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Macroeconomic policy questions

International trade and development

Report of the Secretary-General

Summary

During the past year, multilateral trade cooperation has continued to be hampered by the rising influence of unilateralism. Trade tensions that began in 2018 have not only persisted but increased. Trade growth has been affected by the tensions and also by volatile commodity market prices, resulting in forecasted growth rates below those for gross domestic product. This comes at a time when trade, and the multilateral trading system at its heart, is expected to play a major role in world efforts to achieve the Sustainable Development Goals. Fresh approaches are needed more than ever.

In the present report, the Secretary-General describes current trade trends and discusses pathways towards a revitalized and resilient multilateral trading system that will allow trade to fulfil its role as an enabler of the 2030 Agenda for Sustainable Development and the Goals. The report has been prepared pursuant to of General Assembly resolution [73/219](#).

* [A/74/150](#).



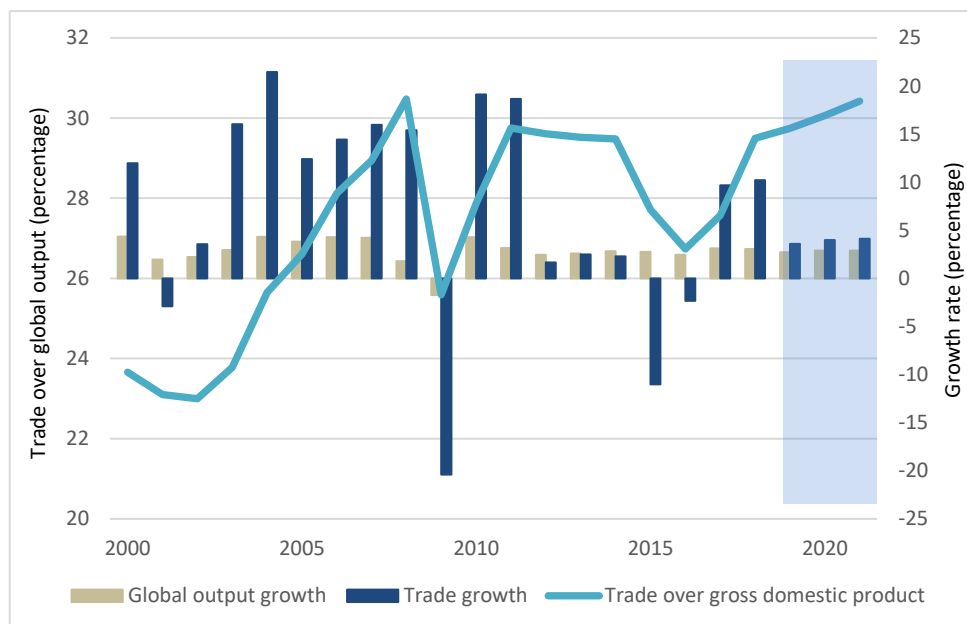
I. Trade trends

1. The analysis of recent international trade patterns first reveals anaemic growth between 2012 and 2014, then a downturn in 2015 and 2016, and finally a strong rebound in 2017 and 2018. After a prolonged period of volatility, the value of global trade grew by about 10 per cent in 2017 and 2018 to reach \$25 trillion. Initial projections from the World Trade Organization (WTO) indicated that global trade is expected to grow by about 3.7 per cent per year between 2019 and 2021, outstripping global output growth by 0.7 per cent. However, as a result of the current global trade uncertainties, the latest projections of the United Nations Conference on Trade and Development (UNCTAD) indicate that trade growth could merely remain equal to global output growth in this period.

2. The recent strong growth in international trade was due primarily to the upward trend in commodity prices (recovering oil prices) and the slight depreciation of the United States dollar throughout 2017. However, such trends only explain part of the upswing over the past two years. International trade also registered strong volume growth, the main factor in which was a robust rise in global output – shared by most economies – which helped to stimulate broad-based investment in growth. Nevertheless, projections are likely to be revised downward again in the light of the current global trade uncertainties.

3. These dynamics are illustrated in figure I, which reports growth rates for global output and trade, as well as the ratio of the value of world trade over global output, an index commonly used to gauge globalization trends. The index stalled at about 30 per cent between 2011 and 2014 and then fell during 2015 and 2016, two years often referred to as the de-globalization period. The index picked up thereafter, nearing peak levels in 2018.

Figure I
Economic growth and international trade, 2000–2021



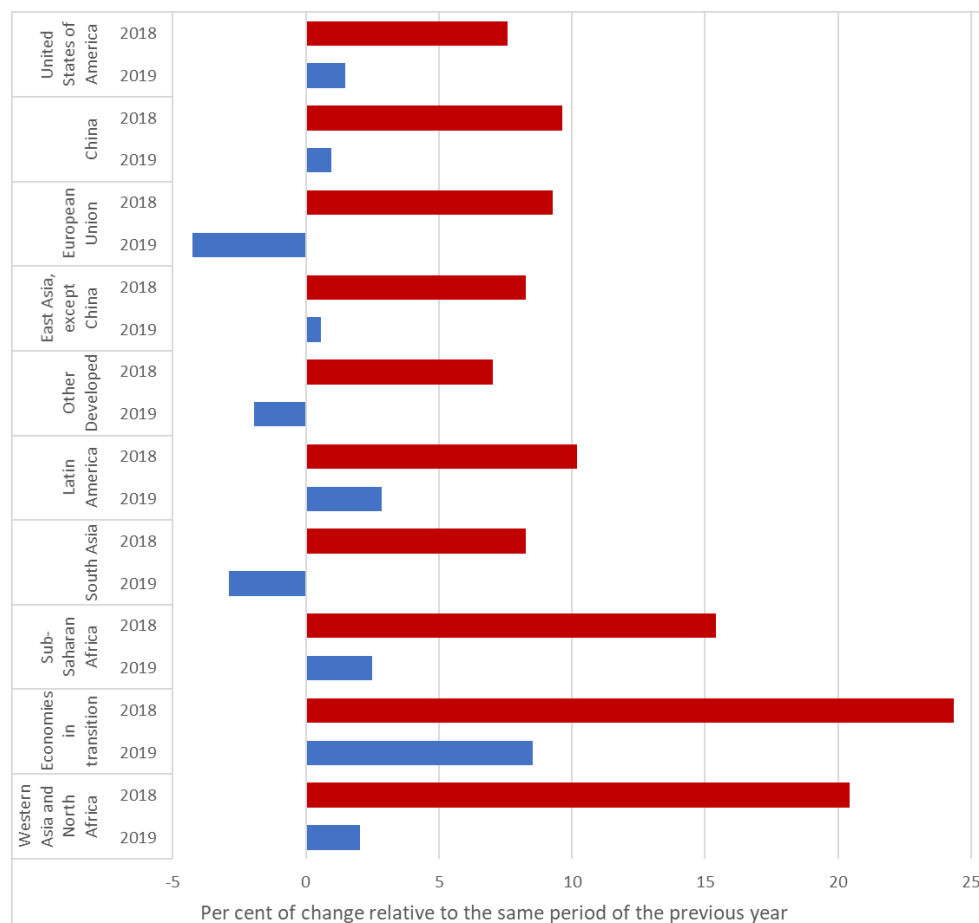
Source: Calculations of the United Nations Conference on Trade and Development (UNCTAD secretariat) are based on data from UNCTADstat.

Note: Figures for 2019–2021 are projections.

Trade over gross domestic product refers to the total value of world exports over gross domestic product.

4. While annual trade growth for 2018 was strong overall, it slowed in the second half of the year. More importantly, UNCTAD data indicate the stagnation of the value of international trade in the first quarter of 2019 (figure II). In 2018, trade growth was strong in all regions and trading blocks. Exports from the European Union, United States of America, China and East Asia grew by between 7 and 9 per cent. Commodity prices contributed to the strong export growth of transition economies and African and Middle Eastern countries. In contrast, the data for the first quarter of 2019 show that export growth virtually stalled in the United States of America and China and was negative for the European Union. Data also indicate falls in exports for other developed countries and South Asian developing countries.

Figure II
Recent trends in exports by major economies and selected groups

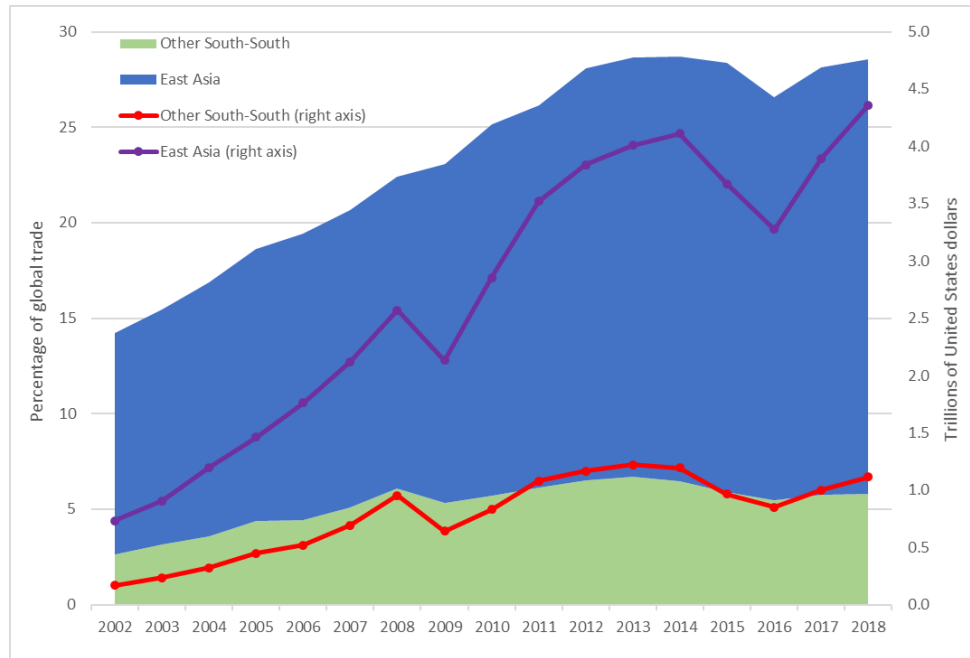


Source: UNCTAD secretariat, based on data from UNCTADstat.

Note: For 2018, the chart shows export growth for 2018 relative to 2017. For 2019, it shows export growth in the first quarter of 2019 relative to the first quarter of 2018. Figures for the first quarter of 2019 are preliminary.

5. Trade between developing countries accounts for a substantial part of international trade in goods, representing \$5.5 trillion or 28 per cent of global trade in 2018 (figure III). Two important considerations apply in relation to South-South trade. First, integration has stalled since 2012, with the share of South-South trade in global trade remaining constant. Second, South-South merchandise trade remains dominated by certain East Asian economies, which accounted for more than three quarters of the total in 2018, at almost \$4.5 trillion.

Figure III
South-South trade

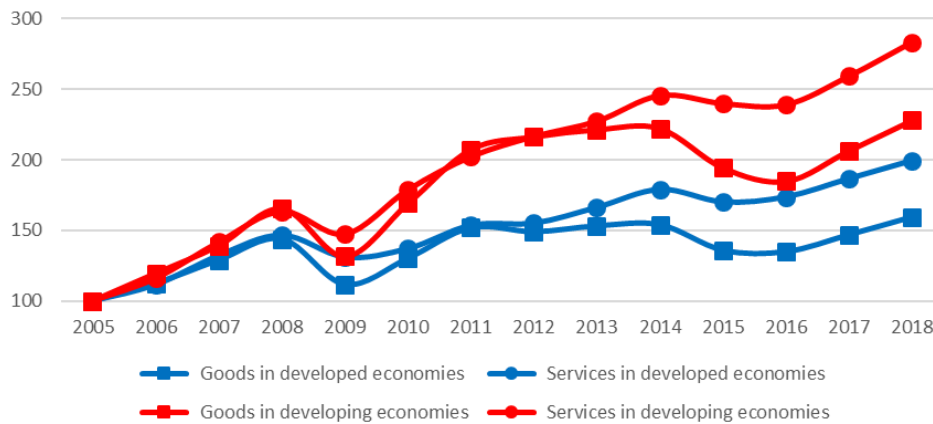


Source: UNCTAD secretariat, based on data from UNCTADstat.

A. Trends in services trade

6. Globally, trade in services reached a record high of \$5.8 trillion in 2018, confirming the dynamism of services exports, which grew faster than goods exports in both developed and developing economies (figure IV). Services exports have also been more resilient than goods exports, with lower declines during both the 2009 global economic and financial crisis and the 2015 trade downturn.

Figure IV
Services and goods exports, 2005–2018
(2005=100)



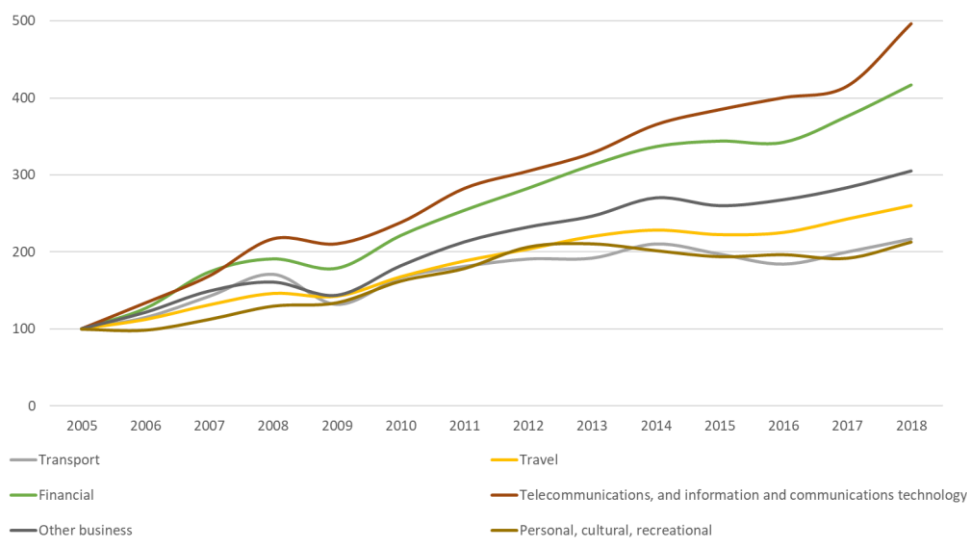
Source: UNCTAD secretariat, based on data from UNCTADstat.

7. Between 2005 and 2018, developing economies increased their share in global services exports from 23 to 30 per cent.¹ Developing Asia remains the front-runner, with the fastest growth in services exports between 2005 and 2018 and the biggest share in global services exports in 2018 at 24 per cent. Services exports in least developed countries experienced significant annual growth of 11 per cent between 2005 and 2018, exceeding the growth of their goods exports and increasing the share of services in their total exports from 14 to 19 per cent.² This points to the continued contribution of services to exports growth in developing and least developed countries.

8. The sectoral distribution of commercial services³ exports in 2018 underlines the different services trade profiles of developed and developing economies. The reliance of transition and developing economies on transport and travel continued to be higher at 59 and 54 per cent of their total exports of commercial services, respectively, and was more pronounced in Africa and the least developed countries, at 72 and 75 per cent, respectively. Conversely, developed economies continued to be more specialized in higher value-added services categories, such as financial services.

9. Despite these persistent differences, the profile gap separating developing and developed economies has been slightly reduced. Between 2005 and 2018, telecommunications, computer and information services, financial services and other business services ranked among the fastest growing export categories in developing economies (figure V), with annual growth rates of 13, 12 and 9 per cent, respectively. This has led to the increased dependence of the commercial services exports of developing economies on these higher value-added categories in the face of a decrease in the relative contribution of transport and travel services.

Figure V
Developing economies exports of selected commercial services categories, 2005–2018 (2005=100)



Source: UNCTAD secretariat, based on data from UNCTADstat.

¹ United Nations Conference on Trade and Development (UNCTAD) secretariat, based on data from UNCTADstat.

² Ibid.

³ The commercial services category includes all service activities except trade in government goods and services. See https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en.

10. These trends do not reflect the full importance of trade in services. For example, services traded by commercial presence (mode 3) remain the major mode of supply, as indicated by the growth trend in sales by foreign affiliates of \$30.8 trillion in 2017, a 6 per cent increase from 2016.⁴ In addition, 52 per cent of foreign affiliates of primary and manufacturing multinationals actually perform services activities.⁵ The temporary movement of people supplying services (mode 4) is also relevant for developing economies, in particular for exports of professional and business services, in line with the significant remittances channelled for such economies.

11. Furthermore, cross-border services trade data do not capture the substantial value-added of services incorporated into goods exports from services intermediate inputs and services bundled with goods, such as distribution services provided by manufacturing companies. The export of services value-added within products of all economic sectors, referred to as mode 5 of services trade, reflects “servicification” in international trade. Global gross domestic product (GDP) gains from the multilateral liberalization of mode 5 of services trade could reach €300 billion by 2025, resulting in an increase in global trade of over €500 billion.⁶ Moreover, there are important services activities within manufacturing firms that are not captured by cross-border services trade data or analyses of value added in gross exports.

12. In 2018, global remittance flows were estimated to be \$689 billion, of which \$529 billion went to developing countries.⁷ The relevance of migration for the services sector is also underscored by the fact that around 71 per cent of migrant workers are concentrated in services.

B. Commodity market developments

13. From January 2018 to March 2019, prices in key commodity markets exhibited a high degree of fluctuation (figure VI). Price increases generally resulted from factors such as tightness in markets due to adverse weather conditions, economic and political uncertainties in many parts of the world, and firmer demand. Falling prices were largely driven by oversupply, faltering demand, rising inventories and favourable weather conditions. Overall, falling prices in the fuels, minerals, ores and metals groups exerted downward pressure on all commodities groups, as reflected by a 10 per cent fall in the UNCTAD free market commodity price index in 2018, compared with a gain of 6 per cent during the same period in 2017. In the first quarter of 2019, the index rose by 5 per cent largely as a result of rising prices in the same groups. Instability in commodity prices leads to such effects as instability in government revenues for two thirds of developing countries, and over 80 per cent of least developed countries, that are characterized by commodity dependence. This can have serious implications for government-led investment and the funding of economic and social programmes, inhibiting the achievement of the Sustainable Development Goals.

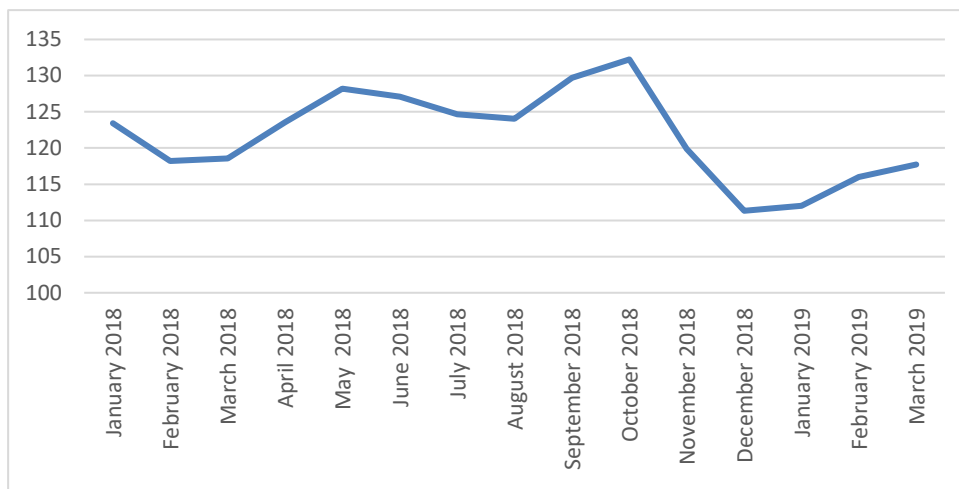
⁴ *World Investment Report 2018, Investment and New Industrial Policies* (United Nations publication, Sales No. E.18.II.D.4).

⁵ *World Investment Report 2017, Investment and the Digital Economy* (United Nations publication, Sales No. E.17.II.D.3).

⁶ Alessandro Antimiani and Lucian Cernat, “Liberalizing global trade in mode 5 services: how much is it worth?”, Chief Economist Note, Issue 4 (Brussels, Directorate General for Trade of the European Commission, 2017).

⁷ World Bank Group, “Migration and remittances: recent developments and outlook”, Migration and Development, Brief 31 (April 2019).

Figure VI
UNCTAD free market commodity price index, all groups, January 2018 to March 2019



C. Trade tensions

14. Ongoing trade tensions suggest that the original projections indicating growth in world trade of up to 4 per cent in 2019 may have been too optimistic. Most notably, the United States of America and China have been locked in escalating tensions. The value of trade between the United States and China declined by more than 15 per cent in the first quarter of 2019 compared with the same period in the previous year and is expected to decline further.⁸ As of June 2019, about \$400 billion of bilateral trade between the United States and China was subject to additional tariffs.⁹ A direct consequence of tariffs between the two countries is the diversion of some bilateral trade to other countries with firms that are close competitors of companies in China or the United States. UNCTAD estimates that the European Union will benefit most, ultimately capturing about \$70 billion of the bilateral trade ceded by the United States and China, with Japan, Mexico and Canada the other key beneficiaries, capturing more than \$20 billion each.¹⁰

15. Higher tariffs increase domestic prices, adversely affect downstream industries that use imported materials and intermediate goods, and hurt consumers more generally. Costs are borne substantially by those firms offshoring assembly activities to China, as foreign, often United States-owned enterprises operating in China account for a substantial proportion of bilateral imports into the United States from China. The high import content of Chinese exports also indicates that other developing countries integrated into the supply chain could be negatively affected. Furthermore, the effect of trade tensions would be felt through the downward pressure on international prices for those products with which the two countries enjoy market powers, such as steel, aluminium, and agricultural commodities like soybeans, with adverse implications for developing country suppliers that did not significantly increase their market share. More generally, the spirals of additional tariffs would

⁸ International Monetary Fund, Direction of Trade Statistics database. Available at <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=140915124097>.

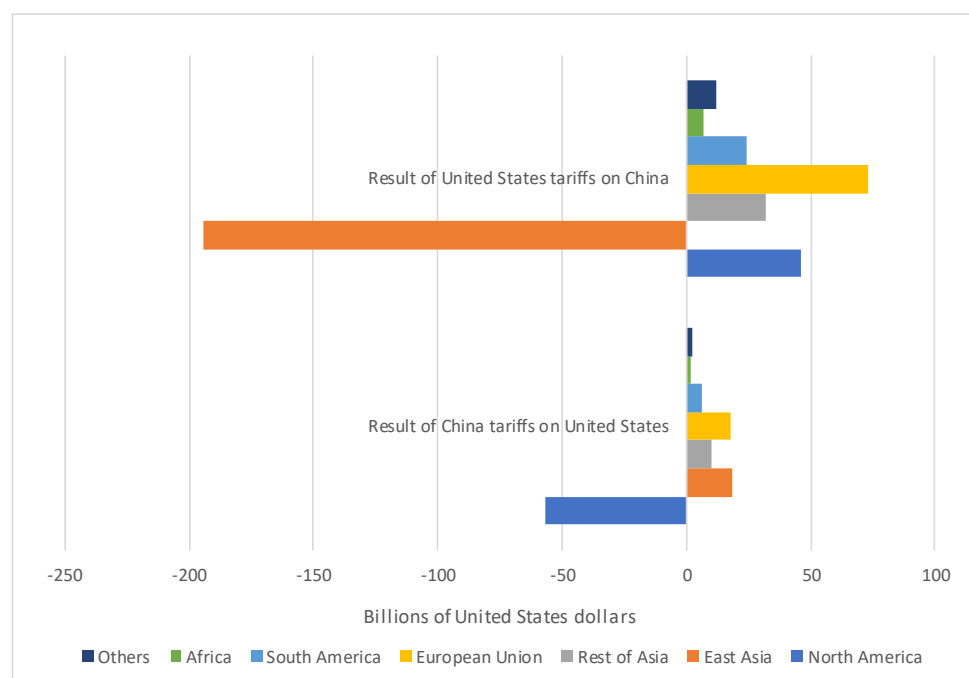
⁹ BBC News, “A quick guide to the US-China trade war”, 29 June 2019. China Briefing, “The US-China trade war: a timeline”, 25 July 2019.

¹⁰ UNCTAD, *Key Statistics and Trends in Trade Policy, 2018: Trade Tensions, Implications for Developing Countries* (2019).

reduce global import demand and weaken long-term growth prospects, including for developing countries.

16. Beyond the countries directly involved, trade tensions have implications for global and regional supply chains. Tariffs penalize not only the assembler of the product but also suppliers along the value chain, wherever they are located. The effects of tariffs between the United States and China on supply chains have so far been limited but, if expected to persist, would ultimately provide strong incentives for firms to restructure their supply chains. UNCTAD estimates that tariffs imposed by the United States on China would significantly affect upstream suppliers to China in other East Asian countries. Similarly, Chinese tariffs on imports from the United States would have negative effects on North American suppliers (figure VII). Once again, other regions in the world would benefit from such restructuring, especially Europe.

Figure VII
Trade tensions and supply chains



Source: UNCTAD, *Key Statistics and Trends in Trade Policy, 2018: Trade Tensions, Implications for Developing Countries* (2019).

17. The potential departure (“Brexit”) of the United Kingdom of Great Britain and Northern Ireland from the European Union could have implications for developing countries because of the possible changes that will result for trade policy.¹¹ Potential implications include the extent to which Brexit will change the market access conditions of the United Kingdom for developing country exports, for example, in the form of tariffs or conditions of preferential schemes, and the extent to which Brexit will change such conditions for foreign competitors. A Brexit governed by a withdrawal agreement would provide for an implementation period, giving the United Kingdom and third countries substantial time to define new agreements. In the longer

¹¹ Alessandro Nicita, Ksenia Koloskova and Mesut Saygili, “Brexit: implication for developing countries”, Research Paper No. 31 (UNCTAD, 2019).

term, countries' exports to the United Kingdom would depend on the extent to which the trade policy of the United Kingdom departs from current European Union policy.

18. More recently, the Government of the United States announced that it would impose a 5 per cent tariff on all goods imported from Mexico unless Mexican authorities took concrete action to stop the flow of migrants into the United States.¹² Shortly thereafter, the Governments of Mexico and the United States reached a temporary agreement on steps to curb the flow of migrants, resulting in the indefinite suspension of the planned tariff measure.¹³ This represented an example to the use of trade tariffs to achieve non-trade-related goals, exacerbating the potential damage from trade tensions and leading to increased uncertainty for the world economy.

II. Multilateral trading system and reform of the World Trade Organization

19. Multilateral trade cooperation under a rules-based system has come under increasing pressure from unilateral actions, countermeasures, trade disputes and bilateral trade deals focusing on short-term interests and circumventing multilateral processes. This comes at a time when trade, and the multilateral trading system at its heart, is expected to play a major role in world efforts to achieve the Goals. One general concern is that countries are placing increasing emphasis on national socioeconomic outcomes rather than on multilateral trade cooperation and development cooperation.

A. Implications of trade tensions for the multilateral trading system

20. Unilateral measures and countermeasures, as well as bilateralism leveraged by anticipated unilateral measures, are a major challenge to the rules-based multilateral trading system and to its enforcement, which is assured by the WTO dispute settlement mechanism. In the current context of trade tensions, 22 cases have been brought to the dispute settlement mechanism on different issues.¹⁴ However, the adjudication of these complex and large-scale cases poses a significant challenge for the dispute settlement mechanism, as these measures raise difficult legal questions of a systemic nature, and their handling will have institutional implications. If unilateral tariff measures are justified, either as a result of national security exceptions or the unfair trade argument, certain core WTO disciplines would be weakened, seriously affecting the dispute settlement mechanism. If the measures are not justified, securing compliance may prove difficult, as the losing party might be tempted to disengage. In either case, the integrity of the multilateral trading system in general is likely to be challenged.

21. As heightened trade tensions threaten to paralyse the trade negotiating and dispute settlement functions of the multilateral trading system, major initiatives have been aimed at reforming and modernizing WTO. The reform proposals are essentially targeted at the following functions: (a) trade negotiation and rulemaking, including

¹² Statement of the President of the United States of America at the White House regarding emergency measures to address the border crisis", 30 May 2019. Available at <https://www.whitehouse.gov/briefings-statements/statement-president-regarding-emergency-measures-address-border-crisis/>.

¹³ Interview with Donald J. Trump, President of the United States of America, 10 June 2019. Available at <https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-secures-historic-deal-mexico-combat-crisis-border/>.

¹⁴ World Trade Organization (WTO), "Chronological list of disputes cases", Dispute Settlement database. Available at https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm.

the development dimension, namely, special and differential treatment; (b) transparency and notifications; and (c) the dispute settlement mechanism, especially Appellate Body functions. In some of the proposals, stress is placed on the importance of enhancing multilateral oversight on unilateral measures that are at the source of the current heightened trade tensions.

1. Trade negotiating function, including special and differential treatment

22. In their existing proposals, developed countries have stressed the need to update the WTO rulebook in order to address some of the unorthodox policy measures highlighted in trade tensions and deemed to distort competitive conditions and trade, including industrial subsidies, State-owned enterprises, the transfer of technology and investment measures.¹⁵ The modification of existing rules and the introduction of new rules would require fully fledged negotiations. These concerns appear to have formed the basis for ongoing plurilateral initiatives on issues such as e-commerce, investment facilitation, micro-, small and medium-sized enterprises and services domestic regulation.

23. Development flexibilities that may be granted on the basis of the principle of special and differential treatment for developing countries have increasingly been challenged, reflecting the long-standing concerns of developed countries over the current special and differential treatment architecture. With the spectacular expansion of the share of emerging economies in world trade in the 2000s, the Governments of developed countries became increasingly concerned at the perceived persistent lack of reciprocity with large developing countries that enjoy special and differential treatment and “less-than-full reciprocity” in negotiations. They increasingly questioned the appropriateness of treating large developing countries on an equal footing with other smaller and more vulnerable developing countries. The reform of the existing principles of special and differential treatment therefore includes the proposed graduation and differentiation of developing countries.

24. A proposal has been made to formally discontinue the current practice of self-declaration of developing country status in WTO and, by implication, the automatic availability of special and differential treatment for all self-declared developing countries.¹⁶ It was specified in the proposal that special and differential treatment eligibility would be barred for those developing countries that: (a) are members or acceding to the Organization for Economic Cooperation and Development (OECD); (b) are Group of 20 members; (c) are classified as high-income countries by the World Bank; or (d) account for more than 0.5 per cent of global merchandise trade. If implemented, these conditions would exclude more than 30 developing-countries that are members of WTO from eligibility for special and differential treatment.

25. A group of developing countries has argued that there remains an important gap not only in terms of per capita income and poverty levels but also in individual trade and development capacities between developed and developing countries. In addition, the group argues that a historically important role had been assigned, through special and differential treatment, to the facilitation of their gradual integration into the multilateral trading system and to the contribution of such treatment to the emergence of a consensus in trade negotiations.¹⁷ The group therefore called for a more practical,

¹⁵ See, for example, European Commission concept paper entitled, “WTO modernization: introduction to future EU proposals” (2018).

¹⁶ See WTO draft General Council decision of 15 February 2019 on procedures to strengthen the negotiating function of WTO (WT/GC/W/764).

¹⁷ WTO, “The continued relevance of special and differential treatment in favour of developing members to promote development and ensure inclusiveness”, communication from China, India, South Africa and Venezuela (Bolivarian Republic of) (WT/GC/W/765).

voluntary and cooperative approach to the reform of special and differential treatment. This discussion is important, as strengthening the principle of special and differential treatment to make it more precise, effective and operational is pertinent to Goal 10 on reducing inequality within and among countries.

2. Transparency

26. Efforts to reform regular work and transparency at WTO are being pursued, as a lack of current data and notifications have often prevented the effective monitoring and assessment of the trade policy practices of trading partners. Improved monitoring and transparency are considered key to improved compliance on such substantive issues as industrial and agricultural subsidies. Proposals centre on enhancing the incentives to comply with notification requirements and improve their examination, including by instituting administrative sanctions and counter-notifications.¹⁸ This approach is also believed to improve pre-litigation problem-solving and incrementally improve WTO rules. Some developing countries have called for a more pragmatic and cooperative approach, as notification difficulties could also represent capacity constraints for them.

3. Dispute settlement

27. The central elements of current WTO reform efforts are undoubtedly those relating to the dispute settlement mechanism with a view to ending the current impasse in the Appellate Body.¹⁹ The appointment of new members to the Appellate Body has been blocked because of concerns relating to its operation. Four out of seven seats had become vacant by October 2018, leaving only three active judges, the minimum required to hear an appeal. In December 2019, another two seats will become vacant, at which time the Appellate Body would cease to function.

28. Various proposals have been made to address these concerns by amending the Understanding on Rules and Procedures Governing the Settlement of Disputes and the rules of procedure to clarify and modify relevant provisions.²⁰ Significantly, some proposals envisage increasing the number of Appellate Body members from the current seven to nine, making it a full-time job and providing one single longer-term appointment of 6 to 8 years instead of the current term of 4 years, with the possibility of one renewal.

B. Status of current negotiations

1. Towards a World Trade Organization fisheries subsidies agreement

29. Goal 14 is dedicated exclusively to the conservation and sustainable use of the oceans, seas and marine resources. Target 6 of the Goal serves to call upon Members to prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing and to eliminate by 2020 subsidies that contribute to illegal, unreported and unregulated fishing, recognizing appropriate and effective special and differential treatment for developing countries and least developed countries within the WTO context.

¹⁸ WTO, "Procedures to enhance transparency and strengthen notification requirements under WTO agreements", communication dated 1 November 2018 from Argentina, Costa Rica, the European Union, Japan and the United States (JOB/GC/204-JOB/CTG/14).

¹⁹ https://www.wto.org/english/news_e/news19_e/sum_gc_may19_e.htm.

²⁰ See, for example, WTO, document entitled "Communication from the European Union, China, India and Montenegro to the General Council" (WT/GC/W/753/Rev.1).

30. Academic sources estimate global fisheries subsidies to be valued at \$35 billion per year, with more than \$20 billion in capacity-enhancing subsidies.²¹ On the basis of data regularly reported to OECD by 28 countries, UNCTAD estimated their total public support to fisheries to average \$7.5 billion annually between 2010 and 2015. Support has grown by 24 per cent over the same period, with a peak of \$9.7 billion in 2012 and the majority allocated to fisheries management, monitoring and control, infrastructure, research and development, and fuel costs.²²

31. In 2016 and 2017, a wide range of proposals were tabled at WTO, which were collated into a compilation text. Negotiations served to streamline the text by highlighting areas of convergence and divergence. Under the ministerial decision on fisheries subsidies adopted at the eleventh Ministerial Conference of the World Trade Organization, held in Buenos Aires in December 2017, a mandate was issued that called for the continuation of negotiations on fisheries subsidies on the basis of emerging consolidated non-attributable texts. A deadline was also established in the decision for concluding negotiations by 2019 with a view to meeting the deadline of 2020 for target 14.6 of the Goals. Significantly, the Buenos Aires decision decoupled fisheries negotiations from the wider Doha Development Agenda negotiations for the first time.

32. Since then, the WTO Chair of the Negotiating Group on Rule-Making has taken a mixed approach consisting of cluster meetings, facilitators, incubators and bilateral sessions. In November 2018, the Chair issued a working document containing an updated comprehensive draft negotiating text²³ that included the following sections and topics: preamble; list of definitions; scope; list of prohibited subsidies; special and differential treatment; technical assistance; notifications; and transparency. Almost all of the text is in brackets, reflecting expectations rather than actual obligations. It forms the basis for the most recent phase of negotiations and hopefully paves the way for a comprehensive agreement to be reached before 2020. UNCTAD, the Food and Agriculture Organization of the United Nations and the United Nations Environment Programme have been providing inputs and advice for this process in areas under their mandates with the aim of meeting the Goal 14 deadline.

2. World Trade Organization e-commerce negotiations

33. In January 2019, 76 out of 164 WTO members – representing less than one-half of the WTO membership but 90 per cent of world trade – agreed to launch negotiations on trade-related aspects of e-commerce. This initiative could be seen as the result of the work carried out by the 71 signatory members of the joint statement on e-commerce at the 2017 WTO Ministerial Conference. Discussions among participating members have so far focused on four areas: (a) an enabling environment for e-commerce, which includes digital trade facilitation and logistics, facilitating electronic transactions and customs duties on electronic transmissions; (b) the openness of e-commerce, including market access, flow of information and non-discrimination; (c) trust in e-commerce, including business trust, consumer trust and intellectual property; and (d) cross-cutting issues, including transparency, infrastructure gaps and the digital divide, and cooperation.²⁴

²¹ U. Rashid Sumaila and others, *Global Fisheries Subsidies*, Directorate-General for Internal Policies (European Union, 2013).

²² UNCTAD and Food and Agriculture Organization of the United Nations, “Trade-related fisheries targets: sustainable development goal 14 – summary document” (UNCTAD/DITC/TED/2017/3).

²³ WTO, “Fisheries subsidies: communication from the Chair” (TN/RL/W/274/Rev.6).

²⁴ See, for example, WTO, “Joint statement on electronic commerce initiative: list of the key elements and ideas on electronic commerce”, communication from Japan dated 13 April 2018 (JOB/GC/180).

34. WTO e-commerce negotiations need to include the consideration of the role of competition law and policy with regard to the regulation of online platforms that serve as marketplaces, particularly the dominant platforms. There is a big divide between these dominant e-commerce platforms and much smaller and local e-commerce businesses. If the aim is to derive equally shared benefits from e-commerce for growth and consumer wellbeing, competition law and policy should be more actively invoked to create a competitive business environment for new and local e-commerce businesses. This is relevant for not only developing but also developed countries whose e-commerce markets are monopolized by dominant e-commerce platforms.

35. There is a need for WTO e-commerce negotiations to ensure that consumer protection, including consumer data protection and privacy, is part of the discussions and the formulation of outcomes. As cross-border cooperation is crucial to an e-commerce ecosystem that benefits consumers, it is important to include strong provisions that allow for effective cooperation among consumer protection agencies to deal with consumer complaints concerning e-commerce transactions.

36. Enabling developing and least developed countries to derive effective benefits from e-commerce remains a critical developmental challenge in the era of digital transformation. This is all the more challenging as the majority of developing countries are not currently taking part in these plurilateral negotiations, the overarching aim of which should be to set up an international regulatory framework that allows countries to harness the power of e-commerce for development.

C. Regionalism

37. Despite the stalled multilateral trade negotiations and trade tensions, the case for economic integration remains widely accepted, as evidenced by the continued engagement of economies in regional integrating processes, which could potentially enhance the readiness for further trade policy reforms and multilateral trade cooperation at a later stage. A web of large-scale bilateral free trade agreements is emerging, such as those between Canada and the European Union and between Japan and the European Union, and negotiations are under way on a regional comprehensive economic partnership agreement in Asia and the Pacific.

1. Agreement Establishing the African Continental Free Trade Area: a historic achievement

38. The Agreement Establishing the African Continental Free Trade Area entered into force on 30 May 2019, marking a historic commitment by African countries to create a single market on the continent, with its growing population of 1.3 billion and GDP of \$2.1 trillion. When fully operational and supported by strengthened infrastructure connectivity, reduced regulatory barriers and a competitive business climate, the Agreement will boost intra-African trade by over 30 per cent, stimulate GDP growth and increase overall welfare. Significantly, such trade growth would be based mainly on manufactured products with medium- to high-technology content given that more than 40 per cent of intra-African trade comprises manufactures, thus contributing to industrial development and structural transformation.

39. Following the entry into force of the Agreement, negotiations on the schedule of tariff concessions and rules of origin need to be finalized. Tariffs on intra-African trade will be removed over five years by non-least developed countries and 10 years by least developed countries. After 10 years, it can be expected that 90 per cent of intra-African trade will have been liberalized by all African countries that have

ratified the Agreement. The rules of origin will ensure that the benefits of free trade accrue only for products originating in Africa.²⁵

40. In addition to removing tariffs on intra-African trade, addressing non-tariff barriers and promoting regulatory transparency and cooperation on sanitary and phytosanitary measures and technical barriers to trade could boost GDP by up to 3 or 4 per cent.

41. Other areas of the Agreement requiring continued attention include the trade in services framework that is to be completed and the elaboration of phase two agreements that would create the supporting policy and regulatory environment for trade, namely, competition policy, investment policy and intellectual property policy.

42. As with any trade agreement, the expected benefits can only be achieved if the liberalization conditions of the agreement are implemented in full. African countries and their regional economic communities need to remain committed to upholding the ambition of the single African market and focused on implementing the agreement and related measures, especially those relating to trade facilitation, adjustment support and investment measures.

2. South-South cooperation: Global System of Trade Preferences among Developing Countries

43. Established in 1989 with UNCTAD as its secretariat, the agreement on the Global System of Trade Preferences among Developing Countries has been signed by 43 developing countries, providing a unique platform for interregional South-South trade cooperation. The Global System of Trade Preferences provides a framework for preferential tariff reductions and the pursuit of other related cooperation measures to stimulate trade among parties. The preferential tariff reduction is agreed through successive rounds of negotiations conducted among members of the Global System of Trade Preferences. The rounds were launched in 2004, with the latest concluded in Sao Paulo, Brazil, in 2010 and involving 8 of the 43 members or member groups, including Mercosur (Argentina, Brazil, Paraguay and Uruguay), Cuba, India, Indonesia, Malaysia, Egypt, Morocco and the Republic of Korea. Through these commitments, the signatories would reduce existing tariffs on up to 70 per cent of traded products by 20 per cent.²⁶ Ratified by three parties to date, the Sao Paulo Round Protocol will enter into force following its ratification by at least four of the eight signatories.

44. The second High-level United Nations Conference on South-South Cooperation held in March 2019 reaffirmed the importance of strengthening South-South trade cooperation in a manner consistent with WTO, including through the Global System of Trade Preferences, which offers a viable and unique interregional platform for consolidating and energizing South-South trade relations.

45. Strengthening the Global System of Trade Preferences among Developing Countries will require ensuring the entry into force of the results of the São Paulo round and its implementation in order to realize the expected benefits among participants in terms of trade, employment and welfare effects. Preliminary UNCTAD research indicates a welfare gain of \$14 billion from the implementation of results of the São Paulo round for the eleven signatory countries.²⁷ Greater participation and the

²⁵ *Economic Development in Africa Report 2019: Made in Africa – Rules of Origin for Enhanced Intra-African Trade* (United Nations publication, Sales No. E.19.II.D.7).

²⁶ São Paulo round of the Global System of Trade Preferences among Developing Countries: Ministerial Decision on Modalities adopted on 2 December 2009 (SPR/NC/MM/1, 2 December 2009).

²⁷ UNCTAD, “Energizing South-South trade: the global system of trade preferences among developing countries”, Policy Brief No. 74 (June 2019) (UNCTAD/PRESS/PB/2019/3).

extension and deepening of the areas of cooperation, potentially through a new round of negotiations, would significantly increase the expected gains for the participants.

3. Gender considerations in free trade and regional trade agreements

46. Trade policy should help to reduce gender inequalities and support women's economic empowerment in order to be inclusive. One way of creating gender-responsive trade policy is to introduce gender considerations into the text of trade agreements in a bold manner. Indeed, the number of regional trade agreements with explicit reference to gender issues has increased over time, and the number of detailed gender provisions in dedicated articles or even chapters has increased in the past three years in line with the growing interest in the issue and the political willingness to use trade as a tool for women's economic empowerment. As of December 2018, 74 of 556 regional trade agreements referred explicitly to gender-related issues, and 243 of the agreements made implicit reference to gender issues through provisions on human rights, the social dimension of sustainable development and vulnerable groups.²⁸ The most common types of gender-related provisions in trade agreements include cooperation on gender and gender-related issues, including labour, health and social policy.

47. The first examples of gender chapters in free trade agreements include the Chile-Uruguay and Chile-Canada free trade agreements, both introduced in 2017. In a more recent development, the Canada-Israel free trade amending protocol, which was signed on 28 May 2018 to replace the 1997 Canada-Israel free trade agreement, incorporates a trade and gender chapter that is subject to a dispute settlement mechanism.²⁹ This development may initiate a shift in this direction for future free trade agreements.

48. In addition to mainstreaming gender into the text of trade agreements, it is equally important to carry out ex ante and ex post impact assessments of trade reforms in order to make trade policy more gender-responsive. Similarly, there is a need to carry out gender value chain analyses in major export sectors to help identify areas for policy intervention in order to support the upgrading of women in value chains. Ex ante gender impact studies analyse the gender effects of trade reforms before the reform is implemented, with a view to informing the design of compensatory measures in the event of expected negative impacts or the design of complementary measures to scale up expected positive impacts. Ex post studies are intended to identify the realized gender effects of trade reforms on key economic outcomes, such as employment, production, consumption and poverty, by analysing the situation before and after the trade reform. UNCTAD has been carrying out ex post gender impact assessments of such reforms as country case studies and regional studies.³⁰

²⁸ José-Antonio Monteiro, "Gender-related provisions in regional trade agreements", WTO Staff Working Paper ERSD-2018-15 (Geneva, WTO, 2018).

²⁹ See the trade and gender chapter for the full details. Available at: <https://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/israel/fta-ale/text-texte/13.aspx?lang=eng>.

³⁰ UNCTAD publications, including: *Teaching Material on Trade and Gender, Volume 1: Unfolding the Links – Module 4C: Trade and Gender Linkages: an Analysis of MERCOSUR* (UNCTAD/DITC/2018/2); *Teaching Material on Trade and Gender, Volume 1: Unfolding the Links – Module 4B: Trade and Gender Linkages: an Analysis of the Southern African Development Community* (UNCTAD/DITC/2018/1); and *East African Community Regional Integration: Trade and Gender Implications* (UNCTAD/DITC/2017/2).

III. Trade and the Goals: time is running out

A. Target 17.10 of the Goals: multilateral trading system

49. The 2030 Agenda includes the recognition of the role of trade as a critical means of implementation and a call for the international community to revitalize the global partnership on trade. Central to the Goal is the commitment to shore up trade multilateralism by promoting “a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the WTO” under target 17.10 of the Goals.

50. Despite the increased participation of developing countries in world trade, many continue to lag behind, and over 700 million people, 10 per cent of world population, remain in extreme poverty. It is against this background of growing discontent over globalization that trade tensions have escalated since 2018 to threaten the robust growth in international trade and the very foundation of the rules-based multilateral trading system. It is critical that these tensions be resolved as a matter of priority through dialogue and cooperation.

51. There is an urgent need for countries to work together to restore the spirit of multilateral trade cooperation and make the necessary course correction to uphold and bolster the unique multilateral institution that has safeguarded prosperous international trading relationships over the past 70 years. The rules-based, non-discriminatory and equitable multilateral trading system best serves the interests of the poorest and the most vulnerable of all economies in particular. It is therefore positive that ongoing efforts by WTO members are aimed at strengthening and updating various aspects of the system to better address the challenges posed by the economic realities of the twenty-first century and to better deliver on trade negotiations through greater transparency and effective dispute resolution.

52. It is important for these measures to be guided by the imperatives of the Goals in order to turn any reform efforts into opportunities for broader international efforts aimed at revitalizing the global partnership for sustainable development. Various initiatives are also being implemented to address different areas of relevance to the Goals, such as discussions targeting the elimination of harmful fishery subsidies by 2020 in accordance with Goal 14, and improved transparency regarding agricultural subsidies that affect the achievement of food security targeted in Goal 2. The recent launch of negotiations among a number of members to address trade-related aspects of electronic commerce may be relevant to Goal 9 on fostering innovation.

53. Realigning the system of multilateral trade cooperation with the Goals would primarily necessitate a robust development dimension that privileges a creative, pragmatic and cooperative approach to development challenges arising from trade realities of the twenty-first century. Strengthening the principle of special and differential treatment to make it more precise, effective and operational will be critically important for Goal 10, on reducing inequality within and among countries. Special and differential treatment has been an integral part of the multilateral trading system and served as an enabling instrument to render the integration of developing countries economically, socially and politically sustainable. The instrument remains as valid as ever in the rapidly evolving economic and trading environment. A pragmatic, cooperative approach could be explored to adequately design operational special and differential treatment targeted at the specific trade and development needs of developing countries.

B. Target 17.11 of the Goals: doubling the export share of least developed countries

54. Target 17.11 of the Goals requires a significant increase in exports of developing countries, in particular with a view to doubling the export share of least developed countries by 2020. However, the shares of countries of that category in world exports of goods and services slumped from 1.0 per cent in 2011 to 0.9 per cent in 2017, and the shares are increasingly unlikely to double before 2020, the deadline for that target. At the regional level, least developed countries in Asia increased their share of world goods exports from 0.3 per cent in 2011 to 0.4 per cent in 2018, while the share of their African counterparts was eroded from 0.7 to 0.6 per cent. To achieve target 17.11 in relation to goods, Asian least developed countries face a gap of 0.2 per cent, compared to 0.8 per cent for countries of that category in Africa. Hence, while it appears increasingly possible that Asian least developed countries will achieve target 17.11 for goods, their counterparts in Africa may not.

1. Implementation of the services waiver

55. At the 2011 WTO Ministerial Conference, it was decided to allow importing countries to grant preferential treatment to services and services suppliers from least developed countries and waive the obligation to extend that treatment to other WTO members, a decision known as the least developed countries services waiver. This legal tool facilitates preferences but neither requires members to notify and grant them nor provides guidance on which preferences and underlying context would better support the development of least developed countries through trade in services. As such, the results of the waiver need to be evaluated in terms of not only the preferences granted but also the potential of the preferences and the underlying context to support development in that category.

56. Most importantly, least developed countries should take a forward-looking approach in their requests to pursue preferences in sectors that will contribute to longer-term development goals, including by contributing to diversification and upgrading. Weak supply capacities constrain such countries from making fuller use of preferences, so regulatory preferences are important to facilitate the use of granted access. It is also critical to implement services policies in order to develop services sectors that can benefit from preferences. Although still rare in least developed countries, data on services value-added incorporated into all economic sectors could be useful in evaluating which services sectors contribute more to overall productive capacity, productivity and competitiveness.

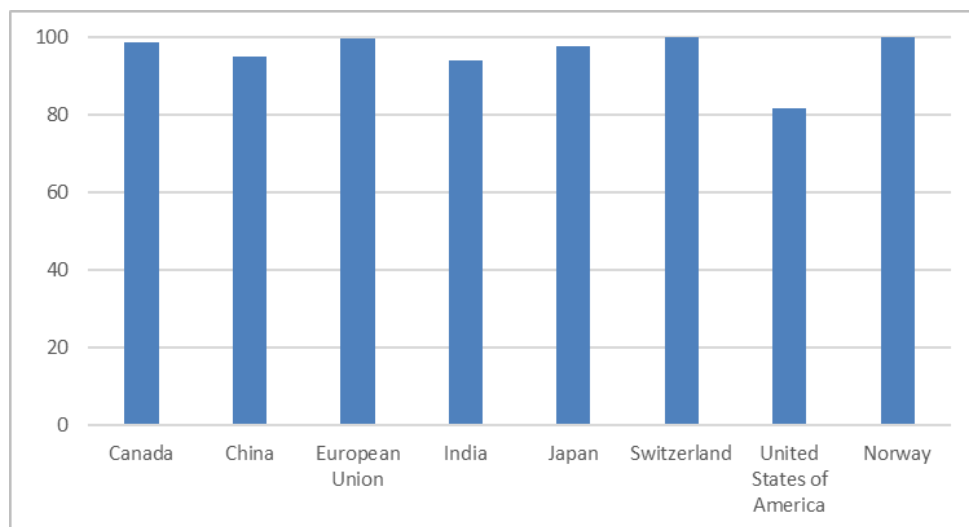
2. Implementation of duty-free and quota-free market access for least developed countries

57. Several countries provide duty-free access under least developed country schemes for trade in goods; the main schemes are listed in figure VIII below. According to WTO sources, most countries have achieved almost 100 per cent implementation of duty-free access, as can be seen in figure VIII. Its full implementation in the United States is largely constrained by a restriction on imports of textiles and clothing from Asian countries.³¹

³¹ For information on different market access initiatives for generalized systems of preferences and least developed countries, see <https://unctad.org/en/Pages/DITC/GSP/Generalized-System-of-Preferences.aspx>.

Figure VIII
Duty-free access under least developed country schemes in selected countries: 2016

(Percentage)



Source: Document WT/COMTD/LDC/W/66.

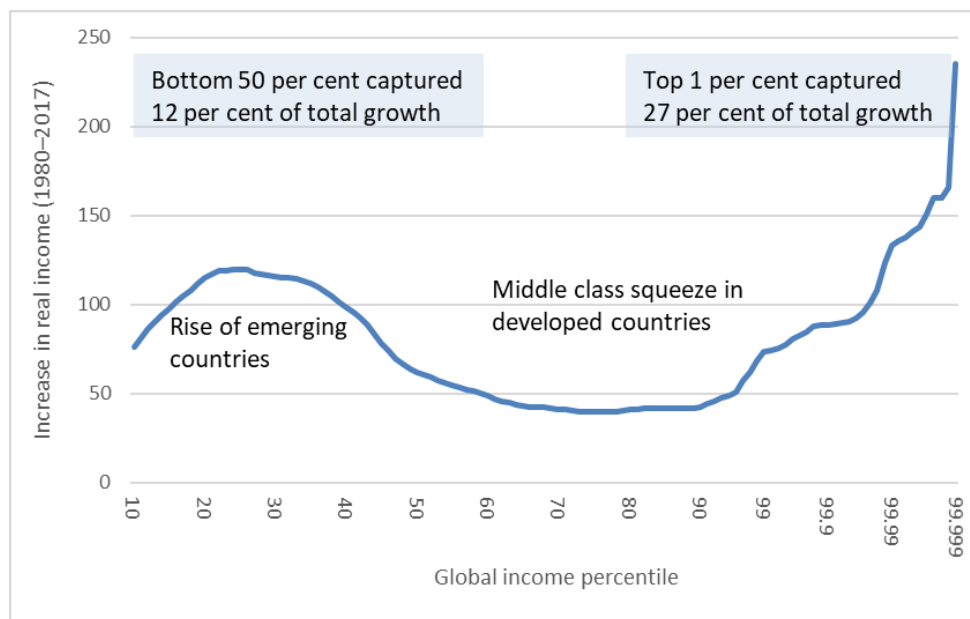
58. Increased duty-free access has not significantly correlated with increases in exports. The main reason that least developed countries, especially in Africa, are failing to fully utilize duty-free access is likely to be the structural weakness of supply capacities and the inability to produce both quantitatively and qualitatively tradeable goods and services. Agenda 2030 will elude these least developed countries if the international partnership continues to avoid addressing this deficit.

C. Goal 10: reduce inequalities within and among countries

59. International trade has been an important factor in promoting economic growth, raising living standards and reducing poverty. However, the trade integration process has often been accompanied by a polarization in the distribution of income, with significant increases in within-country income inequality, especially in developed countries. The overall trend in global inequality between 1980 and 2016 is illustrated in figure IX, which shows that rising incomes in developing countries have been accompanied by stagnant incomes in developed countries and extraordinary income growth for global elites at the very top of the global income distribution.³² To put it differently, the world is now a much more unequal place than it was just 35 years ago. Such uneven distribution of economic growth may be the main cause behind the current backlash against globalization and has certainly contributed to the increase in demand for protectionist policies. For this reason, Goal 10, which is aimed at reducing inequality within and among countries, includes targets for achieving more rapid income growth for the bottom 40 per cent of the population and for ensuring equal opportunity and reducing inequalities of outcome.

³² Facundo Alvaredo and others, *World Inequality Report 2018* (Belknap Press, 2018).

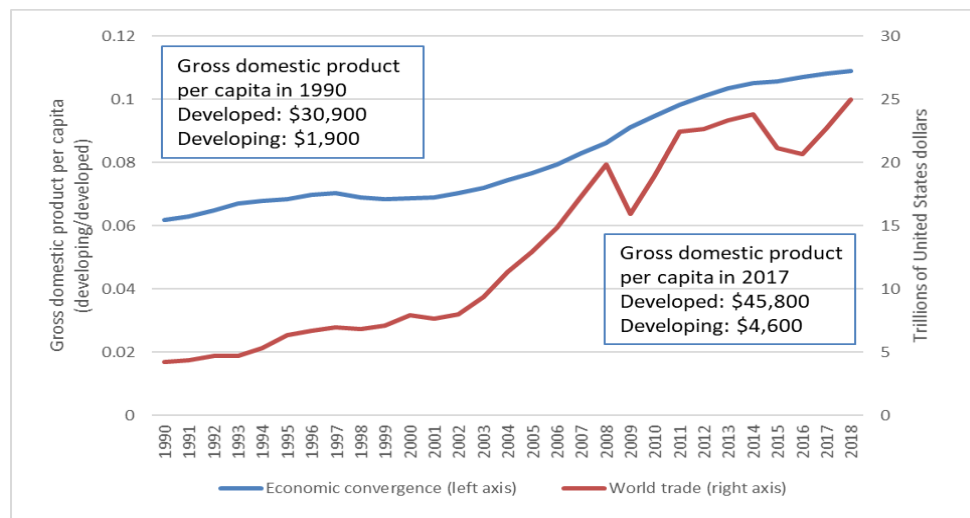
Figure IX
Global economic growth captured by earners at the very top



Source: World Inequality Report 2018.

60. Figure X shows that the rapid increase in international trade since 2002 has been accompanied by a reduction in the relative gap between GDP per capita of developing countries and that of developed countries. In 1990, world trade was valued at about \$5 trillion, and the per capita income of the average individual in developing countries was about 6 per cent of the counterpart in developed countries. This figure rose to about 11 per cent in 2018, with international trade reaching some \$25 trillion.

Figure X
International trade and income gap



Source: UNCTAD secretariat calculation, based on data from UNCTADstat. The data for 2018 are preliminary.

Note: Economic convergence is measured by the per capita income ratio between developing and developed countries.

61. While economic convergence captures inequality trends in relative terms, inequality can be also measured in absolute terms. Absolute inequality has increased both at the global level and among countries, as demonstrated by the increasing gap in GDP per capita between developed and developing countries, rising from about \$29,000 in to some \$41,000 in 2017. Moreover, looking beyond averages, there is substantial evidence that the impact of international trade has been uneven across developing countries. While trade integration strategies have induced growth in many developing countries, especially in East Asia, many countries in Africa and Latin America did not fare as well, with disappointing economic growth and with gains often captured by the richer segment of the population, further increasing inequality.

62. Against a background of rising inequalities and an increasingly integrated world economy, it is essential that the benefits of international trade become more inclusive. Although the effects of trade on inequality are country- and context-specific, there are two general policy goals that would likely result in more inclusive trade: (a) improving the opportunities and rights of low-skilled workers; and (b) reducing costs for small firms.

63. Globalization has not been favourable for many workers, especially in developed countries. The fragmentation of production processes across countries has benefited workers at the top of the skills ladder while negatively affecting those at the bottom, contributing to rising within-country inequality in both developed and developing countries. Trade policymaking can help rebalance such unequal outcomes by being used to consider labour rights and promote private standards. Governments should also continue to provide workers with the relevant skills required by the global economy. Education and training programs for increasing worker skills and improving worker mobility from declining to expanding sectors remain essential.

64. Globalization has also changed the nature of markets and the business landscape. UNCTAD research indicates a remarkable increase in market concentration in the non-financial sector between 1995 and 2015.³³ In the agrofood industry, the top five firms control 84 per cent of the agrochemicals market and the top 10 firms control 73 per cent of the seeds market.³⁴ The effects of highly concentrated markets and complex value chains in the context of the coffee sector as set out in the box below. The top 10 global companies by market capitalization in 2009 included only one technology company and three oil and gas companies; in 2018, the list included five technology companies and two consumer services companies that are both large online marketplaces.³⁵ In the maritime transport sector, the leading 10 shipping lines accounted for 68 per cent of deployed capacity in 2014; by 2018, their share had increased to 83 per cent.³⁶ Both horizontal and vertical integration of large multinational firms has transformed various economic sectors, including digital platforms and liner shipping companies.

³³ *Trade and Development Report 2017 – Beyond Austerity: Towards a Global New Deal* (United Nations publication, Sales No. E.17.II.D.5), figure 6.2, p. 126.

³⁴ International Panel of Experts on Sustainable Food Systems, *Too Big to Feed: Exploring the Impacts of Mega-Mergers, Consolidation and Concentration of Power in the Agri-food Sector* (Brussels, 2017).

³⁵ Note by UNCTAD secretariat on competition issues in the digital economy (TD/B/C.I/CLP/54, tables 1 and 2).

³⁶ Note by the UNCTAD secretariat on challenges faced by developing countries in competition and regulation in the maritime transport sector (TD/B/C.I/CLP/49).

Coffee farmers and their share in value chains

During the 2018/19 growing season, approximately 10 billion kg of coffee worth nearly \$200 billion were produced, 94 per cent of which by 25 million smallholder farmers and their families. In Africa, it is estimated that about 10 million individual farmers and workers derive their livelihoods from the coffee economy.

The global coffee market is highly concentrated and has a complex value chain. Two major roasters control about one quarter of the market, while the top five international trading companies handle more than 40 per cent of total coffee trade. According to estimates in the recent UNCTAD report, only 17 per cent of the total value of the final product accrued to the producing countries between 2011 and 2016, negatively affecting grower incomes and posing a threat to the sustainability of coffee production.^a

^a UNCTAD, *Commodities at a Glance: Special Issue on Coffee in East Africa*, Commodities at a Glance No. 10 (Geneva, 2018).

65. Many small firms remain unable to access foreign markets as their domestic market becomes increasingly contested by large foreign firms. This has contributed to the rising polarization of income distribution in both developing and developed countries. To reduce inequality, the participation of small firms in international trade needs to be considered and supported in trade policymaking by ensuring that small entrepreneurs have access to information on foreign market access conditions and on the complex processes linked to the compliance with regulations. Measures such as promoting e-commerce, providing information and communications technology services and supporting export promotion initiatives have great potential for levelling the playing field between small and large firms in accessing global markets.

66. Large firms have captured most of the gains from international trade, often at the expense of small firms. One of the many factors contributing to such inequality is the exercise of market power, which tends to raise the return on capital to the detriment of economic growth by discouraging innovation and productivity. Helping small firms to participate in world markets requires identifying and addressing such anti-competitive behaviours. Effective competition law enforcement in national and regional markets may provide an avenue for addressing inequality. Given the challenges faced by young agencies in developing countries and least developed countries, there is a need to promote international cooperation in competition law enforcement.

IV. Conclusions

67. Despite the strong trade growth in the past two years, the outlook for trade is underwhelming as global tensions and unilateral trade policies take their toll. These tensions have affected not only the outlook for trade but also the institutions and mechanisms that govern it.

68. Multilateral trade cooperation under a rules-based system has come under increasing pressure from unilateral actions, countermeasures, trade disputes and bilateral trade deals focusing on short-term interests and circumventing multilateral processes. This comes at a time when trade, and the multilateral trading system at its heart, is expected to play a major role in world efforts to achieve the Goals. Ongoing efforts by WTO members to strengthen and update the system to order to better address challenges posed by new economic realities and better deliver on trade

negotiations through greater transparency and effective dispute resolution are welcomed but need to be expedited.

69. It is possible that the 2020 deadlines for the targets relating to fisheries subsidies (target 14.6) and the doubling of global export shares of least developed countries (target 17.11) will not be met. While negotiations on fisheries subsidies are progressing and a comprehensive agreement may still be reached before the deadline, the required growth in least developed country exports will not be achieved. Indeed, on an individual basis, many least developed countries have seen their export share decrease. In hindsight, it was not possible to make the structural economic changes required to meet this goal quickly enough, with many of the export shares of developing countries and least developed countries too closely tied to volatile commodity prices.

70. Despite the contribution of trade to the trend in global economic convergence, as demonstrated by the reductions in between-country inequality, not everyone has benefitted, as inequality within many countries continues to rise. Once again, the Secretary-General calls for trade policies to be devised so that trade fosters economic growth that is both inclusive and sustainable. In the policymaking process, trade-enhancing strategies need to include considerations of socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. Above all, sustainable development, as represented by the Goals, should be the focus of trade strategies.
