets open. Trade restrictions are accumulating like bad cholesterol, and the danger is that the benefits of trade openness will be incrementally undermined. WTO's and UNCTAD's monitoring of trade restrictive measures are a useful means to help Members keep their cholesterol levels under control. What can we in the international community do to help in the present circumstances?

First of all, we must remain focused on our primary objective, a goal that the WTO and UNCTAD share: to help developing countries benefit from the globalised economy to raise living standards. In essence to use trade as a conduit to achieve development that is both sustained and sustainable.

The turbulence in the global economy has not changed this priority. However the nature of trade is changing. We are increasingly trading in tasks and in value-added and through value chains which are increasing in breadth and in depth. The way that goods are produced and traded has implications for how we can best maximise trade's contribution to growth and development.

Regional and global value chains are not new. The journalist Nayan Chanda, tells us that by the 11th century AD, a regular trade had evolved in which African ivory was shipped to India, where craftsmen carved it into jewellery for export to Europe. Manchester's 19th century textile mills were fed with cotton from India, the United States, and elsewhere. The cloth produced there was exported throughout the world.

But what is new are their unprecedented scale, scope, sophistication, and speed. Today, trade in intermediate products accounts for more than half of world merchandise exports. Decreased transport and communication costs, underpinned by a more predictable trade policy environment, have enabled industrial production to be fragmented across regions as never before. Particularly for smaller developing countries but also for small and medium companies, global value chains lower the bar for entry into the global economy. And this phenomenon is by no means exclusive to high-tech products. This replacement of "trade in goods" with "trade in tasks" has major implications for how we think about trade.

The way we measure trade also has to change. Our traditional methodology assigns the total commercial value of an import to a single country of origin. When applied to 'made in the world' products, the methodology can exaggerate bilateral trade balances and under-state where value addition occurs.

Inflated bilateral trade numbers can inflame anti-trade sentiment. Worse, they can cause countries to assess their trade interests incorrectly -- and bad measurements tend to lead to bad policy. The WTO is working with national and international institutions such as UNCTAD, the OECD, the World Bank and many more to develop trade statistics that better reflect the reality of trade today.

A second set of changes is even more relevant to our discussion today: The rise of global value chains requires governments to re-think how best to pursue trade-led growth. Government policies can help create a virtuous circle of increasing international competitiveness and trade flows, yielding steady developmental dividends. Public-private co-operation can encourage foreign direct investment, which often brings with it improved technology. Investments in infrastructure, coupled with efficient business and support services, can deepen ties between countries, making it easier to fragment production regionally. Reduced transaction costs further boost the competitiveness of domestic firms. Active labour policies, education and innovation policies must be part of the mix.

In short, seizing the opportunities presented by global value chains requires smart government interventions.

But the trade narrative also needs to change. The traditional approach to trade was "exports good, imports bad." The political economy of trade policymaking in many countries reflects this: governments instinctively work to bolster exporters' market access while trying to protect import-competing sectors. This is ill-suited to a world in which the import content of exported goods is 40 per cent -- double the level from twenty years ago.

What can the multilateral trading system do to smooth the path through the world economy? How can we encourage the development of new trade flows? And how can developing countries be helped up the value chain and to create more growth and jobs? These are all relevant questions worth looking into as Dr Supachai and myself did last week at a Seminar organised by MOFCOM in Beijing.

Next July's Fourth Global Aid for Trade Review will look into how we can leverage Aid for Trade to better unlock the potential offered by Global Value Chains.

Aid for Trade can help countries develop the competitive, well-regulated logistics and connective services sectors that can be as important as physical infrastructure to their trade competitiveness. Aid for trade projects can also help developing country producers upgrade equipment, improve marketing abilities, and comply with international standards and other non-tariff requirements, helping them move higher up on their respective value chains. We have seen this in the case of rum in the Caribbean, flowers in Kenya, cashews in Mozambique and mangoes in Mali.

Trade facilitation is another area which can help unlock the potential of global value chains. Stripping away red tape at customs points, and enhancing transparency and predictability at borders would lead to considerable savings in time and costs of transacting trade.

Action taken at the regional level to facilitate trade could also go a long way to encouraging the development of regional and global value chains. This is particularly true for Africa, where manufacturers are often stymied by poor road, rail, and port infrastructure; high and unpredictable transportation costs; tariffs; non-tariff measures; and red tape. According to surveys conducted by the UN Economic Commission for Africa, a typical customs transaction in Africa involves a dizzying array of 20 to 30 different parties, 40 documents, 200 data elements (many of which are repeated multiple times). This is not the route to 'Factory Africa'.

The African Union is taking steps to remedy the situation. African governments this year adopted a declaration on "Boosting Intra-African Trade," pledging to improve infrastructure and reduce trade barriers. I see this as a very encouraging move.

We have also heard the same message coming from the recent Ministerial conference of Land-locked Developing Countries in Almaty.

I do, therefore, believe that concluding a WTO deal on trade facilitation, sooner rather than later, can result in significant cuts to the costs of trading today.

Let me in closing raise another important factor in international production chains: non-tariff measures. The broad decline in tariff levels has meant that non-tariff measures such as technical standards, health and safety requirements, and services regulation loom larger in international trade. This year's edition of the World Trade Report, focused on this issue. We found that the nature of NTMs has shifted: the traditional protection-motivated quotas and safeguards have increasingly given way to a precaution-oriented emphasis on health, safety, environmental quality, and other social considerations. These concerns are wholly legitimate, and cannot, indeed, should not, be blindly trumped by a desire to keep trade completely unobstructed.

That said, the nature of the measures taken to pursue public policy objectives, and the way those measures are administered, can have widely varying effects on trade, both positive and negative. We can agree that it is desirable to ensure that NTMs do not increase trade costs more than the minimum necessary to achieve their objective. Similarly, it is reasonable to argue that NTMs should not be constructed in ways that unduly favour domestic interests. Yet, in light of the complex objectives and policies in play where NTMs are concerned, finding the right balance will require cooperation and dialogue.

We can start by improving transparency about existing NTMs. At the WTO, we have created the Integrated Trade Intelligence Portal (I-TIP), a one-stop shop for accessing all information notified to the WTO by Members, including NTMs, tariffs, trade remedy use, and trade statistics. We intend to continue to work with UNCTAD to shed further light on NTMs, and explore ways to preserve the gains from trade without sacrificing public policy objectives.

There is also one issue about NTMs that is entirely uncontroversial: the importance of capacity-building, whether for helping developing country exporters comply with NTMs in important markets, or for helping governments participate in standard-setting.

In conclusion, I want to reiterate that even though the DDA remains at an impasse, there are realistic, concrete steps that can be taken to bolster trade-led growth and development, enabled by global value chains. The recent decision on LDC accessions, and the work on the ITA and the Government Procurement Agreement, shows that when the will is there amongst WTO Members we can collectively deliver. This same will is required in trade facilitation and other areas of importance to WTO Members especially to the LDCs.

I hope that your deliberations over this period will help to further engender this will as we continue to promote a multilateral trading system built on the premise of trade as a critical input in attaining development.

I thank you.