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International trade and development

Report of the Secretary-General

Summary

Actions to translate Agenda 2030 for Sustainable Development into reality will be an important task ahead for the international community. The fourteenth session of the United Nations Conference on Trade and Development (UNCTAD), held from 17 to 22 July 2016, in Nairobi, has forged an international consensus in this regard. While trade is a key enabler of Sustainable Development Goals, it needs to be supported by deliberate policy actions and global partnership. Multilateralism remains a global public good to be supported and upheld to create an enabling environment for sustainable development. A universal, rules-based, open, non-discriminatory and equitable multilateral trading system remains an integral part of the global partnership for sustainable development. It is important to align that system with the universal imperatives enunciated in the Sustainable Development Goals. The present report has been prepared by UNCTAD pursuant to paragraph 5 of General Assembly resolution 70/187.

* A/71/150.

I. Introduction

1. International trade is expected to act as an enabler of the transformative shifts to realize the 17 goals and 169 targets under the Sustainable Development Goals and the commitments made in the Addis Ababa Action Agenda for Financing for Development, adopted at the Third International Conference on Financing for Development, held in 2015. However, harnessing the potential of trade calls for deliberate policy actions and global partnership. Within the United Nations system, UNCTAD serves as the focal point for the integrated treatment of trade and development, and interrelated areas of finance, technology, investment and sustainable development. Its quadrennial Ministerial meeting, the fourteenth session of UNCTAD, held from 17 to 22 July 2016, in Nairobi, as the first United Nations Ministerial Conference of the post-2015 development agenda, has forged a global consensus on major action lines that are essential for the achievement of Sustainable Development Goals capitalizing on the role of trade.[1] Reinvigorating the multilateral trading system with a strengthened development focus and with renewed momentum and relevance is an essential component of such a global action agenda, particularly towards the implementation of Goal 17 of the Sustainable Development Goals on revitalizing the global partnership for sustainable development.

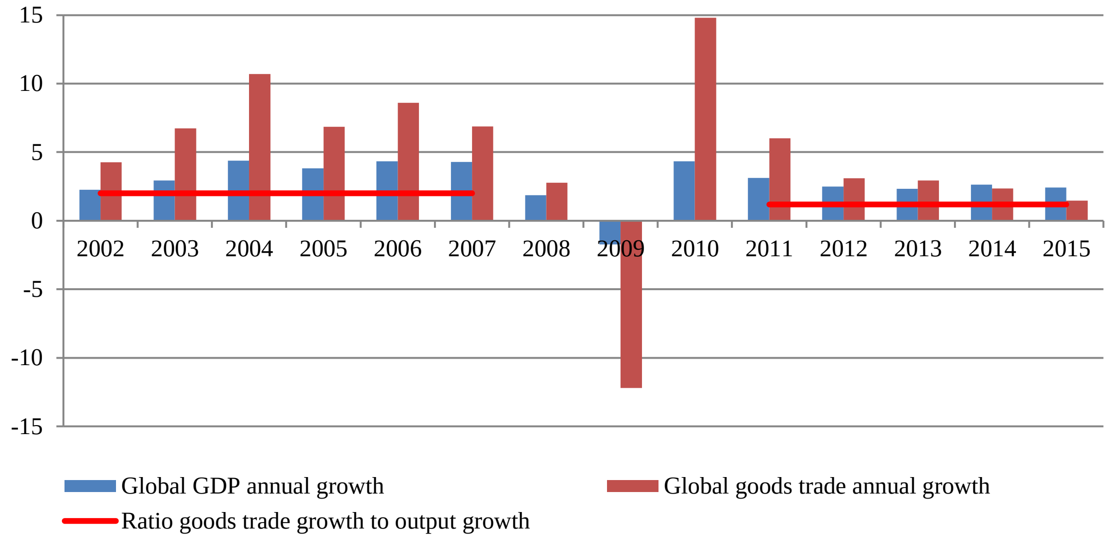
II. Trends in international trade and development

2. International trade has decelerated markedly in recent years. In 2015, world merchandise trade volume expanded at a very modest pace of 1.5 per cent, the slowest since the global crisis. For the period between 2012 and 2015, the annual growth rate in global goods trade remained below 3.1 per cent (see figure I). The World Trade Organization projected a continued slow growth rate of below 3 per cent in 2016. The slow pace of trade expansion reflects that of the global economy. While slow output growth in major developed economies was the major contributor to weak global import and demand previously, declining import volume in emerging economies became more apparent in 2014-2015, indicating that their economies are not decoupled with the global economic slowdown. The import slowdown in China is estimated to represent one third of the slowdown in non-Organization of Economic Cooperation and Development (OECD) import volume growth between 2014 and 2015.[2] Going forward, the renewed impetus is expected to come from developed economies in the coming years, particularly Western Europe. However, the expected exit of the United Kingdom from the European Union, an economy accounting for 16 per cent of the gross domestic product (GDP) of the European Union, has cast uncertainty over the regional and global economic outlook.

[1] United Nations Conference on Trade and Development, *Nairobi Maafikiano and Nairobi Azimio*, 2016.

[2] Organization for Economic Cooperation and Development, *OECD Economic Outlook*, Issue 1 (Paris, 2015).

Figure I
Growth in world merchandise exports and GDP in volume terms, 2002-2015
(*in percentage and ratio*)

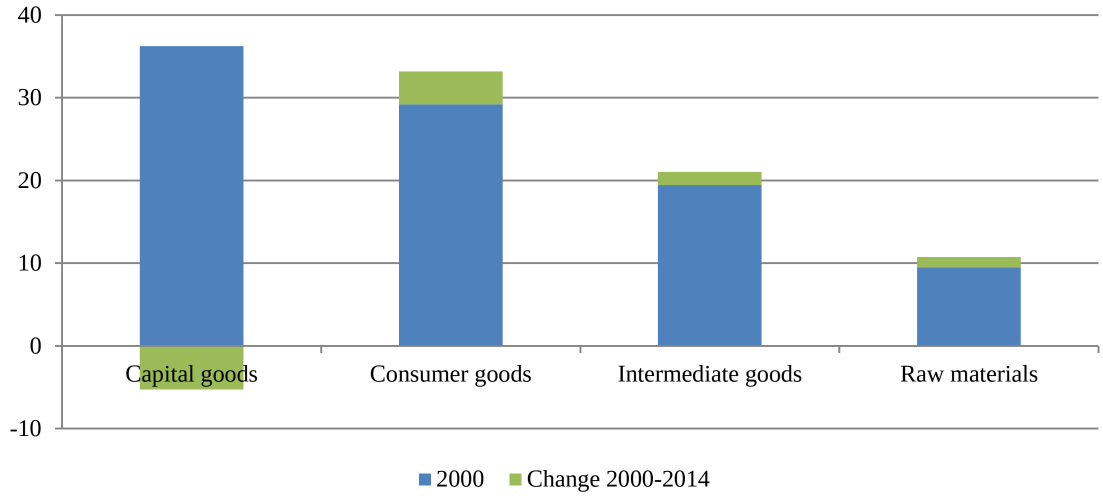


Source: UNCTADstat, national sources and Department of Economic and Social Affairs.

3. Although trade grew twice as fast as output before the global crisis, there has been a marked slowdown in trade growth relative to GDP growth since the crisis, with the ratio of trade growth to GDP growth falling from 2:1 before the crisis to 1:1 for the period 2012 to 2015. While cyclical factors were at play and its significance should not be overemphasized, several factors may have contributed to such a decrease in trade responsiveness to output growth (see figure I). One possible explanation relates to the deceleration of global value chains activity. First, some major players have increasingly sourced inputs domestically reflecting some reindustrialization efforts.[3] Secondly, weak investment growth may have translated into a decrease in the share of capital goods in total exports while consumer goods, with lower import content, somewhat increased their share (see figure II). Another factor is the slow recovery of most large European economies as those economies represent a larger share in total trade than in global GDP.

[3] See, for instance, Cristina Constantinescu, Aaditya Mattoo and Michele Ruta, "The global trade slowdown: cyclical or structural?", Policy Research Working Paper, No. 7158 (World Bank, 2015). Available from http://documents.worldbank.org/curated/en/991561468127799318/The-global-trade-slowdown-cyclical-or-structural.

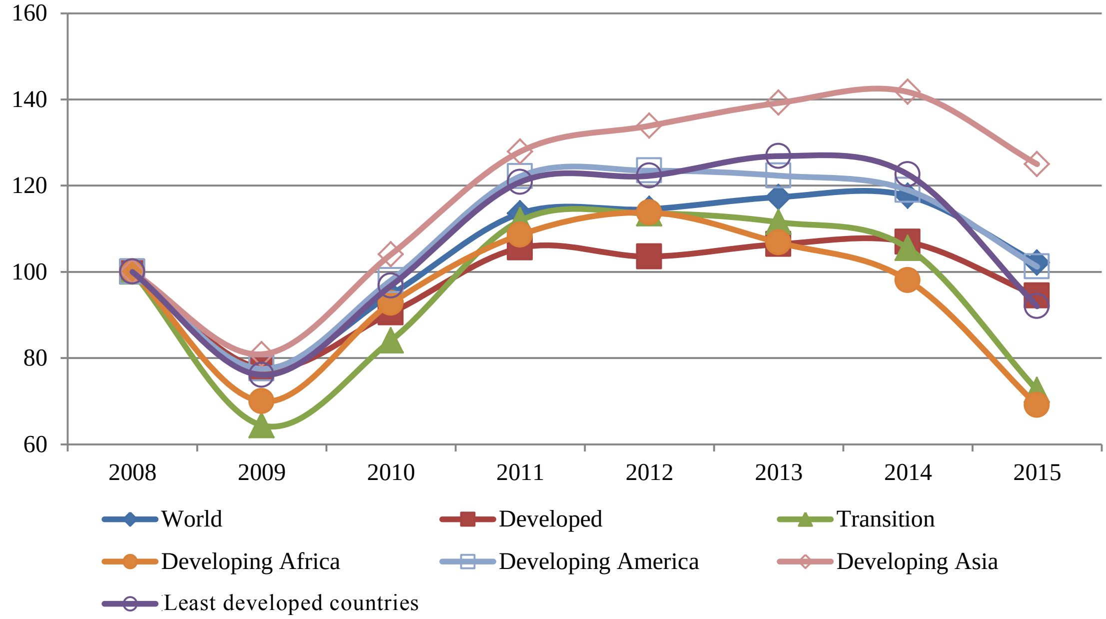
Figure II
Global exports by product group, 2000 and 2014 (*in percentage*)



Source: UNCTAD calculations, based on Comtrade data from World Integrated Trade Solution (WITS).

4. In value terms, world trade in both goods and services contracted in 2015 for the first time since the global crisis. The nominal value of world merchandise exports dropped from $19 trillion in 2014 to $16.5 trillion in 2015, a decrease of over 13 per cent. This is because, while the world trade growth decelerated in volume terms, the depreciation of major currencies against the United States dollar led to the decrease in dollar-denominated trade value and a significant fall in commodity prices, in particular mineral fuels reduced the value of commodity exports. There is a considerable variation across regions (see figure III). While all groups saw their exports contract in 2015, the largest drop was registered in transition economies, by above 30 per cent, owing mainly to the fall in fuel and commodity prices. Least developed countries and Africa were also severely affected given their dependence of primary commodity exports.

Figure III
Merchandise exports by region and development status, 2008-2015 (*2008=100*)

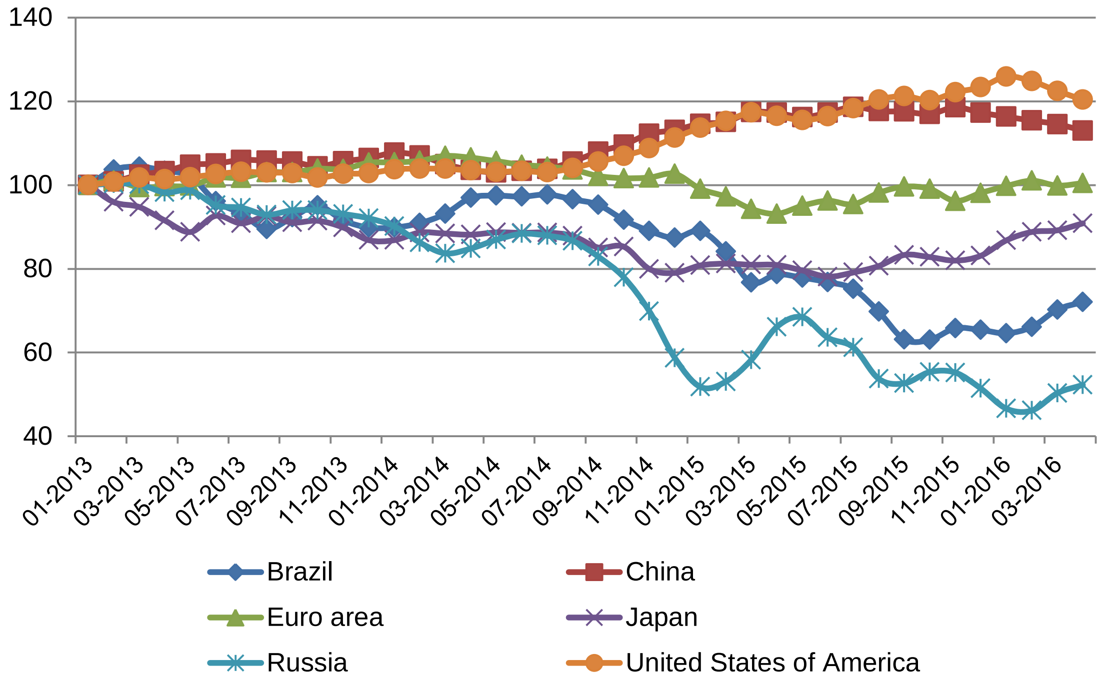


Source: UNCTADstat.

5. Developing countries accounted for 45 per cent of global merchandise exports in 2015, up from 36 per cent in 2005. Still, strong variations between countries persist with the 18 largest goods exporters, which are mainly developed economies and Asia representing 70 per cent of global goods exports in 2015. Uneven trade performance underscores that inequality between and within countries is a persistent development challenge.

6. Between January 2013 and April 2016, the United States dollar, and the Chinese renminbi registered significant nominal appreciation of about 20 per cent and 13 per cent, respectively. The appreciation of the dollar has influenced dollar-denominated trade value and commodity prices. Looking at the period from January 2013 to April 2016 as a whole, the Brazilian real and the Russian rouble depreciated by more than 20 per cent and 40 per cent, respectively, the Japanese yen fell about 9 per cent, and the euro stabilized (see figure IV).

Figure IV
Nominal effective exchange rates, selected economies (*2013/01=100*)

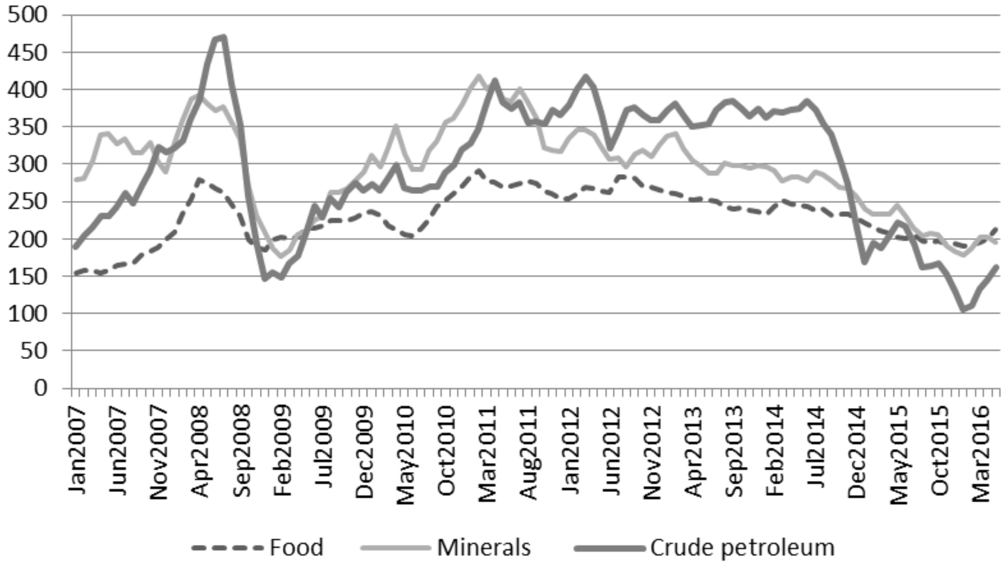


Source: Bank for International Settlements.

7. Commodity prices continued to plunge in 2015. All commodity groups experienced even larger price declines than in 2014, with crude oil prices falling the most. Plummeting oil prices explain the contraction of almost 37 per cent in the commodity price index, which was even larger than the 29 per cent decline seen in 2009 after the global crisis erupted (see figure V). Since March 2016, the downward trend in commodity prices appears to have been arrested, and in some cases reversed. The main factors behind the relatively low levels for most commodity prices throughout 2015 were persistent oversupply and associated levels of inventories.[4] The low commodity prices have diminished import demand by commodity-exporting economies, thereby causing cross-country second-round effects that also affect non-commodity exporters.

[4] UNCTAD, *Trade and Development Report, 2016* (forthcoming).

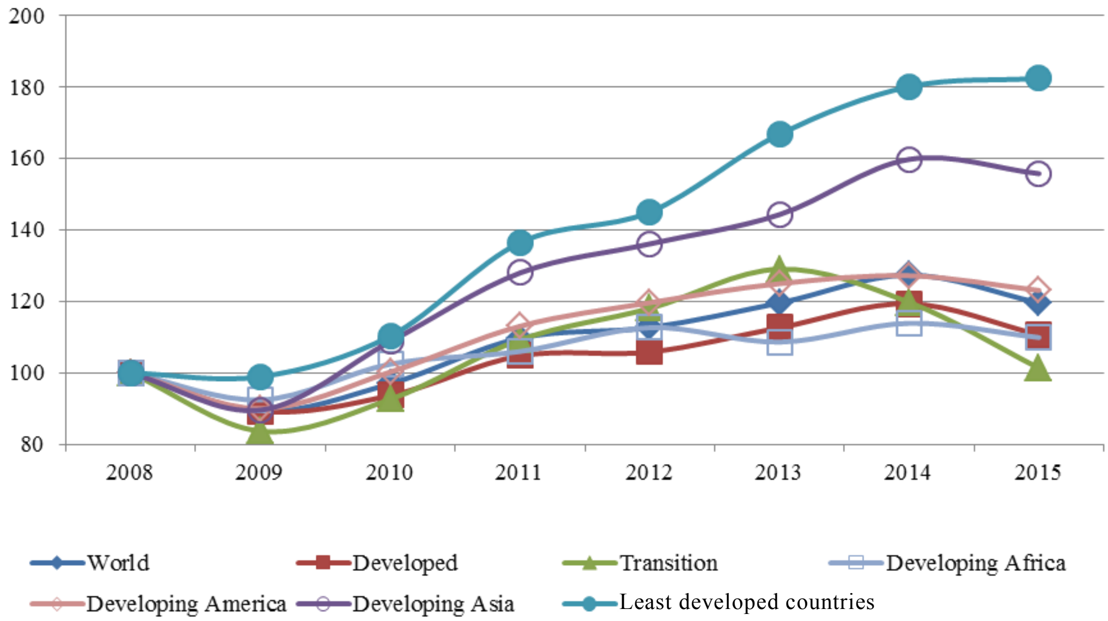
Figure V
Monthly commodity price indices (*2000=100*)



Source: UNCTADstat.

8. As was observed during the global economic crisis, trade in services has again been more resilient than trade in goods. In 2015, the nominal value of global services exports also experienced a decrease of about 6 per cent, from $5.1 trillion in 2014 to $4.8 trillion in 2015. With the notable exception of least developed countries that grew by 1.3 per cent, all groups saw their services exports contract in 2015 (see figure VI). As in merchandise trade, the worst decline was registered for transition economies, by above 15 per cent. Developing countries have increased their share in global services trade, from 23 per cent in 2005 to 31 per cent in 2015. The world's largest exporters of services in 2015 were the United States of America, United Kingdom, China, Germany and France.

Figure VI
Services exports by region and development status, 2008-2015 (*2008=100*)



Source: UNCTADstat.

9. A decomposition analysis reveals that most affected categories include transport, travel, construction and other business services. Travel continues to grow in least developed countries and, most notably, telecommunications, and computer and information services continue to grow in the broad group of developing economies owing to growth in Asia and in Latin America and the Caribbean. Some higher value-added sectors have been more dynamic in developing than in developed economies. Developing countries still seem to have a pattern of specialization focused in more traditional services such as transport and travel, particularly in Africa and the least developed countries, while developed economies are more specialized in higher value-added services such as financial and insurance services (see table 1).

Table 1
Commercial services exports by development status, 2015 (*in percentage*)

Category	*Developed*	*Transition*	*Developing*	*Least developed countries*
Goods-related	3.2	5.6	3.1	3.7
Transport	17.0	35.0	20.4	20.8
Travel	20.6	22.6	37.4	52.6
Construction	1.3	5.6	2.8	2.2
Financial, insurance	14.2	2.2	5.8	2.7
Intellectual property	8.9	0.9	1.0	0.3
Telecom, ICT	10.6	8.3	8.6	6.2

Category	Developed	Transition	Developing	Least developed countries
Other business services	23.1	16.5	19.5	8.2
Personal, cultural, recreational	0.9	0.6	0.6	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: UNCTADstat.

10. In 2015, the share of services in total exports of goods and services was 27 per cent in developed economies, and 15 per cent in developing economies. These services trade data focus on cross-border trade, not capturing services trade through commercial presence or temporary movement of natural persons. This is particularly important taking into account that trade with commercial presence through foreign direct investment (FDI) is the major mode of supply. This can be inferred by the growing sales by foreign affiliates, which reached $37 trillion in 2015, an increase from $34 trillion in 2014 and $32 trillion in 2013.[5] In fact, services accounted for 53 per cent of global announced greenfield FDI in 2015, amounting to $408 billion. Services exports through mode 4 are on an overall rising trend, based on the growth of migrants and remittances. This trade is particularly important in professional and business services, and in services related to agriculture, manufacturing and mining. In 2015, migrants sent home $582 billion, of which $432 billion to developing countries. In 2013, 71 per cent of 150 million migrant workers were concentrated on services.[6]

11. Furthermore, cross-border services trade data does not capture either the significant value-added of services embedded in goods exports, particularly in sectors such as energy, chemicals, machinery and transport equipment. In 2011, services accounted for 59 per cent of gross exports in developed economies and 43 per cent in others, much above their shares of services exports in total exports. The imported services value-added of gross exports grew for all countries between 1995 and 2011, when it represented 16 per cent in developed economies and 11 per cent in others (see figure VII). This suggests the increased tradability of services and their enabling role for participation in GVCs. This process is also driven by "servicification" of economies, whereby agriculture, manufacturing and other sectors are increasingly reliant on services for production and trade. For instance, even in the simple article of clothing, a jacket, physical components, including labour, fabric, account for a mere 9 per cent of the price. The remaining 91 per cent account for a wide range of services such as retail, logistics, banking and marketing.[7] This suggests the importance of services, particularly infrastructure services, as an enabler of trade and economic sectors, and an instrument for export diversification. Many developing countries have yet to exploit the full potential of

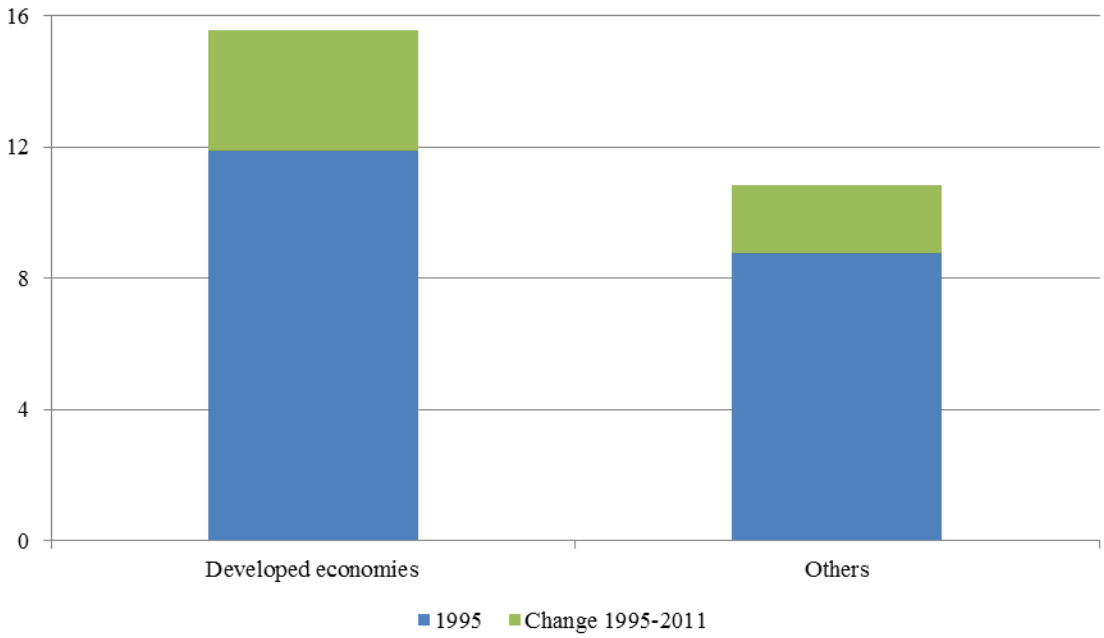
[5] *World Investment Report 2016: Investor Nationality — Policy Challenges* (United Nations publication, Sales No. E.16.II.D.4).

[6] UNCTAD (2016), Services, development and trade (TD/B/C.I/MEM.4/11).

[7] UNCTAD (2016), Report of the Multi-year Expert Meeting on Trade, Services and Development (TD/B/C.I/MEM.4/12).

the service economy and trade.[8] UNCTAD Services Policy Reviews assist countries in devising coherent policy, regulatory and institutional frameworks to strengthen the services sector.

Figure VII
Foreign services value-added share of gross exports, 1995 and 2011 (*in percentage*)



Source: UNCTAD, based on OECD TiVA database.

Box 1
Digital economy and trade

Telecommunications and information and communications technology (ICT) services allow for modern economic and social activities, contributing to increased productivity and competitiveness. A 10 per cent increase in Internet use in an exporting country increases the number of products traded between two countries by 0.4 per cent and the average bilateral trade value per product by 0.6 per cent.[a] Cross-border trade is greatly enhanced by ICT-induced efficiencies and by electronic means of delivery. This e-commerce, and ICT-enabled trade in general, is crucial for small and medium enterprises, allowing them access to new domestic and international markets and to participate in global value chains.[b] ICT services also play an important role in supporting financial inclusion through the development of digital financial services. Cross-border commitments in telecommunications and ICT are still limited in the context of the General Agreements on Trade in Services (GATS).

[8] Mina Mashayekhi, Marcelo Olarreaga and Guido Porto, "Services, trade and development" (UNCTAD, 2011); *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development* (United Nations publication, Sales No. E.15.II.D.2); UNCTAD, "Services policy review: Bangladesh", 2015.

While regional trade agreements have increased commitments on telecommunication and ICT services, notable regulations, such as commercial presence and localization requirements, still exist. The Trade in Services Agreement could propose that data protection issues be addressed by mutual recognition of consumer protection systems instead of local presence requirements.

[a] World Bank (2016), World Development Report 2016: Digital Dividends.
[b] TD/B/C.I/MEM.4/12, Report of the Multi-year Expert Meeting on Trade, Services and Development on its fourth session, June 2016. UNCTAD.

12. Subdued international trade is likely to constrain long-term global economic growth prospects with important implications for global efforts towards the implementation of the Sustainable Development Goals. Expanding trade to trigger inclusive and sustained growth should be an important component of such efforts. Such policy consideration should guide national policy actions as well as global efforts aimed at development-oriented outcome of the Doha Round.

III. Trade and Agenda 2030 — From decisions to actions[9]

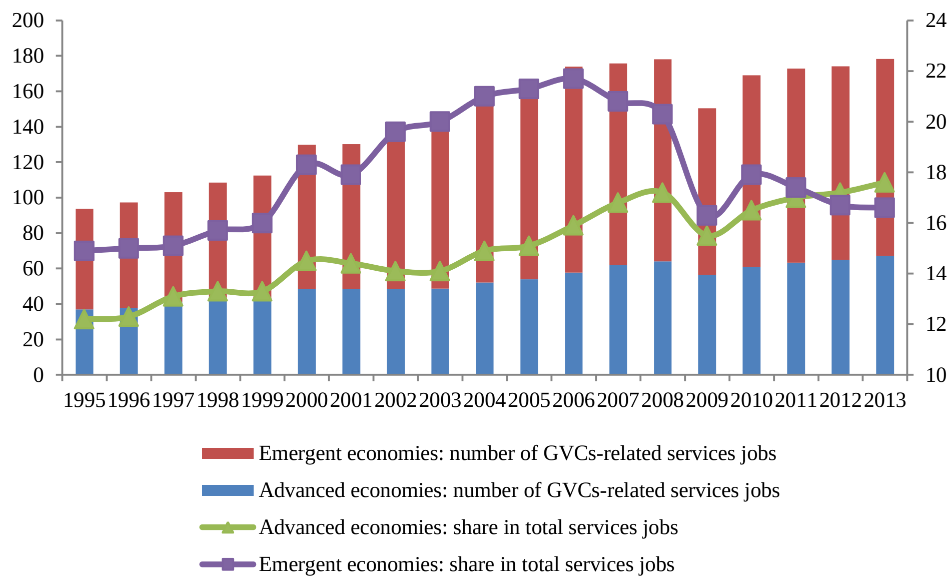
13. Trade can play a significant role in the world's quest towards sustainable development. Over the past decades, an increasing number of developing countries have integrated into the world economy and in most of the development success stories trade was an important element. However, there still remain countries and people left behind. Poverty and inequality both between and within nations remain a pervasive challenge. Most of the dramatic reductions in poverty since 1990 occurred in a few large developing countries. Worldwide, over 1 billion people continue to live in extreme poverty. These conditions render realizing the 2030 Agenda on eradicating poverty particularly challenging, as it requires raising the minimum consumption floor in global and national redistribution to the poverty line of $1.25 per day and the litmus test for achieving this goal will be the least developed countries. This implies that ending poverty by 2030 in the least developed countries requires a bigger economic miracle than that of China.[10] This requires unprecedented actions and efforts.

[9] UNCTAD, "From decisions to actions: report of the Secretary-General of UNCTAD to UNCTAD XIV" (New York and Geneva, 2015).
[10] *Least Developed Countries Report 2015: Transforming Rural Economies* (United Nations publication, Sales No. E.15.II.D.7).

Box 2
Trade and employment

The weak global economic performance is cause and consequences of pervasive global unemployment: 197.1 million people remained without jobs in 2015, 27 million more than before the global crisis.[a] This increases the challenge of achieving decent work, especially in many developing economies where informal employment continues to persist. Trade complemented with other policies could be instrumental for improving employment, particularly for countries with small domestic markets. Trade in services, in particular, is becoming increasingly important, a factor that needs to be taken into account in national policymaking. Services are the primary source of employment, accounting for 46 per cent of jobs globally in 2015, and are increasingly important for the creation of jobs related to GVCs (see figure below). The indirect effects of services exports are stronger in some sectors, with one job in tourism creating three jobs elsewhere and one job in information technology creating four jobs elsewhere.

Number and share of GVCs-related services jobs, 1995-2013
(*in millions and percentages*)



Source: ILO Research Department, based on World Input Output Database.
[a] International Labour Organization, *World Employment Social Outlook 2016: Transforming Jobs to End Poverty* (Geneva, 2016).

14. This makes the role of trade all the more important as an essential enabler of sustainable development. However, translation of gains from international trade into sustained growth is not an automatic process, nor does it achieve equitable income distribution, job creation or sustainable development. While competitive exports are

a prerequisite for trade to act as a source of financing for development, successful trade integration does not imply that welfare gains will be equitably distributed among different segments of the population. Structural changes associated with trade bear adjustment costs and income inequality may increase.

15. It is therefore necessary to put in place a coherent and integrated set of proactive policies, taking a holistic approach mobilizing all available policy instruments to help countries to enhance their ability to benefit from trade for sustainable development. This policy mix should be pursued in a coherent manner, and tailored to the specific development needs of each country. It is critical to seize the important momentum created by the adoption of the 2030 Agenda and of its Sustainable Development Goals and translate the determination as set out in those decisions into actions. UNCTAD 14, held from 17 to 22 July 2016, in Nairobi, as the first United Nations Ministerial Conference of the post-2015 development agenda, has forged a global consensus on major action lines that are essential for the achievement of the Sustainable Development Goals capitalizing on the role of trade.

16. *Building productive capacities to transform economies*: One important avenue for meeting Sustainable Development Goals and eradicating poverty by 2030 is through trade. This needs to be supported with coherent policies addressing finance, investment, trade, technology and entrepreneurship, and exploiting the trade-investment nexus for diversification by capitalizing upon GVCs. While GVCs have created an opportunity for a country to specialize in a particular segment of the production process, or specific tasks, thereby enabling faster industrialization, the benefits of GVCs are not automatic as accessing to the benefits of GVCs are not automatic and climbing the value-addition chain is not an easy process. In some cases, GVCs-related trade led to “thin industrialization”, in which a country specializes in low-skill and low-productivity activities that are less conducive to long-term development. For example, over 85 per cent of the total manufacture exports of the least developed countries consists of labour-intensive, resource-intensive and low-skill technology-intensive manufactures. This is particularly important as countries that produce technologically more sophisticated products with higher value added tend to grow faster.

17. *More effective States and more efficient markets*: Adequate State intervention continues to be warranted for markets to operate efficiently. While this calls for the States’ effective role in regulating markets to ensure competition and consumer protection, facilitated business environment and skill development, the regulation and promotion of infrastructure services — encompassing financial, transport, ICT, water and energy services — are particularly important. Infrastructure services provide fundamental inputs to all economic activities and are a direct determinant of the economies’ productivity and competitiveness, whereas regulations are key determinant of the sectoral performance. Similarly, regulations are often needed to ensure universal access to basic services, such as health and education. Indeed, the achievement of many goals and targets under the Sustainable Development Goals requires well-functioning infrastructure and basic services, and universal access to them. These include: Goal 5 on gender equality (financial services); Goal 6 on water and sanitation (water services); Goal 7 on ensuring access to energy (energy services); Goal 8 on sustained growth (financial services); Goal 9 on building resilient infrastructure (e.g., financial, ICT, transport services), and Goal 10 on reducing inequality (remittances). Such prevalence of services in Sustainable Development Goals renders Agenda 2030 essentially the services agenda.

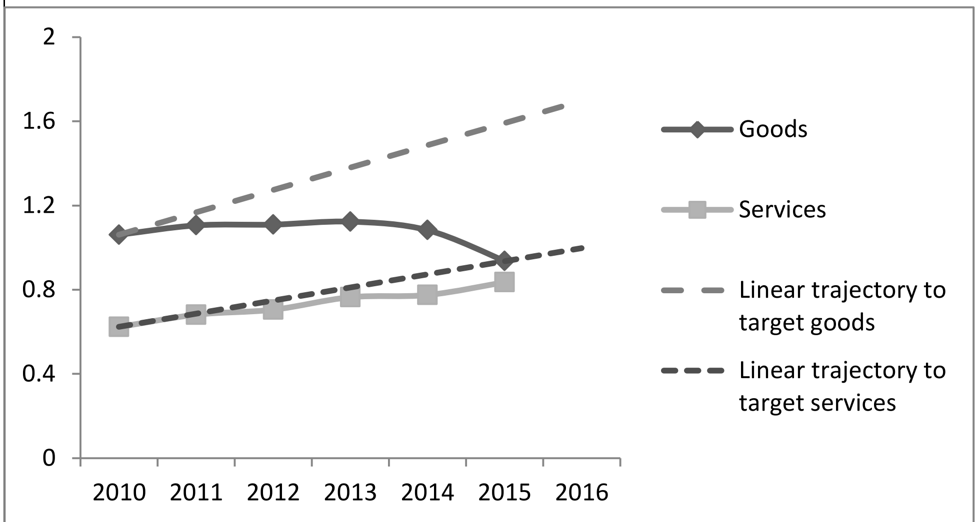
18. *Tackling vulnerabilities, building resilience*: Eradicating poverty requires addressing economic vulnerabilities of countries in special needs, including the least developed countries, landlocked and small island developing States. Between 2005 and 2015, 35 developing countries experienced average annual goods export growth rate of more than 10 per cent but 32 witnessed export contraction (see box 3). To overcome the vulnerabilities, they need to develop sound strategies to build resilience to external shocks. This implies setting the necessary productive capacities to obtain a "smart product mix" that captures increasing value-added and to create productive employment. Examples of successful diversification for commodity-dependent countries include specialization in such areas as processed mineral products, organic food products, specialized tourism services, and exported business-related and outsourcing services. Services trade represents a major option for export diversification. Efficient business, professional and infrastructure services are required to provide fundamental inputs to support the international fragmentation of production.

Box 3

Least developed country trade performance and the Istanbul Programme of Action

The Istanbul Programme of Action, adopted at the Fourth United Nations Conference on Least Developed Countries, in 2010, set the ambitious objective of enabling half the number of least developed countries to meet the criteria for graduation by 2020, including by doubling their share in world trade by the same time as reiterated in Sustainable Development Goal target 17.11. Halfway through the decade, least developed countries are not on track to meet this target. The share of least developed countries' merchandise exports in global exports decreased from 1.1 per cent in 2010 to 0.9 per cent in 2015 while that of services exports from least developed countries rose from 0.6 per cent in 2010 to 0.8 per cent in 2015 (see figure below). The High-Level Midterm Review of the Istanbul Programme of Action, held in May 2016, recognized that many least developed countries continue to face multiple challenges, including stagnant trade flows, and called for swift action. Despite recent improvements in least developed countries' market access conditions, such as through DFQF market access with transparent and simple rules of origin, least developed countries' exports remain highly concentrated in a few primary products, with primary commodities accounting for more than 70 per cent of their exports, and remain vulnerable to commodity price volatility and exogenous shocks.[a] This makes the strengthening of industrial and services productive capacity, to promote economic diversification, a particularly important challenge.

Least developed countries' export share in global exports, merchandise and services, 2010-2015 (*in percentage*)



Source: UNCTADstat.

[a] United Nations (2016), Comprehensive High-level Midterm Review of the Implementation of the Istanbul Programme of Action (A/CONF.228/L.1).

19. *Strengthening multilateralism, finding common solutions*: Global collective action through multilateral cooperation is essential in tackling cross-border challenges in economic, social and environmental dimensions of sustainable development. Revitalizing a global partnership for sustainable development is critical for the implementation for the Sustainable Development Goals. In the area of trade, a universal, rules-based, open, non-discriminatory and equitable multilateral trading system continues to be the cornerstone of such a partnership as recognized by under Sustainable Development Goals target 17.10. The multilateral trading system should be regarded as a global public good, since the non-discrimination principle reflects the non-rival and non-excludable characteristics of public goods. Revitalizing the multilateral trading system with a strengthened development focus as a global public good with renewed momentum and relevance is essential for the achievement of the Sustainable Development Goals.

IV. Developments in the multilateral trading system

20. Recent trade and policy shifts appear to signify a new era for the international trading system. The centrality of the multilateral trading system is increasingly affected by insufficient progress in multilateral trade negotiations under the Doha Round, and as an accelerated proliferation of mega-regional and plurilateral negotiations. These developments may have bearings on the Sustainable Development Goals.

21. The multilateral trading system remains the centrepiece of the global institutional framework underpinning trade, and continues to enjoy legitimacy as

global public goods. Multilateral rules and disciplines reduce trade barriers and discrimination, and the non-negotiating functions are fundamental to transparency, predictability and stability of international trade. A WTO report finds that between mid-October 2015 and mid-May 2016, G20 economies applied 145 new trade-restrictive measures, mainly trade remedy actions (61 per cent), followed by import tariffs. Together with a slow rate of removal of restrictions, this has led to a 10 per cent increase of the overall number of restrictive measures. Of the 1,583 trade-restrictive measures recorded since 2008, only 387 had been removed by mid-May 2016, resulting in 1,196 restrictive measures still in place, covering 5.0 per cent of world import value.[11]

22. The multilateral rules and disciplines are underpinned by the effective enforcement system. The WTO dispute settlement mechanism is a unique international judicial body in that it ensures automaticity in panel proceedings and remedial action in case of non-compliance. This system has been widely used by WTO members, including in solving trade disputes among parties to regional trade agreements, indicating its continued effectiveness and legitimacy. Since 1995, the dispute settlement mechanism has received 507 requests for consultations (as of June 2016), more than the 300 disputes GATT received in 47 years, handling disputes covering over $1 trillion of trade flows. With the slow pace of the multilateral hard-rule making, there has been a tendency for countries to seek to resolve trade disputes through judicial mechanism rather than rule-making efforts. Recent disputes have addressed those issues relating to the negotiating agenda (e.g., agricultural subsidies), new areas of services trade, such as financial services and non-immigrant visa-related issues, and emerging issues that have a bearing on other public policies (e.g., public health, industrial policy, renewable energy, natural resources). At the same time, this also underscored the need to update WTO rules through negotiation rather than through judicial review.

23. The multilateral trading system is also headed towards universality consistent with the imperative of promoting "a universal, rules-based, open, non-discriminatory and equitable multilateral trading system" under Sustainable Development Goal 17.10. This has been pursued through accession processes. By July 2016, 36 countries will have acceded to WTO since 1995, including 9 least developed countries. Recently, accession packages were adopted at MC10 for the accession of Afghanistan and Liberia, which brings the number of WTO membership to 164. These countries have undertaken important policy reforms to make their trade regime WTO-compatible. A major challenge has been to negotiate balanced terms of accession consistent with their development needs, and implementing the commitments in the post-accession phase. Acceding countries often have to accept conditions that are much more restrictive despite their often low development level. UNCTAD assists these countries throughout their accession processes.

The Doha Round

24. The Doha Round was launched in 2001 covering a broad range of market access and rules agenda under a single undertaking, in addition to the two built-in agenda of agriculture and services. The negotiations were to give priority attention to developing countries' implementation difficulties and special and differential

[11] World Trade Organization (WTO), "Report on G20 trade measures", 21 June 2016. Available from https://www.wto.org/english/news_e/news16_e/g20_wto_report_june16_2.pdf.

treatment to redress imbalances embedded in the Uruguay Round outcomes. The original goal was to conclude the negotiations by 2004. Following the ninth WTO Ministerial Conference (MC9), held from 3 to 6 December 2013, in Bali, Indonesia, at which a "Bali Package" was adopted, including on a Trade Facilitation Agreement and food security issue, focus of the discussion was to formulate by July 2015 a post-Bali work programme to conclude the Doha Round while progressing towards the ratification of the Trade Facilitation Agreement and finding a permanent solution to the food security issue. As of June 2016, the number of Trade Facilitation Agreement ratifications stood at 84, while the Trade Facilitation Agreement will enter into force once two thirds of the WTO membership has formally accepted the Agreement.

25. The tenth WTO Ministerial Conference (MC10), held from 15 to 19 December 2015, in Nairobi, resulted in adoption of a Ministerial Declaration along with six Ministerial Decisions on negotiating issues.[11] They include four decisions on agriculture (respectively, on: (a) export competition, including the elimination of export subsidies; (b) public stockholding for food security purposes; (c) a special safeguard mechanism for developing countries; and (d) cotton), and two least developed country-related issues of (e) preferential treatment of least developed country services under a least developed country services waiver, and; (f) preferential rules of origin for least developed countries. The decision on the elimination of agricultural export subsidies was particularly significant even though the use of such measures had significantly decreased since 2001. In a parallel positive development, 53 WTO members agreed on the tariff-elimination schedules under the Information Technology Agreement.

Post-Nairobi process

26. The most important setback arose from the fact that WTO members could not agree on the way forward in the Doha Round negotiations after MC10. The Ministerial Declaration, in its paragraph 30, acknowledged the disagreement among members by noting that they "recognize that many Members reaffirm the Doha Development Agenda, and the Declarations and Decisions adopted at Doha and at the Ministerial Conferences held since then but other Members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations Several countries expressed the view that this implied the termination of the Doha Round, opening the door to unbundle a single undertaking and to look for new approaches and new issues. Many others, especially developing countries, argued that the decision to launch the Doha Round was taken by consensus, thus the Round could not be terminated without a consensus decision to that effect.

27. The uncertainty thereby created over the post-Nairobi process has placed the-15-year-long Doha Round negotiations at a crossroads with important implications for the WTO negotiating function. It is significant that the Doha Round structure and working methods, including the single undertaking covering a broad-based agenda, is openly questioned and new issues are proposed. Developed countries have expressed their frustration with the persistent lack of reciprocity in negotiations from emerging economies. They have therefore called for differentiation of developing countries in order to ensure that each country undertakes commitments in a manner commensurate with its share in global trade. Developing countries in general consider that the current Doha Round structure was

set to correct the imbalances resulting from the Uruguay Round and wish to continue negotiations on key issues under its existing structure and special and differential treatment principles.

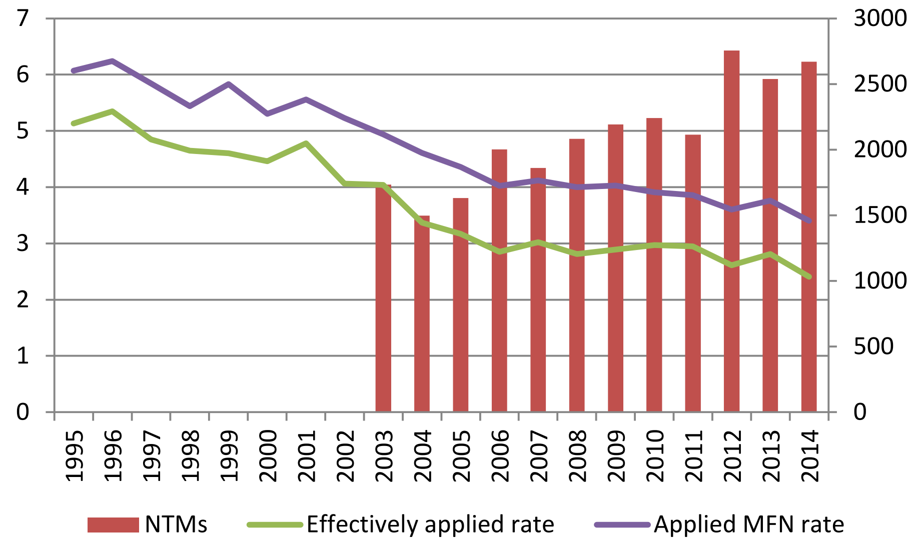
28. The protracted Doha Round negotiations have already shifted the focus of many players to alternative approaches in securing their trade interests through plurilateral and regional negotiations where new issues that are being sought for inclusion in WTO (e.g., investment, competition, state-owned enterprises) are already practically addressed. Such moves are seen to have eroded their interest in the multilateral processes, and weakened in turn the engagement of emerging economies that continue to encounter, especially since the global economic crisis, significant domestic economic policy challenges such as macroeconomic imbalances, food insecurity and de-industrialization.

29. This stalemate in the multilateral process also takes place at a time when the nature of trade has witnessed a major change prompted by the expanded trade along GVCs, "servicification" of economies, rise of emerging economics, and digital trade. The increased relevance of various regulatory measures — such as investment, services and intellectual property rights — to the modern trade structure are favouring deeper integration and regulatory convergence that are more amenable to be addressed under Regional Trade Agreements. As tariffs are reduced and the relative incidence of non-tariff measures increase, trade policy agenda has shifted to deep integration agenda favouring deeper liberalization and regulatory harmonization to support seamless trade and free movement of goods, services, capital, factories, people and technology (see box 4). This appears to put the so-called "shallow integration" supported by the existing WTO norms and instruments at an inherent disadvantage, and has challenged its effectiveness in supporting current trade structure.

Box 4
Trade effects of non-tariff measures

Although tariffs were reduced through progressive liberalization over the last decades, market access conditions are increasingly determined by **non-tariff measures**. Those measures present a bigger hurdle to developing country exports than tariffs. UNCTAD research has shown that **non-tariff measures** disproportionately reduce exports from low-income and least developed countries. For example, the sanitary and phytosanitary measures in the European Union are estimated to reduce low-income countries' agricultural exports by 14 per cent.[a] Similarly, the non-tariff measures applied by the G20 countries reduce least developed country exports by more than twice as much as tariffs. Tariff-free market access for least developed countries would increase least developed country exports to the G20 by about 7 per cent, but trade-reduction effects of existing non-tariff measures are about 17 per cent.[b] Addressing trade effects of non-tariff measures, and building the capacity of least developed countries to comply with applicable non-tariff measures would be instrumental in their trade expansion.

Tariff and non-tariff measures, 2000-2014 (*in percentage and number*)



Source: UNCTAD calculations, based on the World Integrated Trade Solution (WITS).

Note: The number of sanitary and phytosanitary and technical barriers to trade measures in force are on the right axis. Both sanitary and phytosanitary and technical barriers to trade are non-tariff measures.

[a] Marina Murina and Alessandro Nicita, *Trading With Conditions: The Effect of Sanitary and Phytosanitary Measures on Lower Income Countries' Agricultural Exports*, Research Study Series No. 68 (New York and Geneva, UNCTAD, 2014).

[b] UNCTAD, "G20 policies and LDC export performance", 2016 (forthcoming).

30. This situation calls for a careful reflection of the modus operandi of the multilateral trade negotiations. A broader agenda under a single undertaking adopted in the Doha Round was expected to facilitate intersectoral trade-offs, but that did not materialize. Priority attention needs to be given to a core development agenda, including a built-in agenda of agriculture and services. A course correction is warranted in promoting superior collective interest for sustainable development in line with the 2030 Agenda. Aligning the multilateral trading system with the universal imperatives enunciated in the Sustainable Development Goals could be considered (see General Assembly resolution 70/1). The setbacks may also represent the difficulties associated with hard-rulemaking as the legally binding nature of the commitments has made the negotiating parties particularly vigilant in taking commitments. Multilateral hard-rule making could thus be complemented through consensus-based soft-rule making efforts with the participation of all stakeholders. Facilitating consensus on emerging trade agenda and developing best practices, guidelines and lessons learned could serve for possible hard-rule making efforts, such as in the area of services trade facilitation. The United Nations system, particularly UNCTAD, could play an important role in this regard.

31. Meaningful progress in the Doha Round is essential for revitalizing the Global Partnership for Sustainable Development, especially Goal 17.10 to promote a

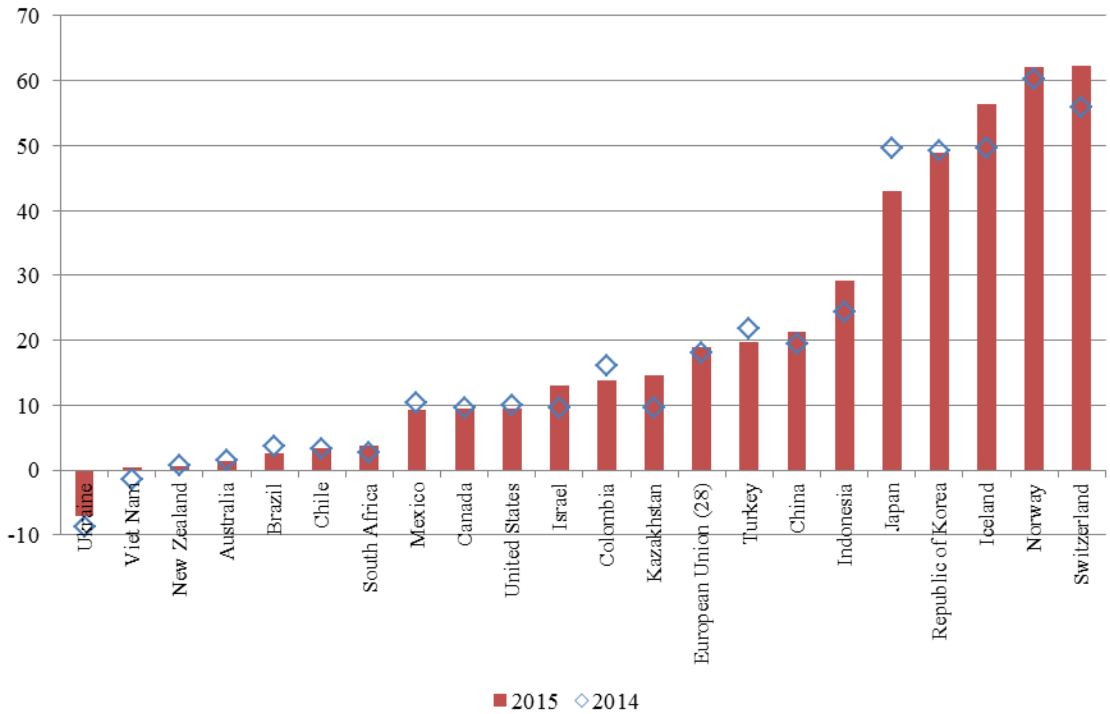
universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the WTO. This could also have a bearing on progress towards the achievement of other specific goals that are linked with a successful Doha Round conclusion. They include: Goal 17.12 on timely implementation of DFQF market access for least developed countries and rules of origin; Goal 2.b to correct and prevent trade restrictions and distortions in world agricultural markets including by the parallel elimination of agricultural export subsidies; Goal 3.b to provide access to affordable essential medicines; Goal 10.a to implement the principle of SDT for developing countries, and; Goal 14.6 to prohibit, by 2020, certain forms of fisheries subsidies which contribute to overfishing.

Agriculture

32. MC10 resulted in a decision on the immediate elimination of remaining export subsidy entitlements for developed members and the elimination by 2018 for developing countries. This is consistent with the aforementioned Sustainable Development Goal 2.b. Extended implementation period was granted to a few countries such as Switzerland, Canada and Norway that provide export subsidies for processed products, dairy products and swine meat. Given the fact that only 25 countries had export subsidies entitlements, and the use of export subsidies has already decreased significantly in major users, the immediate effect of this Decision would prove to be limited. It may be noted that declining use of export subsidies has in some cases been compensated with the increased use of domestic support categorized as non-trade distorting "Green Box" (e.g., decoupled income support). Concern exists over potentially trade-distorting effect of Green Box measures, as there are currently no limitation on the amounts that can be provided under the category.[12] OECD producer support estimates suggest that for five countries, producer support represent over 40 per cent of farm receipts (figure IX). This highlights the importance of addressing comprehensively agricultural support and border protection.

[12] See, for instance, Rashmi Banga, "Impact of green box subsidies on agricultural productivity, production and international trade", Background Paper, No. RVC-11 (2014). Available from http://unctad.org/en/PublicationsLibrary/ecidc2014misc1_bp10.pdf.

Figure VIII
Producer support estimate by country, 2014 and 2015 (*percentage of gross farm receipts*)



Source: OECD (2016), Agricultural Policy Monitoring and Evaluation.

33. Goal 2 of the Sustainable Development Goals generally calls for ending hunger and achieving food security. The increased food prices starting from 2002 and peaking in the period from 2012 to 2013 has raised the stake in agricultural negotiations of trade-related measures taken for food security purposes. One such measure concerns public stockholding programmes. The Ministerial Decision on public stockholding for food security purposes reaffirms the existing decisions to protect from legal challenges developing-country Governments which buy stocks of food from their farmers (i.e., "peace clause") until a permanent solution is agreed. A permanent solution is being sought by the proponents to exempt, from subsidy limits, support provided to farmers through public stockholding programmes.

34. Another food security measure subject to agricultural negotiations concerns the Special Safeguard Mechanism which is considered an important tool to counteract against sudden import surges or price falls to protect the local production of staple food. The Ministerial Decision on the Special Safeguard Mechanism reaffirms the right of developing countries to have recourse to a Special Safeguard Mechanism. Key issues in these negotiations were: ascertaining how many products are eligible for the measures: the conditions under which the Special Safeguard Mechanism may be triggered (such as price fall and import surges); and the level and modalities for remedial tariffs that could be imposed as a Special Safeguard Mechanism.

35. Addressing all pillars of agricultural negotiations, the Ministerial Decision on cotton provides for eliminating export subsidies in developed countries immediately

and in developing countries by January 2017 in line with the aforementioned Ministerial Decision on export competition. A commitment was made in the Decision on a best-endeavour basis to include cotton and predetermined cotton-related agricultural products in Duty Free and Quota Free market access schemes by 2016.

Least developed country issues

36. Building upon the guidelines included in the Bali Ministerial Decision on Preferential Rules of origin (2013), the decision adopted at tenth Ministerial Conference provided additional non-binding guidelines for substantive and procedural origin requirements under preferential Duty Free and Quota Free market access initiatives for least developed countries. They essentially seek to encourage preference-granting countries to adopt user-friendly origin-determining criteria/ methods. With regard to the substantial transformation rule, the Decision encouraged the use of a low-threshold level for ad valorem percentage criteria (i.e., to allow the use of non-originating materials for 75 per cent of the value of products); the use of simple change in tariff heading or subheading rules; and the use of the single-transformation rule for apparel products. It also called for the expanded use of the cumulation allowance and more user-friendly documentary requirements and customs procedures.

37. The main value of the Ministerial Decision on preferential treatment for least developed countries services and service providers is the extension of the waiver until 31 December 2030 to allow for recovering the four years that have elapsed since the waiver was adopted in 2011. It urges developed and developing country members to redouble efforts to promptly notify preferences with commercial value. The actual impact of the waiver will depend on the content and operation of the preferential treatment granted, and the capacity of the least developed countries to take advantage of the preferences. Least developed countries have expressed concerns over the commercial value of the preferences granted. They have pointed to the fact that some notifications do not spell out how a preference will operate for those countries; there is a lack of preferences covering mode 4; more needs to be done to address non-market access concerns. The UNCTAD preliminary analysis finds that modes 1, 2 and 3 generally receive preferences with a broad sectoral coverage, whereas mode 4 has yet to be fully addressed (see box 5).

Box 5
Services trade through mode 4[a]

Temporary movement of natural persons (mode 4) remains underaddressed in the preferential treatment for least developed countries notified under the waiver. Mode 4 for the most part is unbound and subject to limitations such as commercial presence requirements. Although notifications contain some interesting examples, such as doubled periods of stay, waived economic needs tests, waived visa fees and work permits, there are no notable breakthroughs. On trade commitments, mode 4 tends to be limited by pre-employment requirements, numerical quotas and economic needs tests. In addition, commitments are insufficient, both in terms of categories and covered sectors. In some cases, only formal qualifications are considered in assessing services providers, excluding skills and experience evaluation. Visa and work permits are often cumbersome, costly, without clear criteria, and biased towards high-skill levels. Other barriers revolve around nationality and residence requirements, and non-portability of social security benefits. Some migrant-reduction policies, including salary thresholds for foreign nationals, also affect mode 4 service suppliers.

[a] UNCTAD, "Trade, migration and development, in Global Migration Group" (forthcoming). *Handbook for Improving the Production and Use of Migration Data for Development*.

Plurilateral negotiations

38. The agreement reached among 53 participants in the Information Technology Agreement (or 24 parties counting the European Union as one) during the MC10 pertained to the level and pace of tariff elimination schedules on the list of 201 IT products that had already been agreed in July 2015. The agreement is plurilateral in scope but applied on an MFN basis, meaning that the resulting tariff reduction agreed among these sub-set of WTO Members will be extended to all WTO Members. Approximately 65 per cent of these tariff lines were to be fully eliminated by July 2016, and most of the remaining tariff lines to be phased out by 2019. Trade in covered information technology products by participating countries are valued at some $1.3 trillion, or 10 per cent of world merchandise trade, and account for approximately 90 per cent of the world trade in these products. Products covered by the ITA expansion include such products as new generation multi-component integrated circuits, touch screens, GPS navigation equipment and medical equipment. The Agreement is expected to contribute to expanding further digital economy.

39. Other ongoing negotiations for plurilateral agreements pertain to services and environmental goods. Major players are also engaged in the plurilateral negotiations for a Trade in Services Agreement (TISA) outside the WTO. These negotiations involve 24 countries representing 70 per cent of global services trade, and aim at ambitious services liberalization. Non-participation of some major developing countries has resulted in participating countries not representing a critical mass, the future TISA would take the form of a preferential services agreement not extended to all WTO members.

40. The Environmental Goods Agreement has been negotiated by 17 countries since July 2014 to eliminate tariffs on a range of environmental goods so identified, building on a list of 54 environmental goods agreed by APEC. UNCTAD research finds that participants accounted for almost 80 per cent of world trade in these goods.[13] The future agreement is intended to be a "living agreement", which would allow the addition of new products, and to address NTMs and services linked to environmental goods. The agreement would be extended on a most favoured nation basis to all members of WTO. By facilitating access to environmental goods, the initiative is expected to increase the use of environmental technologies.

[13] UNCTAD, *Trading Into Sustainable Development: Trade, Market Access and the Sustainable Development Goals* (New York and Geneva, 2016).

V. Developments in Regional Trade Agreements

41. The increased prevalence of Regional Trade Agreements characterizes the recent evolution of the international trading system. Since June 2016, 625 such agreements, of which 419 were in force, have been notified to WTO. It is increasingly the case that Regional Trade Agreements encompass a range of behind-the-border measures. The emergence of “mega-Regional Trade Agreements” has further accentuated this trend. Mega-Regional Trade Agreements are a response to a rapid expansion of trade within GVC and seen to achieve duty-free and Non-tariff barrier free environment addressing trade-services-investment nexus and addressing regulatory diversity through regulatory coherence and convergence. It is expected that the recently concluded Trans-Pacific Partnership Agreement would create a market covering some 800 million people with a combined gross domestic product of $28 trillion or 40 per cent of global gross domestic product. The proposed Trans-Atlantic Trade and Investment Partnership Agreement between the European Union and the United States of America would cover half of global output and a third of global trade. The Regional Comprehensive Economic Partnership under negotiation would create a free trade agreement linking the Association of Southeast Asian Nations and its six external partners covering half of the world’s population. It is significant that large-scale Regional Trade Agreements are also emerging in the developing world, such as the Tripartite Free Trade Agreement and the Continental Free Trade Area being negotiated in Africa.

Mega-Regional Trade Agreements — Trans-Pacific Partnership Agreement

42. The most significant development was the conclusion of the Trans-Pacific Partnership Agreement in October 2015 among its 12 members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States of America and Viet Nam. It is the first case of the completed mega-Regional Trade Agreement, which has a bearing on the international trading system. Comprehensive in scope, the agreement’s 30 chapters cover goods, services, investment, e-commerce, intellectual property, government procurement, competition, labour protection, environment, regulatory coherence, small and medium enterprises and state-owned enterprises. It is principally seeking to facilitate trade and investment among parties to the Trans-Pacific Partnership Agreement, including through regulatory harmonization. The Agreement sets a high-standard “template” for trade agreements in the twenty-first century and might soon attract new members such as the Republic of Korea. Existing research suggests that the bulk of gains are expected from regulatory harmonization and mutual recognition.

43. The Trans-Pacific Partnership Agreement, as in any other Regional Trade Agreement, will have implications for outsiders, and they are expected to be more significant for mega-Regional Trade Agreement, owing to its systemic importance and sheer size. Systemically, mega-regional trade agreements cover a substantial share of world output, trade and investment, and are seen to be a “game changer”. They are often feared to reduce the incentive for multilateral trade negotiations and create a “two-tiered” and fragmented trading system even though far larger global welfare gains are expected from a successful Doha Round than any other mega-Regional Trade Agreement. Existing research using a computable general equilibrium analysis generally suggests that under Regional Trade Agreements, members could gain from such agreements, but non-members are made worse off

because of trade diversion. The annual gains from a Doha outcome far exceed the global benefits of the three Regional Trade Agreements, namely TPP, RCEP, TTIP. This is because, although Free Trade Agreements may have deeper tariff cuts, they do not apply to all exporters, so inevitably there is an amount of trade diversion. The result is that non-members lose. Some members that already have preferential access to the United States market may also lose as a result of increased competition from new members and foregone tariff revenue.

44. The high-standard, cutting-edge disciplines on regulatory issues are seen to have implications for global trade rule-making, as they could set precedence over multilateral rules. Economically, outsiders would be impacted directly and indirectly by Regional Trade Agreements' preferential liberalization and regulatory harmonization. In the short run, preferential liberalization could induce trade and investment diversion. While generally seen as a major source of gains, regulatory harmonization may lead to upward harmonization imposing adjustment costs to lower-standard insiders requiring a number of legislative actions, and outsiders who also need to bear additional costs in meeting higher regulatory standards, including their non-member trade partners, e.g. neighbouring countries that are part of some regional integration schemes. It would be important to minimize and mitigate such adverse effects.

South-South regional trade agreements — Continental Free Trade Agreements

45. Pan-African negotiations for a CFTA are a notable example of a large-scale regional trade agreement in the South-South context. The CFTA negotiations were launched in June 2015 with the indicative target date for conclusion set for 2017. The CFTA project started from the premise of the necessity to boost intra-African trade by fast-tracking CFTA to support development in the continent. At the root lies the observed low level of intra-African trade, which recently hovered at about 10 per cent of total African merchandise trade. These negotiations, covering both goods and services, would be built upon the *acquis* of the progress made in Regional Economic Communities, including the recently launched TFTA among COMESA, EAC and SADC and are expected to increase intra-African trade and generate real income gains for Africa.

46. CFTA negotiations are complex with the regional trade integration characterized by asymmetry and disparity. Among regional economic communities, the Southern African Development Community is by far the largest market for African exporters, absorbing 52 per cent of total intra-African imports. There is a large disparity in trade flows among different Regional Economic Communities (see table 2). The strong propensity of the Southern African Development Community to import from Africa is largely a reflection of its large intraregional economic community trade. Generally, all regional economic communities import most intensively from their own partners, but some trade intensively with external partners. The intra-African trade link follows geographical congruity but is weak essentially between remote areas. Future CFTA is expected to deepen and strengthen such trade links among subregions.

Table 2
Regional Economic Communities' imports from Regional Economic Communities as a share of their total imports from Africa, 2014
(*in percentage*)

Importer	*Exporter*				
	UMA	COMESA	ECCAS	ECOWAS	SADC
UMA	**61.4**	34.0	0.7	3.8	5.8
COMESA	17.1	**39.9**	7.0	1.1	58.6
ECCAS	26.3	16.6	**12.2**	20.2	38.9
ECOWAS	12.0	2.1	1.9	**72.4**	11.7
SADC	1.7	19.0	9.4	12.7	**80.2**

Source: UNCTADstat.

47. One of the critical issues in the CFTA negotiations is to ascertain the adequate level of ambition. As the objective of the endeavour is to boost intra-African trade, including with a view to doubling the share of intra-African trade by 2020, the negotiations aim at the highest level of ambition. However, the CFTA negotiations are also charged with a number of challenges, including a multitude of subregional and inter-subregional integration processes, the asymmetric level of integration achieved in different regional economic communities, and the overlapping membership of several such communities. The multitude of integration processes at different layers is expected to condition the depth and configuration of the CFTA. Deepening regional regulatory and development cooperation will also be instrumental for boosting intraregional trade.

VI. Conclusion

48. International trade needs to play an enabling role in growth and development, as called for in Sustainable Development Goals. Proactive, best-fit and coherent policy-mix needs to be mainstreamed into national policy agendas in support of sustainable development. Taking the holistic and coherent approach needs to bring together trade, development, industrial, macroeconomic, social and other policy areas to promote the necessary structural transformation that build productive capacities, diversification and economic upgrading. Services economy and trade play a central role in these endeavours towards the achievement of the Sustainable Development Goals. The implementation of the 2030 Agenda should consider this multidimensional role of trade and trade policy in multiple goals and targets. The fourteenth session of UNCTAD offered a forum for discussion on how to transform decisions into actions in this regard.

49. A global partnership is an essential means of implementation of the Sustainable Development Goals, and a universal, rules-based, open, non-discriminatory and equitable multilateral trading system will be a central component of such a partnership. Despite setbacks in multilateral trade negotiations, revitalizing the multilateral trading system as a global public good with renewed momentum and relevance is necessary. Difficulties in the hard-rule making approach to trade policy points to the need for a wider adoption of soft-rule making efforts to complement

hard-rule making efforts, which can be usefully pursued within the existing international frameworks. New-generation large-scale regional trade agreements have demonstrated the need to ensure that these agreements complement and support the multilateral trading system to provide an enabling environment for all countries. Enhancing regulatory and developmental cooperation in regional contexts could serve to boost trade and build productive capacities. Their development effects need to be continuously monitored and discussed at the multilateral level. The United Nations system, including UNCTAD, could play an important role in this regard.