Ministerial Dinner on Trade, organized by the Kingdom of the Netherlands
Amsterdam
2 February 2016

How to ensure the continued participation of Least Developed Countries in the multilateral trading system?

by

Mukhisa Kituyi, Secretary-General, UNCTAD

The rules and regulations of the multilateral trading system provide the institutional framework for universal, open, non-discriminatory and equitable international trade. The multilateral trading system has also demonstrated its tremendous importance in helping fend off a protectionist backlash from the economic and financial crisis that began in 2008, and more generally in protecting the weak countries, notably the LDCs, from forceful action by more powerful countries.

The lack of progress in multilateral trade negotiations has led some countries to pursue alternative settings for trade liberalization. This has repercussions particularly for the many lower-income countries that see their preferential margins erode and their competitiveness in international markets decline. To put the trade rules to work for development, the international community must take creative and pragmatic actions. Multilateral rule making could address preference erosion *inter alia* by broadening duty-free and quota-free market access to all merchandise exports from LDCs in key markets including in South–South trade, and by implementing the services waiver, decided at the WTO's Ministerial Conference in 2015, so as to enhance LDCs' services supply capacities (UNCTAD Post-2015 Policy Brief No. 6).

Making trade work for development is more than changing the global rule book

Starting with the Uruguay Round, there was a strong assumption that the norm-setting of trade rules by the WTO would lead to better development outcomes. However, the development ambitions encompassed in the Doha Development Agenda have not met the optimistic expectations. Some hurdles were overcome at the WTO's Ministerial Conference in December 2015. But reducing trade to norm-setting processes risks converting a means into an end, and making trade work for development concerns must look at boosting trading activities at least as much as at changing the global rule book.

Exporting is a powerful enabler of development especially for the LDCs. Trade growth will be necessary to sustain the 7 per cent annual GDP growth in LDCs, as envisaged by Target 8.1

under Goal 8 of the SDGs. The current trade slowdown exacerbates the challenge of increasing developing country exports, in particular with a view to doubling the share of the least developed countries (LDCs) in global exports by 2020, as envisaged in the Istanbul Plan of Action and reaffirmed in SDG 17. The strong decline in commodity prices makes it difficult to maintain the buoyancy of the LDCs' commodity export earnings, which contributed to the increase in their share in global exports from 0.6 per cent in 2000 to 1.1 per cent in 2014.

The trade slowdown is also set to reduce trade-related fiscal revenues, such as tariff revenues or proceeds from commodity exports, that constitute around 10–25 per cent of the total public revenue of many low-income countries. This calls for finding additional sources of fiscal revenue. Developed countries have made substantial effort towards limiting what have been called "tax optimization" strategies of corporations that declare profits in tax havens. Should we not apply the same principles to investment in developing countries and make corporations pay taxes where they undertake their profitable activities? Investment-related tax evasion cost developing countries some $100 billion last year, i.e. about twice the amount of FDI that went to Africa in the same period. This means that stopping "tax optimization" will not just bolster developed country fiscal accounts and allow them undertake the public investment needed to accelerate their economic recovery and global trade growth. It will also augment public revenue available for the investment push needed for developing countries to attain the SDGs.

Harnessing regional trade for economic transformation in LDCs

Rural development is particularly important for economic transformation and attaining the SDGs in the LDCs and the development of regional trade can play a crucial role in this regard (UNCTAD Least Development Countries Report 2015). There is significant potential in LDCs for the creation of regional value chains in agriculture and agro-processing. Integration into regional markets for agro-based products is strong in Asian LDCs (which direct 85 per cent of their agricultural goods to regional markets); but it is much weaker in African LDCs and Haiti (where the corresponding share is just 26 per cent) and island LDCs (approximately 10 per cent), where the development of regional agricultural value chains is held back by infrastructure deficits, poor competitiveness in production and trade, and weak implementation of regional integration initiatives.

Developing regional markets could also amplify the return on investment in trade facilitation. While improving connectivity, cutting red tape and accelerating turn-around times of transportation material will certainly reduce costs and stimulate trade. But reducing the cost and speeding up the time it takes for a container with imports to get from, say, Mombasa to Kigali, is only half a success if the container continues to come back empty from Kigali. In order for trade facilitation to support development, imports must be used to build productive capacity, enlarge firm size and accelerate productivity growth with a view to advancing industrialization and export diversification in LDCs. Only when trade facilitation benefits both imports and exports can it support development in a sustainable way.

Developing regional markets is also important for trade in services, which has become a dynamic driver of growth in many African LDCs. To leverage services trade and the related development, employment and growth benefits, it is particularly important to improve the coherence in the currently existing multiple layers of regulation that appear disjointed and unrelated across existing national, regional and global frameworks. To address the disconnect at the global level, the LDCs' national and regional priorities must be better taken into account and adequately reflected in the global services agenda in order to move from the multilayered status quo to an articulated and coherent strategy.

Ensuring policy coherence between trade and other SDG-related areas

Doing all of this requires a set of coherent policies in which trade policies and other policy areas mutually reinforce each other and in which one ministry must know and reinforce the activities of the other ministries. For example, some measures taken toward implementing the SDGs, such as technical barriers to trade designed to protect the environment, may harm the country's exports, and potentially job and income creation, and hence not contribute to attaining the three pillars of sustainable development in an integrated way.

As outlined in my Report to UNCTAD 14, the role of the developmental state as an enabler of development, and the role of the public sector more generally will continue to be important where the private sector is likely to be weak or absent, such as is often the case in LDCs and other low-income developing countries. Most importantly, the State remains the only institution that can manage large-scale societal changes, such as those envisaged in the SDGs. While we need to enhance the contribution of the private sector, and individual businesses, towards sustainable development, it is crucial that the State remains effective through the implementation of coherent policies including in trade for it to maximize its role as an enabler of development. For this to be possible, aiming towards coherence among different policy areas must be supported by capacity and institution building at the national level, as well as by strengthened global partnerships. Despite recurrent setbacks, the multilateral trading system remains a crucially needed global public good.

To summarize, all available policy instruments need to be mobilized to support the role of trade as an enabler of development, and the various policy initiatives must combine to form a coherent set of policies and find support by the international community. Economic governance must strike the right balance between the policy-making prerogatives of governments, on the one hand, and the requisites of international economic integration and cooperation, on the other. We need a shared multilateral agenda on moving forward trade-related rules and institutional arrangements to fulfil the ambitions of the 2030 Agenda to attain the SDGs. UNCTAD 14, which will be held in Nairobi next July, will be an important moment to galvanize international cooperation on trade and development issues.