Item 17 (a) of the provisional agenda*

Macroeconomic policy questions: international trade
and development

International trade and development

Report by the Secretary-General

Summary

As the international community moves towards defining the post-2015 development framework, the critical role of trade as a key enabler of inclusive and sustainable development remains to be fully articulated in the emerging sustainable development goals. International trade has undergone transformative shifts in size, structure and patterns over the past two decades, opening new opportunities and challenges. An open, transparent, predictable, inclusive, non-discriminatory and rules-based multilateral trading system remains an integral part of an enabling economic environment. The ninth Ministerial Conference of the World Trade Organization (WTO), held in Bali, Indonesia, from 3 to 9 December 2013, resulted in a package of declarations and other instruments, including the Agreement on Trade Facilitation. In the period following the Conference, WTO needs to clearly define the way forward so that the Doha Round can be concluded with the incorporation of development-related matters. The international trading system is facing fragmentation as the prevalence of regional and “plurilateral” processes increases, challenging the centrality and credibility of the multilateral trading system. In considering the creation of an enabling environment, such ongoing processes need to be factored in and coherence among policies at the national, regional and international levels needs to be enhanced, including for supporting productive capacities and greater participation in production processes to achieve sustainable growth.

* A/69/150.
I. Introduction

1. Under the right conditions, trade is instrumental for growth and development. Trade provides the means for small domestic markets to overcome constraints, allowing them to access larger external markets, as well as the skills, technology and capital needed to enable a better use of productive resources and catalyse structural transformation. Over the past decades, international trade has undergone a series of transformative shifts in size, structure and patterns. The manner in which trade contributes to the economy too has changed accordingly. These shifts have opened opportunities, as well as challenges, for a new path of growth towards the post-2015 imperatives of inclusive and sustainable development.

II. Evolutions in international trade

Recent trends

2. Trade has yet to regain the dynamism and the rapid growth trajectories of the years preceding the global economic crisis. In 2013, international trade in goods and services expanded at a modest pace of 2.2 per cent in volume terms, a rate that is below the average growth rate recorded between 2000 and 2013 and that is among the weakest of all years since 2002 (figure I). Developing countries’ exports expanded at a faster pace (3.2 per cent) than those of developed countries (1.6 per cent). The existing forecast suggests that trade will experience accelerated growth starting in 2014 and continue into 2015.

Figure I
Annual changes in world real GDP and exports (goods and services), 2000-2015

Source: Department of Economic and Social Affairs of the Secretariat.

1 World Economic Situation and Prospects 2014 (United Nations publication, Sales No. E.14.II.C.2) and update as of mid-2014.
3. Such a weak trade performance reflects continued stagnant growth in import demand in the world economy. Global output registered a sluggish growth rate of 2.2 per cent, down from 2.3 per cent in 2012. The growth rate was particularly weak in developed countries at 1.1 per cent; developing countries continued to pull the global demand by growing at a rate of 4.6 per cent. While world trade has tended to grow roughly twice as fast as the gross domestic product (GDP) since the 1990s, in the past two years trade has grown at a pace similar to that of GDP. To understand whether this reflects structural changes in the trade-development nexus or simply cyclical development, continued attention is warranted.

4. In nominal value terms, in 2014 world merchandise exports reached $18.8 trillion and services exports $4.7 trillion. It is clear that most developing regions, particularly Asia, have led the post-crisis global export recovery (figures II and III). Starting at a low level, the least developed countries exhibited a remarkably fast expansion in their services exports during the period 2008-2013.

Figure II
Evolution of merchandise exports by region, 2008-2013 (2008 = 100)

Source: UNCTADStat.
Longer-term trends and emerging challenges

5. During the past decades there has been a dynamic expansion of world trade driven by technical advances, falling trade costs, a generally open trading environment and global value chains. The volume of world trade in goods and services increased five-fold from 1990 to 2013.

6. The increased participation of developing countries in world trade has driven this global trend: their share in world merchandise exports climbed from 24 per cent in 1990 to 32 per cent in 2000 and then to 45 per cent in 2013. Developing countries in Asia alone have come to represent 36 per cent of the world’s merchandise exports in 2013. The increase in trade has been accompanied by rising real per capita incomes in all parts of the world. Average annual growth of per capita income grew faster during the 2000s than during any previous decade in most developing regions. There is a substantial variation in trade performance across countries, however, which is heavily skewed towards a handful of economies. The largest 20 exporters, in fact, most of which are from the developed and Asian regions, represent 70 per cent of world merchandise exports. While 75 developing countries experienced an average annual export growth rate of over 10 per cent between 2000 and 2012, five countries experienced export contraction and 60 registered persistent current account deficits, placing them at an inherent disadvantage in pursuing export-led growth.

7. The rapid expansion of developing countries’ exports has been driven by the growing importance of manufactured goods since the late 1990s, with the expansion and deepening of trade within regional and global value chains in the production of goods such as electronics and motor vehicles (figure IV). Manufactured goods as a
share of non-fuel exports averaged around 83 per cent between 2000 and 2008 for developing countries, where the degree of technological intensity in products for exports increased markedly. Much of the trade that occurs within global value chains is intra-industry and intraregional. The expansion of global value chains has also been driven by the cross-border movement of capital, technology and know how. The United Nations Conference on Trade and Development (UNCTAD) estimates that about 80 per cent of global trade involves transnational corporations and that one third of the total is intra-firm in scope.2

Figure IV

Developing economies exports by product category, 2000-2013
(Billions of United States dollars)

Source: UNCTADStat.

8. An important aspect of trade in global value chains is that countries are required to import intermediate goods to produce and export processed goods or goods for final consumption. Trade in intermediate goods accounted for about 55 per cent of world trade in 2011. Trade in global value chains has allowed countries to specialize in specific tasks performed in a certain segment of the production network (“vertical specialization”), opening up opportunities for “fast-track industrialization”. While some countries have benefited, this arrangement has also led to “thin industrialization”, where a country specializes in low-skill labour-intensive activities without developing the ability to upgrade. The degree of value added varies across the value chain and certain production segments — often services such as research and development, engineering, product design and marketing — add more value than others (e.g., assembly lines), suggesting that it is important to upgrade and increase the sophistication of endogenous productive capacities, particularly in the services sector.

9. Dynamic growth in South-South trade, particularly intraregional trade, is in large part a reflection of the rise in trade within global value chains. South-South

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trade accounted for 59 per cent of developing countries’ exports in 2013 and has come to make up one fourth of world merchandise exports (figure V). Growth in South-South trade is driven by Asia, which makes up 85 per cent of all South-South exports. In Asia, 50 per cent of South-South exports are intra-regional and tend to be more technology-intensive than other exports. This suggests that the high content of imported components in Asian exports has favoured intra-industry trade within the region and that the region has emerged as a production platform for the supply of goods to consumer markets, mainly in developed countries.

Figure V

South-South merchandise exports as a share of total group merchandise exports, 2000 and 2013

Source: UNCTADStat.

10. The rise in commodity prices has underpinned the growth in the nominal value of world trade and improved terms of trade for many commodity exporters (figure VI). The export earnings of oil-exporting countries increased by 16 per cent between 2002 and 2013 and those of exporters of non-fuel minerals by 13 per cent, while export-related earnings increased by 9 per cent among major exporters of manufactured goods. Many undiversified commodity exporters relying on the export of natural resources and limited markets, such as the least developed countries, sub-Saharan Africa and, to a lesser extent, Latin America and West Asia, remain essentially marginalized from the mainstream of world trade and their export performance continues to be vulnerable to sudden price reversals and short-term variability. High commodity prices have accentuated traditional specialization patterns and might have discouraged industrialization. With the rise in food prices, concern over food security has become acute, as many agricultural commodity exporters increasingly specialize in export crops in exchange for importing staple food for domestic consumption. In 2012, only 4 of the total 13 developing country regions had a negative net balance in basic food trade.
11. The growth of the services economy and of trade in services has been instrumental for sustained growth in world trade, as the services sector helps improve efficiency and competitiveness in all sectors. In 2012, services represented 14 per cent of the total export of goods and services for developing countries and 51 per cent of their GDP. From 2000 to 2013, developing countries’ share in world services exports rose from 23 to 30 per cent, particularly in construction and computer and information services (figure VII). Services activities are pivotal for trade in the context of global value chains. Measured in trade in value-added terms, services account for 45 per cent of the value of world merchandise exports in 2009. Exports in modern exportable business and information and communications technology services have outpaced other services. These modern sectors have exhibited strong economies of scale and externalities, absorbing highly skilled labour.

12. Transactions involving services often require that service providers and consumers be in the same place, and thus increasingly occur through foreign direct investment. UNCTAD estimates the value of all sales by affiliates at $35 trillion in 2013; assuming that half of that amount is attributable to services, trade through foreign affiliates could be in the order of $17 trillion, a figure that is three times greater than global cross-border services exports. Trade in services also requires the cross-border movement of people supplying services in export markets. Such movement, which is particularly important for the provision of professional and business services, appears to be increasing, if the continued growth in global remittance flows is any indication. In 2013, developing countries received $404 billion in remittances and global remittances stood at $542 billion.3

13. Many countries continue to face challenges in making economic growth inclusive and sustainable. The global unemployment rate remains persistently high at around 6 per cent, with some 199.8 million people unemployed. The average unemployment rate in developed economies in particular has risen sharply, to 8.5 per cent in 2013, affecting youth and those in long-term unemployment particularly hard (12 million). Pervasive unemployment and suppressed wages over the past three decades have led to a fall in the share of world labour income in world gross output, from over 62 per cent in 1980 to 54 per cent in 2011.4 The high level of informal employment (40-50 per cent) remains an important concern in these countries and poverty ratios are still high in low-income developing countries, at above 45 per cent.5

14. The evolutions of the trade landscape depicted above suggest that the efficiency gains derived from trade integration still have not been translated into

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broad-based development through conscious policy efforts. Doing so will require coherent and integrated policy interventions that are supportive of structural transformation, at the macroeconomic and individual sectoral levels, to build robust and broad-based productive capacities that allow for diversification, technological upgrading and job creation.

III. Developments in the multilateral trading system

15. The international trading system is expected to provide an overarching enabling environment in which it is possible for trade to play a catalytic role in fostering sustainable development. Despite recurrent setbacks, multilateralism remains a global public good to be supported and upheld, and continues to represent the best guarantee for all countries, particularly small countries, against protectionism and discrimination. The difficulties experienced by WTO members in bringing the 12-year-long Doha Round negotiations to a conclusion have underlined the need to seek new ways to foster multilateral consensus in addressing trade barriers and enhancing more open and fairer international trade. The current architecture and instruments of the international trading system need careful review to assess what adaptations are necessary in order to deal more effectively with rapidly evolving economic realities and development policy priorities in the twenty-first century.

Doha Round

16. The Doha Round was launched in 2001 with a broad-based agenda. Its negotiations, which are described as a “single undertaking”, give priority attention to developing countries’ implementation difficulties and to the issue of special and differential treatment to redress the imbalances left over from the previous Uruguay Round, as well as to the two items, built into the agenda, of agriculture and services, carried over from that Round. Prolonged negotiations, recurrent setbacks and the growing prevalence of alternative negotiating forums, such as regional and plurilateral processes, were increasingly perceived as affecting the credibility of multilateralism and significantly raised the stakes at the ninth WTO Ministerial Conference. At issue in the run-up to the Conference, which was held in Bali, Indonesia, from 3 to 6 December 2013, was therefore the search for concrete “deliverables”, focusing on trade facilitation, and several agricultural and development issues, to enable a conclusion of the entire Doha Round.

17. Participants in the ninth Ministerial Conference adopted the Bali Ministerial Declaration and a set of ministerial decisions, understandings and declarations known as the “Bali package”. The package includes five ministerial decisions and a declaration on agriculture in respect of: (a) the definition of “general services”; (b) public stockholding for food security purposes; (c) an understanding on tariff-quota administration; (d) export competition; (e) cotton; and (f) a ministerial decision on the Agreement on Trade Facilitation. The package also included four ministerial decisions on development-related issues, namely: (g) preferential rules of origin; (h) the implementation of the least developed countries services waiver; (i) duty-free, quota-free market access for least developed countries; and (j) a monitoring mechanism on special and differential treatment. Because the 10 texts were negotiated as a package, achieving a balance between ambition and interests within and across the subject matters was a key stumbling block. Some topics with
practical economic value, trade facilitation and food security in particular, formed the core of the negotiations.

Trade facilitation

18. The negotiations on trade facilitation were aimed at clarifying and improving the provisions on customs procedures in respect of articles V (freedom of transit), VIII (fees and formalities) and X (publication and administration of trade regulations) of the General Agreement on Tariffs and Trade. At issue was improving customs procedures so as to facilitate trading activities. Such an improvement is expected to bring about gains similar to tariff reductions, given that unduly onerous customs procedures raise trade costs. World Bank and World Economic Forum estimates suggest that getting countries even half way towards adopting best practices in trade facilitation would add 4.7 per cent to world GDP. The trade facilitation indicators of the Organization for Economic Cooperation and Development estimate that comprehensive implementation of all measures in the Agreement on Trade Facilitation would reduce total trade costs by 10 per cent in advanced economies and by 13-15.5 per cent in developing countries. Reducing global trade costs by 1 per cent would increase worldwide income by more than $40 billion, most of which would accrue in developing countries.

19. A legally binding outcome on trade facilitation had been called for mainly by major countries that were actively engaged in export activities and were seeking a meaningful outcome for their exporters and service providers (e.g., express delivery services). While recognizing the case for trade facilitation, developing countries not adopting international best practices and lacking institutional capacities were concerned over implementation costs, as the implementation of some measures — e.g., risk management — was found to be relatively costly while other measures that were heavily relied upon — e.g., the use of customs brokers, “consularization” (i.e. authentication of export documentation by the consular office in exporting countries) and pre-shipment inspection — were difficult to eliminate.

20. The final text of the Agreement on Trade Facilitation — the first binding multilateral agreement negotiated since the Uruguay Round — is composed of 12 articles dealing with some 40 substantive customs procedures (sect. I) and special and differential treatment provisions for developing countries (sect. II). Among the substantive provisions, legally binding disciplines were introduced on some of the core customs measures, such as on advance ruling, pre-arrival processing, release of goods, post-clearance audit, authorized operators and expedited shipments. “Best endeavour” language and special provisions were applied to measures of particular importance to some specific countries, for example on the use of single-window systems and on the prohibition of pre-shipment inspection and customs brokers. Most of the contentious issues, such as proposed texts on banning consularization practices, extending freedom of transit for the transportation of oil and gas through pipelines and fixed infrastructure, as well as to trucking transport, were dropped from the text.

21. It is significant that the Agreement contains an unprecedented form of special and differential treatment for developing countries, one which formally establishes a linkage between countries’ implementation capacity, the provision of capacity-building support and the timing and level of commitments. Developing countries enjoy the right to self-designate and implement different obligations according to
different implementation schedules and subject to the transition period and the actual availability of capacity-building opportunities.

**Least developed countries issues**

22. While least developed countries had called for fully delivering on issues specific to them at the ninth Ministerial Conference, the outcomes in the development pillar may be seen as relatively modest in economic or legal effect. Duty-free, quota-free market access is an agreed international development target already contained in the United Nations Millennium Declaration, adopted in 2000, and in the Programme of Action for the Least Developed Countries for the Decade 2011-2020, which set the target of doubling the share of exports of least developed countries by 2020. Only hortatory provisions were provided on duty-free, quota-free market access, with participants calling for expeditious improvement in duty-free, quota-free coverage (by 2015) for those countries that had not yet extended duty-free, quota-free market access for 97 per cent of tariff lines. The outcome on preferential rules of origin takes the form of non-binding guidelines for making rules of origin simpler and more transparent.

**The way forward**

23. The outcome of the ninth Ministerial Conference was important first and foremost for regenerating confidence in the multilateral trading system and paving the way for a sober reflection on how to proceed with multilateral negotiations. Because it was not a substitute for the Doha Round, however, WTO members still had to prepare a clearly defined work programme in order to move forward on the remaining issues of the Doha Round by the end of 2014, prioritizing issues in respect of which legally binding outcomes had not been achieved at the Conference, and all other Doha issues central to concluding the Round, while also fully exploring different negotiating approaches. It is expected that the work programme will not preclude the adoption of plurilateral or sectoral approaches, which could affect the integrity of the single undertaking. Ongoing discussions have pointed to some key principles that will inform the contents and process of the post-Bali work: (a) the need for taking a balanced approach to agriculture, non-agricultural market access and services; (b) the centrality of the development dimension; and (c) the need to focus on “doables”. Views differ on whether or not to use the draft modality text on agriculture and non-agricultural market access of 2008 as the basis of future work, with developing countries preferring to maintain them as a basis.

24. In this process of identifying and composing a balanced package of issues for negotiation in the context of the post-Bali work programme, it is important that new trade and trade policy developments affecting individual negotiating areas be considered. For instance, the economic and policy environment surrounding agricultural negotiations has evolved significantly since 2008. The increased level and volatility of food and agricultural commodity prices have sharpened food security and rural livelihood concerns and prompted many net-food-importing developing countries to secure the domestic food supply through a variety of policy interventions, such as production support, public stockholding and uninterrupted purchases in the international markets (addressing export restrictions). The incidence of import surges too is increasingly being felt. High prices and national agricultural policy reform processes have led to a substantial reduction in the use of trade-distorting support, including through “box-shifting” (a practice by which
countries’ domestic support policies are shifted from either the amber or blue boxes, which contain relatively more trade-distorting domestic policies, to the green box, which contains policies that do not distort trade or do so only minimally), and export subsidies in traditional subsidizing countries. Tariff protection too has declined, while the incidence of non-tariff barriers is more strongly felt, particularly for developing countries.

25. The ability to gain and benefit from market access depends increasingly on compliance with trade regulatory measures such as sanitary requirements and goods standards. These non-tariff measures represent a challenge for exporters, importers and policymakers. On average, it is estimated that the trade restrictiveness arising from non-tariff measures is about twice as high as the restrictiveness stemming from tariffs. In agriculture, a sector of particular importance to many developing countries, the average restrictiveness of non-tariff measures is about 20 per cent, much higher than that of the average tariff, which is about 7 per cent. The costs of compliance are disproportionately high for smaller and poorer countries, as high-income countries have internal capacities to comply with technical measures while many low-income countries do not. UNCTAD has quantified the additional distortionary effect on trade of a developed country’s sanitary and phytosanitary measures to a value equivalent to 14 per cent of the total agricultural trade from lower-income countries.

26. As regards industrial products, while there has been a significant reduction in the tariffs applied in developing countries, as many countries seek to build endogenous manufacturing capacities and employment, the sensitivity to tariff reductions in the manufacturing sectors seems to have risen, particularly with regard to key consumer products that, in many countries, continue to benefit significantly from protections (figure VIII). Increasingly, manufacturing exports are destined to regional markets, pointing to the importance of regional integration efforts.

Figure VIII
Tariff restrictiveness, by stage of processing
(Percentage)

Source: UNCTAD.
27. The composition of the post-Bali work programme is likely to be influenced by parallel plurilateral and regional processes. In July 2014, 14 countries representing 86 per cent of the global trade in environmental goods launched plurilateral negotiations for an environmental goods agreement. Participants argued that liberalization in that area would promote green growth and sustainable development while providing an impetus for the conclusion of the Doha Round. The negotiations are open to any WTO member and the results will be extended, on a most-favoured-nation basis, to all WTO members. The negotiations would be based on a list of 54 environmental goods identified by the countries of the Asia-Pacific Economic Cooperation in 2012 to reduce import tariffs to 5 per cent or less by the end of 2015. These goods include wind turbines, air quality monitors and solar panels. The aim of the first phase of the negotiations is to eliminate tariffs on a wide range of environmental goods; during the second phase, non-tariff barriers affecting environmental products and services would be addressed.

28. Another plurilateral initiative, involving 23 WTO members representing 70 per cent of global trade in services, covers negotiations for a trade in services agreement. The negotiations are reported to aim at comprehensive and ambitious services liberalization by capturing autonomous and preferential liberalization and seeking to adopt horizontal application of national treatment to all sectors and modes of supply, as well as addressing some regulatory issues. The agreement is expected to build upon the General Agreement on Trade in Services approach to promote subsequent multilateralization and participation of new members. The automatic multilateralization of the trade in services agreement currently being negotiated, on the basis of the most-favoured-nation principle, has temporarily been postponed because there is not a critical mass of supporting WTO members, which implies that the future trade in services agreement will be a preferential agreement to be covered under article V of the General Agreement on Trade in Services. The implications for development of any trade in services agreement provisions on market access and rules for both participants and non-participants and for the multilateral trading system need careful assessment. Furthermore, plurilateral requests made under the Doha Round suggest that the overall export interests of participants in the agreement may lie primarily with those not participating in the agreement. Plurilateral discussions also continue, despite currently being on hold, on expanding the product and country coverage of the existing WTO Agreement on Information Technology. The revised Agreement on Government Procurement concluded in 2012 became effective in April 2014.

Systemic issues

29. While the prolonged Doha Round negotiations tend to attract much attention, WTO performs a multitude of non-negotiating functions that are fundamental to the transparency, predictability and stability of international trade. Taken together, the multilateral trading system as embodied in WTO continues to serve as a unique global public good and to enjoy legitimacy. Nonetheless, it also faces the important challenge of having to better adapt to the evolving trade realities and policy needs of the twenty-first century.

30. Existing WTO rules and provisions serve as guarantors against protectionism and discrimination in international trade. In the aftermath of the global economic crisis, a generalized surge in protectionism was much feared globally but was relatively well contained, essentially thanks to countries’ adherence to WTO norms
and self-restraint. That important function of the multilateral trading system needs to be upheld, as there is always a risk that countries may resort to measures that restrict trade. In a recent report, WTO found that members of the Group of 20 had put in place 112 new measures restricting trade during the period from mid-November 2013 to mid-May 2014.\(^6\) Trade remedy actions account for over half of those new restrictive measures. While the share of trade affected by those measures remains marginal (0.2 per cent of world merchandise imports), care is needed, as the vast majority of measures restricting trade that have been taken since the global crisis (934 of 1,185) remain in place and are estimated to cover around 4.1 per cent of world merchandise imports.

31. It is widely recognized that the WTO dispute settlement mechanism functions well, as countries continue to make recourse to it. Twelve panels were established in 2013, a 10-year high after several years of constant growth since 2008 (figure IX). This indicates that the WTO dispute settlement system enjoys unaffected legitimacy but also that there are rising tensions in trade relations. Recent disputes have increasingly addressed measures reflecting “global concerns” lying at the interface of trade and neighbouring public policy areas, such as packaging regulations in the tobacco industry, measures promoting renewable energy (wind and solar power technology), including through the domestic content requirement, the sustainable exploitation of natural resources (raw materials and rare earths) and animal welfare (treatment of seals and dolphins). At the same time, “traditional” disputes continue to be raised under the dispute settlement mechanism, including on anti-dumping and subsidies.

Figure IX

**Number of panels established**

![Figure IX](image)

Source: WTO.

32. The legitimacy of the multilateral trading system is also evidenced by the fact that it continues to attract new members and therefore appears to be headed towards universality. A total of 32 countries have acceded since 1995, bringing the number

of WTO members to 160, with Yemen being the most recent member. Seychelles is expected to accede by the end of 2014. These countries have embarked on substantial policy reforms to bring their trade regime in conformity with WTO rules. Crafting terms of accession that are balanced and consistent with their development needs has been a major challenge.

**Accession by the least developed countries to WTO: the case of Yemen**

Yemen has agreed to a series of commitments as part of its WTO accession package. While a set of guidelines has been adopted to facilitate accession by the least developed countries, it did not apply to Yemen. The accession package of Yemen illustrates that important reform efforts are required of a country acceding to WTO. On market access, Yemen has bound all tariffs to an overall average level of 21.1 per cent, compared with the current average applied rate of 7.1 per cent. As regards services, Yemen has made commitments in 11 service sectors encompassing 78 subsectors, including financial and communications services. In banking, starting five years after accession, international banks are allowed to establish branches without limitations. On telecommunications, all existing market access limitations are to be lifted by 1 January 2015.

33. While the public-good nature of the multilateral trading system is not questioned, the system increasingly faces challenges in terms of reinforcing its relevance and credibility. To counter those challenges, it is important that it deliver the negotiated outcomes of the Doha Round and strengthen its architecture to better respond to changing economic realities and global challenges. Various “twenty-first century trade issues” have been proposed by different commentators as items on the future agenda of the multilateral trading system. For instance, some have argued that the increased prevalence of trade within global value chains calls for shifting the focus of trade liberalization approaches towards deeper liberalization, addressing the “trade-investment-services nexus” and adopting “a whole of supply chain” perspective, including by addressing tariff and non-tariff regulatory barriers throughout the global value chain cluster of activities. This argument needs to be weighed against the fact that tariff protection remains prevalent even in countries integrated in global value chains, and that tariff and industrial policy interventions continue to be used to build productive capacity and promote upgrading within global value chains.

34. Others have suggested that the “WTO rule book” (the rules and provisions contained in WTO agreements) should be updated to better reflect the increased interaction of trade with broader public policy goals, as such interaction has increasingly emerged as a new source of trade disputes. The priorities identified by WTO members in the Bali package (trade facilitation and food security) already reflect the changing policy focus to promote trade in global value chains and address interaction between trade and food security. Other suggested agenda items include the ever-closer relationship between trade, climate change and green growth (e.g., border tax adjustment related to emission trading schemes, local content subsidies, trade-related investment measures and government procurement for...
renewable energy). As with food prices, high energy prices have heightened the concern over access to energy and raw materials (renewable and fossil fuel subsidies and export restrictions). Exchange rate misalignment has increasingly been regarded as a major defining factor of international competitiveness.

35. The manner in which the Doha Round has evolved over the past 12 years indicates the importance of strengthening the negotiating function of WTO in the future. In retrospect, a long agenda dealing with issues that went beyond the built-in agenda of agriculture and services delayed progress. The appropriate level of contribution to be made by developed and developing countries became a persistent stumbling block, leading some commentators to question the continued validity of the current architecture of special and differential treatment and to favour differentiation. Some institutional factors underpinning the negotiations, such as consensus-based decision-making, a large and diverse membership, the single undertaking principle, an outsized negotiating agenda, a lack of leadership and weakened business interest, were also found to be compromising the efficiency of negotiations. In the long run, careful reflection is needed on how best to strengthen the negotiating function of the multilateral trading system given the existence of parallel plurilateral and regional negotiating processes.

IV. Regional trade agreements

36. The most significant challenge to the multilateral trading system is the increased prevalence of regional trade agreements. As at 31 January 2014, some 583 notifications were made to WTO, of which 377 were in force. Each developed country had preferential access to an average of 23 countries in 2012, and about 60 per cent of their trade was covered by some regional trade agreement. By developing cutting-edge disciplines, so-called “mega-regional trade agreements” are also expected to set a new template for future trade and investment cooperation. “Twenty-first century regional trade agreements” differ qualitatively from previous regional trade agreements in terms of scope, composition and depth. They are oriented towards a deeper and comprehensive integration with a strong regulatory focus to provide a viable platform for regional value chains by ensuring a duty-free and non-tariff barrier-free trading environment, through deep regulatory integration, to make the regulatory system more compatible and transparent. In addition to promoting fully open markets, such agreements now encompass a range of behind-the-border regulatory measures, including investment, competition policy, capital movement, intellectual property rights and government procurement.

37. The recent emergence of mega-regional trade agreements has brought about a change of quantum proportions in regional trade agreements such as the Trans-Pacific Partnership Agreement, the Transatlantic Trade and Investment Partnership Agreement and the Regional Comprehensive Economic Partnership Agreement, all of which aim to create giant economic zones covering a substantial proportion of world trade in goods and services (see table below).

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8 See UNCTAD/DITC/TAB/2013/2.
Comparison of mega-regional trade agreements

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<tr>
<th>Agreements under negotiation</th>
<th>Number of members</th>
<th>Share in world exports (goods and services)</th>
<th>Intra-group exports as a share of global exports</th>
<th>Intra-group imports as a share of global imports</th>
<th>Combined GDP as a share of world GDP</th>
<th>Number of other bilateral agreements among the parties</th>
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</table>

Source: UNCTADStat and WTO.

38. Mega-regional trade agreements are qualitatively different from previous regional trade agreements in size, depth and systemic consequences. By inducing deeper liberalization and high-standard, cutting-edge regulatory harmonization covering an increasing share of world trade, they could further affect incentives for multilateralism, especially in market access for goods, services, investment and government procurement, and could further erode the primacy of the multilateral trading system, which is built on the non-discrimination principle. Once the Trans-Pacific Partnership Agreement, the Transatlantic Trade and Investment Partnership Agreement and the Regional Comprehensive Economic Partnership Agreement have been concluded, most-favoured-nation duties would apply only to a few countries in the European Union and the United States of America. This would have significant implications for countries’ incentive to negotiate most-favoured-nation tariff reductions at the global level. Regulatory harmonization pursued in the context of certain mega-regional trade agreements could further strengthen expected commercial gains from deep regional integration, while some issues with systemic implications, most notably domestic agricultural support, could be negotiated only at the multilateral level. These new trends in mega-regional trade agreements and their implications for development only strengthen the need to emphasize the primacy of the multilateral trading system with a view to achieving the post-2015 sustainable development agenda.

39. From a development perspective, these agreements and twenty-first century regional trade agreements more generally might represent a risk for weaker and more vulnerable developing countries, which can simply be left out. When they do take part, locking in existing preferential conditions under unilateral preferential arrangements is often a key motivation in North-South regional trade agreements. Larger developing countries face challenges in effectively securing improved market access under regional trade agreements, as these often preserve high tariffs on import-sensitive products, including dairy, sugar and apparels, that attract high levels of protection on a most-favoured-nation basis.

40. In a new generation of North-South regional trade agreements, ensuring that the content of a given agreement is adequate and that the pace and sequence of a member’s liberalization is right are key concerns of developing countries. Some new
regulatory issues that are not covered by WTO, such as investment, competition, labour and environment standards, export taxes and restriction on raw materials and energy, and personal data, are included, while more stringent commitments and rules than are imposed by WTO, on such matters as standards, services, government procurement and intellectual property rights, are introduced. It is therefore of critical importance that market-opening objectives be balanced with the flexibility to design and implement measures to build essential productive capacities and move up on the value ladder.

41. Trade in services has increasingly become a major feature of regional trade agreements, particularly those between the North and the South. Globally, one third of regional trade agreements have services commitments. The level of General Agreement on Trade in Services and regional trade agreement commitments varies across sectors (figure X). Computer and telecommunications sectors appear to be the most open of all the service sectors under the General Agreement and continue to see further liberalization under regional trade agreements. Three transport subsectors (maritime, air and auxiliary) generally receive a particularly low level of General Agreement commitments among all infrastructure services sectors but see relatively significant improvements under regional trade agreements. By contrast, financial services exhibit a relatively high level of General Agreement commitments but see the least improvement in the regional context, particularly in banking. This may be because the scope for preferential treatment is larger for transport services, for which geographical proximity or special bilateral relationships matter, than for financial services, for which preferential treatment might give rise to regulatory arbitrage.

Figure X
Average level of General Agreement on Trade in Services and regional trade agreement commitments for all countries

Source: UNCTAD calculation based on WTO dataset.

42. For developed countries, regional trade agreement commitments represent only limited improvements from their General Agreement commitments, although these
countries generally register a higher level of General Agreement commitments than developing countries. Virtually no commitments going beyond the provisions of the General Agreement (in the sense of promoting deeper liberalization or more stringent rules) are registered in computer, telecommunications and financial (banking) sectors, while modest improvements are notable in transport. In contrast, in developing countries, regional trade agreements appear to have had a stronger effect in inducing liberalization. The level of regional trade agreement commitments is significantly higher than General Agreement commitments in all sectors (figure X). This is in part due to the fact that developing countries’ initial General Agreement commitments are relatively low; that said, some countries, especially acceding countries, have made significant commitments. Another explanation may lie in the asymmetric bargaining structure of North-South regional trade agreements. A particularly high level of openness has been achieved in all sectors by developing countries that have concluded regional trade agreements with the United States, including in those sectors often considered sensitive, such as postal and courier, transport, professional and financial services (figure XI).

Figure XI

**Average level of General Agreement on Trade in Services and regional trade agreement commitments for developing countries**

![Diagram showing average levels of commitments across different service sectors for General Agreement, regional trade agreements, and United States regional trade agreements.]

Note: The United States preferential trade agreement includes Bahrain, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea and Singapore.
Source: UNCTAD calculation based on WTO dataset.

43. While different liberalization approaches used under regional trade agreements (negative vs. positive lists) could have different implications for the extent of liberalization of the service sector, recent regional trade agreements have introduced innovations for triggering deeper liberalization. For instance, commitments may be based on market access conditions, including through stand-still requirements (i.e. requirements that do not allow countries to decrease the degree to which they conform with their respective obligations) and the application of the “ratchet clause”, which provides for the automatic incorporation of further liberalization measures in the future. National treatment may be applied on a horizontal basis to all sectors and modes. The third-party most-favoured-nation clause that has increasingly been incorporated in recent regional trade agreements has the objective of ensuring, as the General Agreement on Trade in Services most-favoured-nation
principle does not, that a party to a regional trade agreement obtains the best possible preferential treatment available in other partners in such regional agreements. Applied in North-South regional trade agreements, this has raised concerns that the clause could dissuade the party from engaging in ambitious market-opening steps with a third party, including under South-South regional trade agreements.

44. The focus of emerging twenty-first century regional trade agreements would shift towards regulatory harmonization to reduce divergence in national standards affecting trade. Proposals include provisions on regulatory coherence, whereby each member is required to have an institutional mechanism at the national government level to facilitate central coordination and review of new “covered regulatory measures”, so as to promote convergence. This would include conducting impact assessments of a regulatory measure in the light of the objective and efficiency in line with the existing practices in some countries. This could constrain the ability of regulatory authorities and could prove to be difficult to implement in some developing countries with weaker institutional capacities and resources. It is expected that regulatory provisions emerging from such regulatory coherence adopted in the framework of mega-regional trade agreements (e.g., the Transatlantic Trade and Investment Partnership Agreement and the Trans-Pacific Partnership Agreement) may be more likely to be followed around the world, thus creating a regulatory “race to the top”. International disciplining of national regulatory processes and frameworks through essentially trade-liberalizing processes under regional trade agreements has also prompted concern over possible adverse effects on national regulatory autonomy in essential and infrastructure services.

45. Regional trade agreements often incorporate provisions on intellectual property rights going beyond the Agreement in Trade-Related Aspects of Intellectual Property Rights that affect various public policies, ranging from health to innovation. The main features of recent regional trade agreements is that they expand significantly the protection of certain categories of intellectual property rights and enhance title holders’ rights while limiting exceptions and limitations for users of intellectual property rights. For instance, some provisions of regional trade agreements have led to higher levels of intellectual property right protection, such as: patent protection for longer than 20 years; copyright extension from 50 years to 70 years after the death of the creator; at least five years of data exclusivity; rules on national treatment without exceptions; easier access to genetic resources and acceptance of genetically modified organisms; the extension of trademark protection beyond visible trademarks; stronger protection for digital technologies; and the patenting of plants and animals.

46. Regional trade agreements have also had an effect on the liberalization of government procurement, a market representing 10-15 per cent of GDP. Government procurement has long served as an important industrial and public policy instrument to support local suppliers and small and medium-sized enterprises, social inclusion and technological development. While domestic preference policies requiring local content (e.g., “by national”) have historically contributed to the establishment of some strategic industries, such policies are generally unregulated under WTO for most developing countries not party to the Agreement on Government Procurement; moreover, such important policy flexibilities are increasingly restricted by regional trade agreement provisions. For instance, regional trade agreements have effectively increased the number of countries using Agreement on Government Procurement-
type rules, as those countries that are not party to the Agreement (e.g., Chile) have agreed to comply with its rules.

47. Recent mega-regional trade agreement negotiations have sought to address the potentially anti-competitive effect of State-owned enterprises, which tend to receive some preferential treatment, including preferential financial treatment, thereby attracting focused attention. Some regional provisions have sought to establish “competitive neutrality” between State-owned and private companies by eliminating such structural advantages. Many countries have stressed the importance of State-owned enterprises in delivering public policy goals, including in the energy, telecommunications, postal and courier and financial services sectors. Concern over possible limitations in regulatory autonomy have also arisen in relation to the increasing incorporation of an investor–State dispute settlement mechanism in regional trade agreements. Such a mechanism is seen to confer greater rights to foreign investors and lead to a “regulatory chill”, as regulators might refrain from taking certain regulatory actions (e.g., environmental regulations) for fear of legal challenge under the mechanism (e.g., telecommunications and energy).

48. Consolidation and expansion of South-South regional integration initiatives is increasingly pursued as a viable strategy to provide a platform for supporting developing countries’ integration into regional value chains. South-South regional trade agreements now represent two thirds of all such regional agreements in force. Developing countries are increasingly making use of South-South regional integration to promote economies of scale, diversification and resilience. In addition to allowing the exploitation of economies of scale, South-South integration initiatives serve as a development launch pad to global integration, promote trade in non-traditional goods and have the potential to facilitate diversification. In Africa, efforts are directed at boosting intra-African trade by fast-tracking the establishment of a continental, pan-African free trade agreement (the continental free trade area) by 2017, building upon the existing tripartite initiative among the East African Community, the Common Market for Eastern and Southern Africa and the Southern African Development Community, and other regional economic communities. In Asia, developing economies were actively engaged in regional trade agreements in the 2000s, particularly with other Asian countries. The Association of Southeast Asian Nations (ASEAN) is working towards the formation of an ASEAN free trade area in 2015 to support the creation of an ASEAN economic community in 2020. The Regional Comprehensive Economic Partnership would encompass the majority of existing regional trade agreements. In Latin America, there have been major challenges to economic integration over the years. Efforts continue to be made, using different formats and initiatives, to find viable and sustainable development strategies through existing integration arrangements, such as the Central American Common Market and the Southern Common Market (MERCOSUR), as well as newly launched initiatives such as the Pacific Alliance (Chile, Colombia, Mexico and Peru). Regional trade agreements act as platforms for the development of productive capacity, regional transport, infrastructure networks and the connectivity essential for provision of infrastructure services. Such cooperative initiatives, along with liberalization, have proved to be essential components of regional development.

49. The quantitative expansion and proliferation and the qualitative deepening of regional trade agreements points to the need for coherence between the multilateral trading system and such agreements. It is important to secure convergence between
the multilateral and regional processes to ensure an optimal mixture of both arrangements, as well as coherence among regional processes, so that all of them can, in their totality, create an environment that facilitates sustainable development. There is also a need for strong multilateral oversight and effective provisions, including by setting minimum standards for regional regulatory provisions. Developmental coherence is required so that special and differential treatment and the policy space available under the multilateral trading system is not taken over by regional trade agreements.

V. Conclusion

50. International trade and the international trading system have witnessed a significant transformation towards fragmented production, multi-polarization and regionalization, with integration proceeding at different speeds for different countries. Trade continues to play a major role in development and should be firmly anchored in the post-2015 development agenda as a major enabler of inclusive and sustainable development. When properly harnessed, the opportunities brought by international trade can be a powerful force for creating jobs, enabling the efficient use of resources, providing incentives to entrepreneurs and, ultimately, improving the standard of living in all countries. But it is the conditions under which trade takes place and the coherence of trade policies with other complementary policies that will catalyse positive effects. In order to better align trade liberalization approaches with inclusive development imperatives, it is therefore necessary to strengthen coherence in international economic policymaking between trade and development policies.

51. The expected broad-based contribution of trade to various post-2015 sustainable development goals will require the formulation of policies that supporting a positive relationship between trade and related public policies, including social, employment, financial, technological, health, energy, educational, environmental and migration policies. Evolving national policy needs and priorities call for the creation of an enabling international environment, a fair and open trading environment and space for countries to implement such policies, so that trade can flourish and development dividends can be shared equitably among and within countries.

52. At the international level, multilateral cooperation should be pursued and scaled up. The work done by UNCTAD on trade and development during the past 50 years confirm the key role of trade as an engine of growth. Reinvigorating the multilateral trading system as a global public good with renewed impetus, credibility and relevance in the light of the twenty-first century development challenges facing the poorest and most vulnerable towards inclusive and sustainable development is required. Coherence should also be reinforced between multilateral and regional agreements, so that these arrangements, in their totality, can create an effective enabling environment for development.