



## United Nations Conference on Trade and Development

Distr.: General  
8 July 2013

Original: English

---

### Trade and Development Board

Sixtieth session

Geneva, 16–27 September 2013

Item 7 of the provisional agenda

## Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

### *Executive Summary*

International trade figures prominently in discussions on the United Nations post-2015 development agenda and sustainable development goals. In these contexts it is important to distinguish between development goals such as poverty alleviation, food security and access to essential services, on the one hand, and drivers to achieve them such as trade, investment and technology on the other hand. This note examines linkages between trade and development and stresses that the trade–development nexus is not automatic. Generating development benefits requires institutional and policy support both at the national and international levels. National trade-related policies should more effectively connect producers to global markets. And international cooperation should deepen beneficial trade reform, better integrate developing-country producers into global value chains, reduce trade-restricting non-tariff measures, and promote trade rules and trade-related policies that are environmentally sustainable and socially inclusive. Properly harnessed, international trade can be a powerful force for equitable, inclusive and sustainable development.

## Introduction

1. The landscape of international economy has changed considerably in the past decades, particularly since the time when the United Nations Millennium Development Goals (MDGs) were adopted. Progress in information and communication technology and transport, fluid capital mobility, successive trade liberalization at unilateral, multilateral and regional/bilateral levels, and the shift of the pole of economic growth from the North to the South – all point to the need for a paradigm shift in thinking on trade and development.

2. One clear implication of the ongoing globalization process is that international trade should not be seen as an end but as a catalyst for inclusive growth and development. When properly harnessed, the opportunities brought by international trade can be a powerful force behind job creation, enabling efficient use of resources, providing incentives to entrepreneurship, and ultimately improving standards of living in both developing and developed countries. However, the trade–development nexus is not automatic and requires institutional and policy support both at the national and international levels.

3. Against this backdrop, and pursuant to paragraph 18(d) of the Doha Mandate of UNCTAD XIII,<sup>1</sup> section I of the present report examines the stylized facts of today's globalization in relation to the current MDGs, particularly with the MDG 8 “Develop a global partnership for development”. The report then elaborates why international trade should be considered as the influencing (or explanatory) variable that would determine the outcome of the dependent variables, in this case a broad set of development goals. Trade impact on various developmental goals can be positive or negative – what determines the sign of the impact is whether policies are well-targeted and effectively implemented.

4. Section II provides the global economic and trade trends.

## I. Using trade to attain the post-2015 development goals

### A. Stylized facts of today's international economy

#### **Stylized fact 1 – the South is a major pull of today's economic growth, though the speed of growth varies considerably within the South**

5. What constitutes today's globalization is an enhanced flow of capital, information, goods and services, and to a lesser degree labour, across countries. In essence, it has consolidated markets, previously split by borders and geography, into a global market that increasingly share similar product preferences. At the same time, new and diversified products and services have been created.

6. Developing countries have been a major force behind today's dynamic expansion of international trade and the world gross domestic product (GDP) growth. The GDP per capita of developing countries as a whole grew annually 6 per cent over the period 2000–2009, compared to 1 per cent for developed countries. Developing countries today claim close to 50 per cent of the global merchandise exports (compared to 25 per cent in 1990/1991) which are rising further notably through new South–South trade linkages.

---

<sup>1</sup> The Doha Mandate paragraph 18(d) provides that UNCTAD should “Continue to monitor and assess the evolution of the international trading system and its trends from a development perspective”.

7. Although well performing as a group, developing countries' integration into the global economy has been varied. Up to 70 per cent of the total merchandised trade of developing countries in 2012 originated in only twelve developing countries, many of which are in Asia.

**Stylized fact 2 – today's international trade is dominated by fragmentation of production processes**

8. One major feature of today's globalization is the evolution of global value chains (GVCs) – a fragmentation and delocalization of production processes in sectors such as electronics, communication equipment, motor vehicles and apparel. The rapid and impressive growth record of Asian developing countries in recent years confirms that participating in GVCs can drive aggregate economic growth.

9. Although participation in GVCs has often brought many benefits in the forms of new jobs, higher wages and technology diffusion, these benefits are not always granted. Of particular importance for developing countries is that the existing power asymmetries between lead firms (that is, GVC-owning or GVC-managing transnational corporations) and the GVC suppliers in developing countries often do not facilitate the diffusion of new skills and technologies, which are of fundamental importance for industrial upgrading and economic development. Consequently, firms in developing countries are often trapped in the production and export of raw commodities, goods and services with low value addition and growth potential.

**Stylized fact 3 – today's international trading system is more complex and fragmented than two decades ago**

10. As international trade has expanded with unprecedented speed, the global trading system has gone through a significant transformation. The trading system today is more complex and fragmented with an increasing number of bilateral, regional or inter-regional trade agreements sprouting all around the world.

11. As of January 2013, 546 regional trade agreements (RTAs) had been notified to the General Agreement on Tariffs and Trade/World Trade Organization (WTO), and of these 354 are in force. These agreements are estimated to cover nominally over 50 per cent of world trade when including most-favoured nation duty-free trade, or 17 per cent if only preferential duty-free trade is counted. Recently, free trade agreements (FTAs) have become more of a "comprehensive economic partnership agreement", as many of them include an investment treaty as well as commitments in the "WTO-Plus" and "WTO-X" areas.<sup>2</sup>

12. Today's picture suggests that the world is moving in an opposite direction from the MDG target 8.A that calls for developing "an open, rule-based, predictable, non-discriminatory trade and financial system". A bilateral or regional FTA is by nature closed and discriminatory. Because the formation of FTAs is principally driven by gains in the political economy sense, the current proliferation of FTAs rarely involves economically insignificant least developed countries (LDCs). Further, the proliferation of FTAs reduces transparency in the global trading system and increases transaction costs, particularly to developing-country operators in international trade.

---

<sup>2</sup> The "WTO-Plus" agreements are those in the areas that are covered under the WTO at the level that is much deeper in liberalization than committed under the WTO. The "WTO-X" (extra) agreements are the commitments in the issue areas that are not covered under the WTO, such as competition policy and trade facilitation.

**Stylized fact 4 – tariffs alone cannot measure the improvement in market access, especially for LDCs**

13. The MDG 8 target 8.B addresses the special needs of LDCs through, inter alia, providing them with tariff-free and quota-free market access. The recent monitor of the MDG 8 reports that about 80 per cent of LDC exports to developed economies received duty-free market access in 2010, compared to just over 70 per cent in 2000.<sup>3</sup> As few LDCs participate in FTAs, the importance of the provision of tariff-free and quota-free market access in a predictable manner to all LDCs prevails in today's global economy.

14. However, market access in today's international trade is not determined by tariffs alone. An increasing presence of non-tariff measures (NTMs), that is, behind-the-border regulatory measures such as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBTs) increasingly affect trade flows, often in a restrictive manner. There are growing concerns, particularly in the aftermath of the 2008 financial crisis, about the abuse of NTMs for protectionist purposes. Concerns related to "green protectionism" – the use of measures for protectionist purposes under the guise of addressing legitimate environmental goals – are also taking central stage in trade policy debates and negotiations.

15. On average, NTMs greatly increase the cross-border transaction costs. For example, while agricultural exports from low-income countries face a low average tariff of about 5 per cent in developed economies, when the trade restrictiveness of NTMs is incorporated in the form of a tariff equivalent, average import costs reach almost 30 per cent.<sup>4</sup>

16. Trade-restricting effects of NTMs, as well as private standards, can be felt more acutely by exporters in low-income developing countries and LDCs. NTMs are most prevalent in the product groups that are of major export interest of these countries (for example, food, textiles and footwear, and wood products). Furthermore, producers in these countries are in general less equipped with the technology and institutional framework needed for complying with product quality standards and process requirements in developed-country markets.

**B. International trade as a means to development****International trade as a catalyst to a broader set of development goals**

17. Enhanced participation in international trade has a catalytic power – just as finance, investment and technology – to induce changes in development conditions, as international trade intersects with socioeconomic and developmental concerns such as poverty and employment, food security, education, gender, health and environmental sustainability.

18. As regards food security, for example, trade can be a solution or a problem to our need to feed the global population, which it is estimated will exceed US\$7 billion in 2015. As the food-price hike continues, the view that food security requires a higher level of self-sufficiency (that is, less dependency on food imports) appears to be gaining ground. The opponent to this view is supported by evidence that the majority of net-food-importing countries are not seriously affected by food insecurity, whereas a large number of countries that have a relatively large agricultural sector tend to be affected by food crises.

---

<sup>3</sup> From *Millennium Development Goal 8. The Global Partnership for Development at a Critical Juncture. MDG Gap Task Force Report 2010*. United Nations publications. Sales No. E.10.I.12. ISBN 978-92-1-101224-8. New York.

<sup>4</sup> UNCTAD (2012), *Non-tariff Measures to Trade: Economic and Policy Issues for Developing Countries*.

19. Competitive food imports on the one hand can overwhelm agricultural production in developing countries especially when the “competitiveness” is derived from anticompetitive actions such as export subsidies or producer subsidies in developed economies. On the other hand, irregularity in international food trade caused by, among others, export restrictions and financialization of agricultural commodities heightens the risk of food insecurity in net-food-importing developing countries.

20. Trade can also have an impact upon employment. Enhancing participation in international trade, for example through trade liberalization, can contribute to job creation and subsequent poverty reduction, as observed in a number of developing countries in recent years. Focusing on the impact of trade policy, however, various empirical studies suggest that the linkage between trade liberalization and employment is ambiguous. That is, trade liberalization per se does not have a tangible impact upon aggregate job creation or job elimination. Once again, it is the presence of policies that support employment creation through trade such as facilitating the development of productive export sectors, adequate skill creation, infrastructure building, and institution design that supports self-discovery and establishes and focuses on learning.

21. The assessment of trade-environment linkage is another area of contention. To meet the basic needs of a growing population and rising per-capita consumption levels in emerging economies, the world GDP should expand by as much as three times by 2050. This growth requirement is likely to aggravate the global challenge: a warmer and more volatile climate, stressed water supply, land degradation, depleted forests, and scarcities of natural resources needed to continue fuelling our modern society. Increased international trade can be an adversary to environmental sustainability if the spread of industrial production across the world is not accompanied with effective access to energy-saving and clean technology. Chapter 2 of Agenda 21, and more recently Rio+20, acknowledge that international trade can enhance the diffusion of environmental goods, services and technologies, as well as sustainable and socially equitable production methods among countries, and therefore make an important contribution towards sustainable development.

22. With respect to the trade impact upon socioeconomic development, there is a strong mutual relationship between gender and trade, whereby trade policies could encourage or discourage gender equality, and in turn gender-based inequalities can impact on trade policy outcomes and trade performance.<sup>5</sup>

23. Trade policies can affect gender equality through multiple transmission channels, including consumption effects (the impact of trade policies on domestic prices of goods and services) and income effects (through wages and earnings from traded goods or services). At the same time, gender-based inequalities can significantly impact on trade performance. For example, gender wage inequality can stimulate labour-intensive manufacturing exports through low female wage costs.<sup>6</sup>

<sup>5</sup> United Nations Research Institute for Social Development (2012), “Inequalities and the post-2015 development agenda”, Research and Policy Brief 15; UNCTAD (2012), “Inclusive and gender-sensitive development paths”, note by the UNCTAD secretariat TD/456; UNCTAD (2009), “Mainstreaming gender in trade policy”, note by the UNCTAD secretariat, TD/B/C.I/EM.2/2/Rev.1; Cagatay N. (2001), “Trade, gender and poverty”, United Nations Development Programme, New York; Fontana M. (2003), “The gender effects of trade liberalization in developing countries: A review of the literature”, DP101 Discussion Papers in Economics, University of Sussex.

<sup>6</sup> Seguino, S. (2000), Gender inequality and economic growth: A cross-country analysis. *World Development*. 28(7): 1211–1230.

**Beyond the MDG 8 – some areas calling for policy responses and the global partnership for development**

24. At this stage of the post-2015 agenda-forming process, it is imperative to distinguish the end (that is, the goals) and the means that are needed to achieve the ends. International trade can be a powerful means to achieve broad development goals such as eradication of extreme poverty. But trade impact on development can be positive or negative. The sign of the trade impact is determined by well-targeted domestic policy and actions to achieve inclusive development, and the global partnership that consolidates efforts made at the national level.

25. There is one particular sector that can strengthen the trade-development nexus in developing countries, and that is services. Accounting for the largest share of output in nearly all countries, development of the services sector and services trade are crucial in enhancing the trade-sector growth, and linking the trade growth to inclusive economic growth and development. Trade-facilitating services, such as transport, telecommunications, financial services, business services including professional services, improve the competitiveness of a country in international trade. Consumer services such as distribution and retailing producers to consumers widens the domestic market size. Health and education services are critical for lifting the poor out of poverty into productive employment. This segment of economic activities may receive the special attention of the global partnership for development in identifying the effective means to achieve the overall development goals.

26. Linked to services, migration strengthens economic links between countries of origin and of destination and contributes, thereby, to increasing cross-border trade and investment. Over 200 million people live and work outside their country of origin. Economic and social benefits for both sending and receiving countries can be significant. For sending countries, these benefits can be increased remittances which provide sources of development finance, human capital and skill improvements, knowledge transfer and gender empowerment. For receiving countries, supply–demand matching, particularly in health and education services sectors, is among the major benefits. Challenges remain to maximize the benefits and minimize costs for both sending and receiving countries. This can be achieved through “co-development” partnerships at bilateral, regional and global levels, while ensuring circular migration.

27. With respect to achieving inclusive growth through manufacturing exports, in particular through participating in GVCs, targeted competition policies within GVC-participating developing countries can take on a crucial role in surveying power asymmetry between a lead firm and local firms, and in preventing or sanctioning anti-competitive behaviour by the former.

28. But national actions alone cannot reduce persistent inefficiencies and trade barriers in the global trading system. Thus the urgency for the international community to establish an open, ruled-based, transparent and non-discriminatory multilateral trading system is stronger than ever. For example, with a view to making international trade improve environmental sustainability, the multilateral trading system could help: to strengthen disciplines on agriculture, fisheries and fossil fuel subsidies; to define forms of non-actionable government support to national sustainable production and consumption; to reduce environmental non-tariff barriers to trade; and to promote the transfer of environmental technologies and broaden the use of related intellectual property rights by developing countries.

29. At the same time, prolonged multilateral trade negotiations may call for new ways to foster consensus for strengthening cooperation at multilateral levels in addressing trade barriers such as NTMs, and enhancing fairer international trade in a way that it positively

catalyses inclusive economic growth, particularly for low-income developing countries and LDCs. Attention could be paid, for example, to South–South experience sharing and “soft rule-making” to pave the way for more legally binding frameworks and formal “hard rule-making” processes.

30. The proliferation of bilateral, regional and interregional FTAs is today’s economic reality. With a view to maintaining the transparency in the global trading system, FTAs may need to be systematically monitored and evaluated on their implication on inclusive and equitable economic growth of developing countries.

### **C. Conclusion – the process forward**

31. The sixtieth session of the Trade and Development Board takes place at a time when a clear set of inclusive and sustainable development goals needs to be defined, to be achieved in the coming decades.

32. The recent “Report of the high-level panel on the post-2015 development agenda” puts forward a universal agenda to eradicate extreme poverty, and to end hunger, illiteracy, and preventable deaths.<sup>7</sup> It underscores the need for a truly global partnership and, as detailed in the report’s annex, recommends a post-2015 framework that pursues five “key transformations”, and proposes an illustrative set of twelve universal goals/national targets, including one relating to the trading system.

33. The Rio+20 conference mandated the United Nations member States to develop a set of sustainable development goals (SDGs), which will build upon the MDGs and converge with the post-2015 development agenda. The SDGs are currently being elaborated through an intergovernmental process towards the final agreement by the General Assembly in 2014.

34. The process of designing the post-2015 development agenda and the SDGs, taking place at national and regional levels, as well as within the United Nations in New York and Geneva, is a joint effort to set the guiding light towards the future of international governance.

35. The Trade and Development Board – with its core mandate to examine how international trade and trade policy interact with development – is well-placed to play a key role in deepening the discussion on the set of policy responses at the national and international levels that would ensure that the trade impact upon development stays positive and catalysing.

## **II. Global economic and trade trends**

### **A. Key economic trends**

36. Over the past two decades the world economy has expanded by about 170 per cent, and real GDP per capita has increased by over 30 per cent from US\$5,700 to US\$7,600.<sup>8</sup>

<sup>7</sup> United Nations (2013), “A new global partnership: eradicate poverty and transform economies through sustainable development”. The 27-member panel, which was set up by the United Nations Secretary-General, was co-chaired by the Presidents of Indonesia and Liberia and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland, and included leaders from civil society, the private sector and government.

<sup>8</sup> UNCTAD (2013), UNCTADStat database.

While income levels throughout the world are still very unequal (with an average GDP per capita of US\$160 in the 10 poorest countries, compared to US\$50,000 in the richest), income inequality among countries has been decreasing in the last decade.<sup>9</sup> This decrease is a reflection of much higher rates of economic growth in developing countries and economies in transition than in developed countries. On average, the GDP per capita of developing countries as a whole grew annually by almost 6 per cent per cent over the period 2000–2010, compared to about 1 per cent in developed countries.<sup>10</sup> However, among developing countries it is mainly in middle-income countries that per-capita income has grown more significantly – lower-income countries have registered relatively less progress.

37. Although economic growth is picking up slowly since the economic crisis, the employment situation remains a key policy challenge for inclusive growth in many countries. Lack of employment opportunities remains a factor behind the increase in income inequality within countries. Although global unemployment increased from 5.5 per cent of the labour force in 2007 to 6 per cent in 2011<sup>11</sup> this trend is largely due to developed countries (in which unemployment rose from 5.8 per cent to 8.5 per cent). By contrast, in developing countries (particularly some in Latin America and East Asia), unemployment has now dropped below the levels seen before the financial crisis. Nevertheless, high levels of unemployment and underemployment continue to be a challenge for many developing countries, especially in Africa.

38. The global recovery is taking place alongside an advance transition towards a greener economy. Global investment in renewable power and fuels increased 17 per cent to a new record of US\$257 billion in 2011. Developing economies made up 35 per cent of this total investment, compared to 65 per cent for developed economies. Developing countries now account for over 40 per cent of world bioethanol production and 12 per cent of world biodiesel production. The global market in low-carbon and energy-efficient technologies is projected to nearly triple from US\$800 billion in 2010 to US\$2.2 trillion in 2020, implying a global annual market growth of 11 per cent for the period 2010–2020.<sup>12</sup> Momentum towards a green economy is also evident in terms of carbon emissions reduction services. The value of the global carbon-emissions-reduction market rose from only US\$11 billion in 2005 to US\$176 billion in 2011, but then fell to US\$85 billion in 2012. Clean development mechanism projects in 81 developing countries supported investments worth US\$23 billion in 2011.<sup>13</sup>

## **B. Trends in international merchandise trade**

39. The past decade has witnessed a remarkable expansion in international trade. Notwithstanding the economic crisis, world merchandise trade in goods has increased dramatically, rising almost threefold since 2002 to reach about US\$18.5 trillion in 2012, with developing countries accounting for almost half of world merchandise exports (figure 1).

<sup>9</sup> See UNCTAD, “The impact of trade on employment and poverty reduction”, TD/B/C.I/29.

<sup>10</sup> Unless otherwise indicated, the data in this section is derived from the United Nations *2013 World Economic Situation and Prospects*, update as of mid-2013.

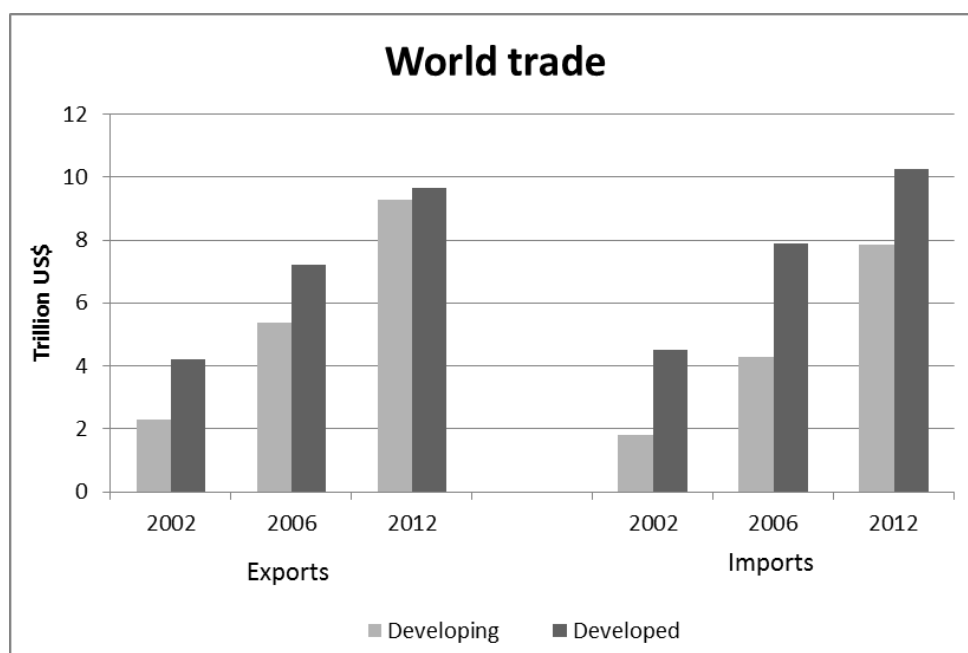
<sup>11</sup> See International Labour Organization (2012), *Global Wage Report 2012/13: Wages and Equitable Growth*. Geneva.

<sup>12</sup> HSBC Global Research (2010), “Sizing the climate economy”.

<sup>13</sup> World Bank (2011), “State and trends of the carbon market 2011”; United Nations Economic Commission for Europe/Food and Agriculture Organization (2013), “Forest products annual market review, 2011–2012”.



Figure 1  
World trade by level of development

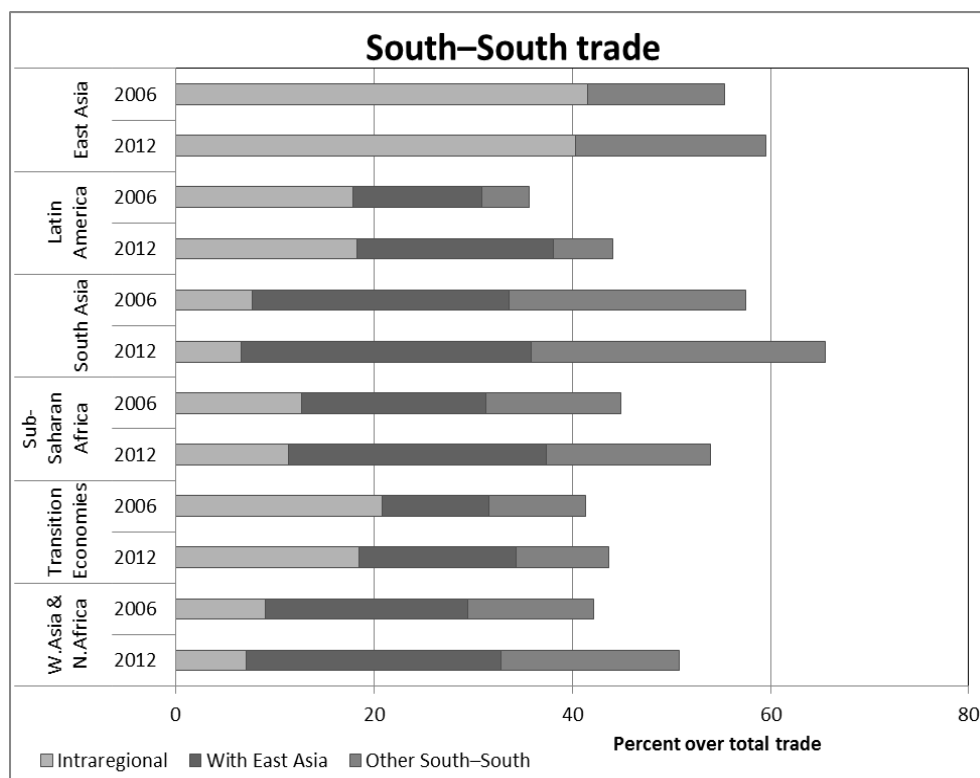


Source: World Integrated Trade Solution (WITS)/Trade Analysis and Information System (TRAINS) database.

40. Although performing well as a group, developing countries' integration into the global economy has been very varied. East Asia continues to dominate developing country trade flows, while other regions lag far behind. Notably, China has become an increasingly important trading partner for many other developing countries, not only in the region of East Asia but also in sub-Saharan Africa and Latin America. Conversely, the importance of developed countries as major destination markets, although still very important, has in many cases decreased. On the whole, the strong increase in demand in developing (especially middle-income) countries is having important repercussions for international trade flows.

41. Increased demand from developing countries has also contributed to a rapid increase in South-South trade. South-South exports now represent 55 per cent of total developing-country merchandise exports. Of note is that a large share of South-South trade reflects the fragmentation of production processes, especially in specific product categories (for example, electronics and communication equipment) being traded from, to, and especially between countries in East Asia. Moreover, even for other developing-country regions, a substantial share of trade involves flows with the region of East-Asia (figure 2).

Figure 2  
Regional composition of South–South trade



Source: WITS/TRAINS database.

42. With changes in production and trade costs, production processes have moved around the globe, therefore shifting countries' share of world trade. While developed countries remain major exporters of most sophisticated goods (for example, motor vehicles) and some heavy industry items (for example, chemicals), developing countries have increased their market shares as exporters of commodities and, in particular, of light manufacturing goods such as apparel and electronics. During the last decade a number of developing countries were able to diversify their production and exports into more sophisticated, higher-value-added products. However, this has been relatively more the case for developing countries in high- and middle-income brackets and mostly to the advantage of East Asian countries. On the contrary, the export composition of many African countries still remains poorly diversified and is largely comprised of commodities and unprocessed products. In this regard, the recent growth in LDCs' merchandise exports, which doubled over the last decade (in value terms), was largely driven by a boom in the prices of some commodities. Apart from a few energy and mineral exporters, LDCs continue to record persistent trade deficits, limiting their ability to leverage external revenue to finance their development needs.

43. In the last decade international trade has been greatly influenced by the spread of GVCs, particularly in sectors such as electronics, communication equipment and motor vehicles, which (as measured by the growth in trade in intermediate goods) have expanded dramatically over the period. Growth of trade within GVCs has often not been matched by comparable increases in value added or average wages, particularly for smaller economies trapped in activities with low sophistication or growth potential. Significantly, countries that, over the last 20 years, managed to grow both their participation in GVCs and their

domestic value added in exports experienced GDP per-capita growth of 3.4 per cent on average, compared to 2.2 per cent for countries that only increased their participation in GVCs without “upgrading” their domestic value addition.<sup>14</sup>

### C. Trends in services production and trade

44. The services sector has become the single most important economic activity and source of employment in the world economy. It now accounts for two thirds of world output and 44 per cent of world employment. Its contribution to GDP is relatively higher in developed economies (about 75 per cent of GDP) than in developing countries (38 per cent), with the exception of Latin America and the Caribbean (63 per cent). Moreover, during the last decade the share of services employment has increased for all regions (except in North Africa). This increase was partly the result of women moving out of the informal and agricultural sectors into services sectors.<sup>15</sup> Globally, the services sector employs now almost half of the female workforce. The development of services, particularly infrastructure and information-technology services, has contributed significantly to economy-wide productivity growth, as services provide indispensable inputs to goods and other services.

45. Global services trade stood at US\$4.4 trillion in 2012, representing 20 per cent of world exports in goods and services. A large share of services trade takes place through foreign direct investment (FDI) in services, which has increased disproportionately in recent decades compared to FDI in other fields. FDI inflows into developing countries accounted for 37 per cent of world FDI inflows in services during the period 2008–2010, an increase from 19 per cent over the period 1990–1992.<sup>16</sup> Between 2000 and 2012, the nominal value of global services exports grew 11 per cent annually. Travel, transportation and other business services are the three major categories in global services exports, comprising over 70 per cent. Other business services include diverse activities such as legal, advertising, consulting, accounting, and research and development services.

46. While the share of services in developing-country exports is only 14 per cent, developing countries registered 13.4 per cent annual export growth in services over the last decade, faster than in developed countries (9.5 per cent), and with particularly strong growth registered in Asia (14.5 per cent). Developing countries have achieved a particularly high and increasing market share in construction (40 per cent) and travel services (42 per cent), as well as in computer and information services (30 per cent), largely driven by India. Consequently, the share of developing countries in world services exports increased from 23 per cent in 2000 to 31 per cent in 2012 (figure 3), and services exports have become an important source of external revenues for some developing countries.

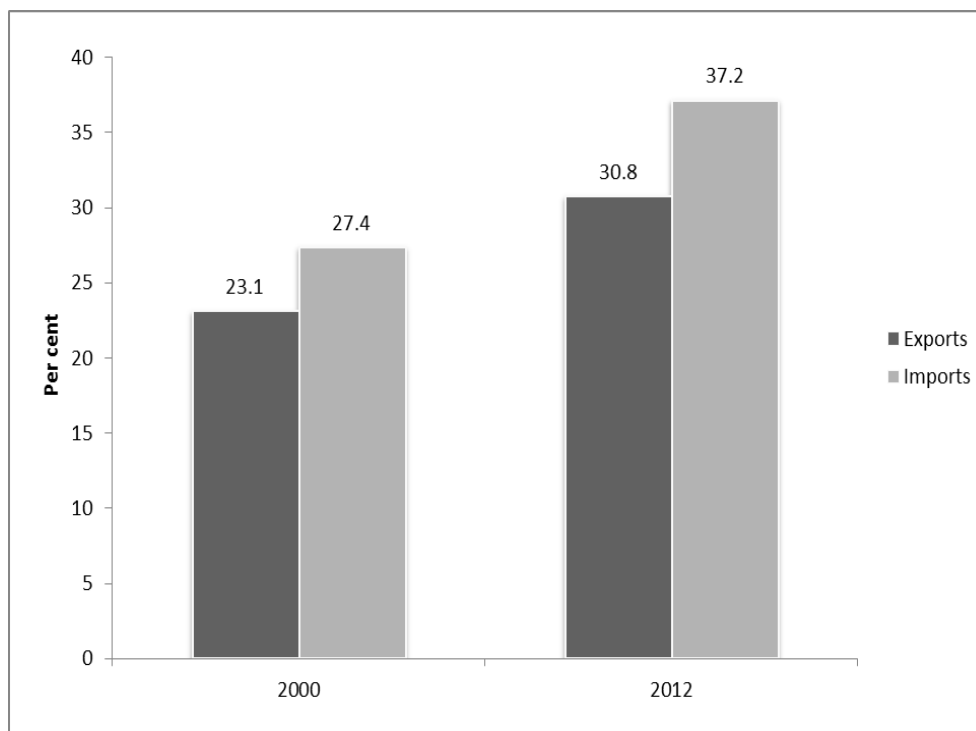
---

<sup>14</sup> UNCTAD, “Global value chains and development, investment and value added in the global economy”, UNCTAD/DIAE/2013/1.

<sup>15</sup> International Labour Organization (2012), *Global Employment Trends for Women 2012*. Geneva.

<sup>16</sup> See UNCTAD (2012), *World Investment Report 2012*.

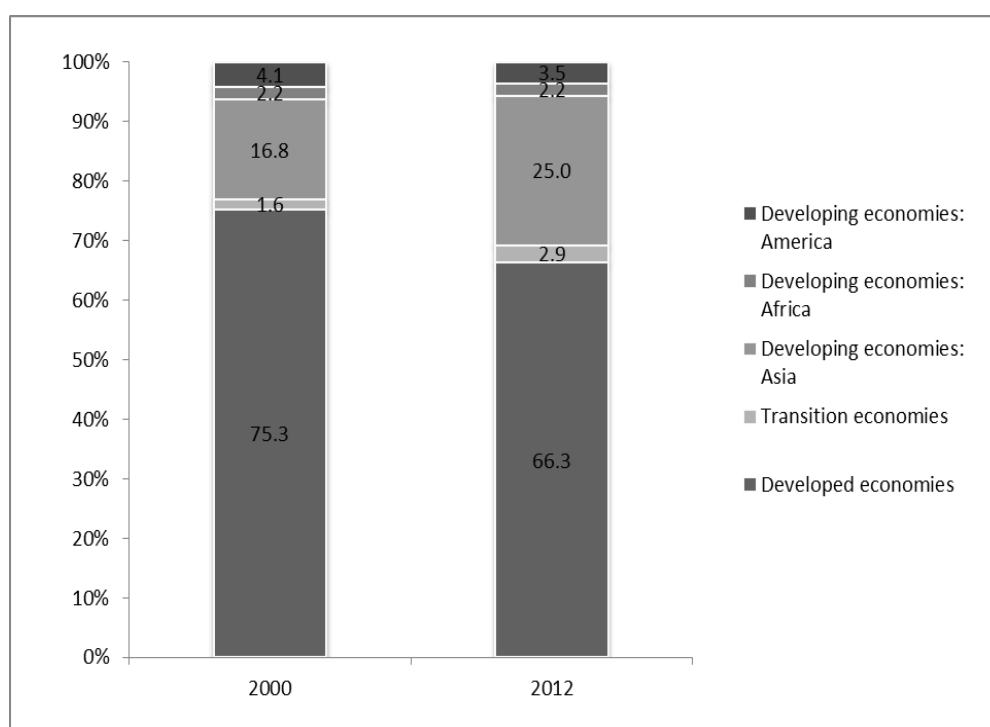
Figure 3  
Developing countries' percentage share in world services trade, 2000 and 2012



Source: UNCTADStat database.

47. However, services trade flows have been highly concentrated among a few countries, with the top 10 exporters accounting for 51 per cent of world exports. A breakdown of service exports according to region indicates that it is only Asian developing economies which have significantly expanded their service exports from 17 to 25 per cent over this period – the share of Latin American economies has fallen back from 4 per cent to 3.5 per cent, while African economies' share has stayed static at 2 per cent (figure 4). Even among Asian developing countries, few have managed to become global suppliers of services, the main ones being China, India and Singapore.

Figure 4  
**Percentage share in world services exports by development status, years 2000 and 2012**



Source: UNCTADStat database.

#### D. Trade policy and market access

48. During the last decade trade policy has become progressively more complex. Policymakers today confront a trade agenda that spans not only traditional trade policy such as tariffs but also numerous behind-the-border issues. In addition, recent agreements have become more complex as they seek to integrate markets not only for goods but also for services and investment. The complexity of the trading system is due not only to the wider scope and the proliferation of regulations but also to the increasing number of regional and preferential agreements, often overlapping. The challenges of assessing the trade implications of trade policies on the negotiating table, as well as their coherence with other policy objectives, their implications for other intersecting trade agreements and ultimately their effects on economic development are often overwhelming, especially for developing countries with limited human resources and administrative capacity.

49. Of particular relevance for developing countries' market access is the increasing effect of NTMs on trade. Although NTMs often serve legitimate purposes, as they are put in place for valid concerns such as food safety and environmental protection, these measures often result in important restrictive and distortionary effects on international trade.<sup>17</sup> For example, agricultural exports from low-income countries face the average tariff of 5 per cent in developed economies – but when the trade restrictiveness of NTMs is incorporated in the form of a tariff equivalent, the average import barrier reaches almost 30

<sup>17</sup> UNCTAD (2012), *Non-Tariff Measures to Trade: Economic and Policy Issues for Developing Countries*. UNCTAD/DITC/TAB/2012/1.

per cent. More importantly, the trade-restricting effect of NTMs often results in discrimination against exports from LDCs for two reasons: first, NTMs are more prevalent in the product groups that are key components of LDC export baskets, such as agriculture, textiles and footwear, and wood products; second, LDC producers are less equipped with the technology and administrative frameworks needed to comply with product quality standards and process requirements in developed-country markets.

50. The concern over the use of NTMs has increased following the economic crisis. As of October 2012, WTO estimates that trade coverage of the restrictive measures implemented since the beginning of the crisis in 2008 is at about 3 per cent of world merchandise trade. Indeed, besides tariffs, the main restrictive measures are various types of NTMs, including trade remedies, import licensing, customs controls, TBTs and SPS measures. Although many of these measures are aimed at stimulating the domestic economy – including through tax concessions, government subsidies, domestic preferences in government procurement, and local content requirements – they often have negative externalities for trading partners. Indeed, the Los Cabos G20 Summit in June 2012 renewed the commitment of G20 countries to standstill and rollback measures affecting trade and investment until 2014.

51. Concerns related to green protectionism – the use of measures for protectionist purposes under the guise of addressing legitimate environmental goals – are also taking central stage in trade policy debates and negotiations. Current trade tensions in this area relate especially to import-restricting measures such as subsidies and anti-dumping, border carbon adjustments and local content requirements in the renewable energy sector, as well as export restrictions on raw materials necessary for the deployment of green technologies. The differing perspectives on such measures are resulting in disputes within the WTO, as well as under investment rules under some RTAs. If the different perspectives are not reconciled it is very possible that a transition towards a greener economy will increase the burden for market access of developing countries. The appropriate answer to these concerns is generally not to weaken environmental standards, but to enable exporters to meet them.

## **E. Status of the multilateral trading system**

52. As comprehensive multilateral negotiations are at standstill, efforts are now being made to advance negotiations in selected areas during the ninth WTO Ministerial Conference (Bali, Indonesia, 3–6 December 2013). Some issues such as trade facilitation are proposed as ripe for “deliverables”. Discussions have also resumed on selected issues in agriculture (food security, tariff-rate-quota administration) and several development issues. Meanwhile, a series of WTO accession processes have been completed. The memberships of Montenegro, the Russian Federation, Samoa and Vanuatu became effective in 2012, bringing the total number of WTO members to 157.

53. In parallel, outside the Doha Round, plurilateral negotiations have been conducted in several areas. The renegotiations of the plurilateral WTO Agreement on Government Procurement, completed by the 15 parties to the Agreement in May 2012, aimed at updating the disciplines and extending the coverage of government entities subject to the agreement. It is reported that the renegotiations have added some 200 additional procuring entities to the schedules, as the parties to the agreement have expanded its coverage to central and provincial government entities which had been excluded, as well as new categories (for example, services, private–public partnerships and construction) and reduced monetary thresholds.

54. Plurilateral discussions have also taken place among the parties to the Information Technology Agreement to expand the product coverage and the number of participating countries. This Agreement, originally concluded by 29 participants in 1996, today includes

70 participants among its signatories, representing 97 per cent of world trade in the relevant products. Tariff elimination in these sectors, negotiated plurilaterally but being extended to all WTO members on a most-favoured nation basis, is expected to promote innovation and access to technology, and facilitate trade and production within GVCs.

55. Furthermore, some 18 countries are engaged in discussions and are expected to initiate negotiations on a plurilateral International Services Agreement. This proposed Agreement is expected to be comprehensive in scope, include market access commitments that correspond as closely as possible to applied levels of market access conditions, build upon the General Agreement on Trade in Services and capture a substantial part of the liberalization achieved on trade in services under RTAs.

## F. Regional trade agreements

56. Over the last two decades, countries have shown greater interest in forming, expanding or deepening RTAs. As of 10 January 2013, 546 notifications of RTAs had been received by the General Agreement on Tariffs and Trade/WTO and, of these, 354 were in force.<sup>18</sup> Most of the recent RTAs have become deeper and comprehensive, going beyond WTO rules to cover behind-the-border regulatory measures in many areas such as investment, competition policy, capital movements, intellectual property rights and government procurement.

57. Large-scale, new-generation RTAs aimed at “high-standard” integration are now emerging – for example, the Trans-Pacific Partnership Agreement currently under negotiation could catalyse the formation of a pan-Pacific FTA of Asia and the Pacific with a combined GDP of US\$27 trillion, yielding annual income gains of US\$295 billion. The negotiations over the Trans-Atlantic Trade and Investment Partnership between the European Union and the United States of America were announced in February and began in July 2013.

58. Many developing countries are increasingly exploring South–South regional integration schemes to promote scale economies, diversification and ultimately mutual economic development. For instance, building upon existing initiatives such as the tripartite initiative among the Southern African Development Community, the Common Market for Eastern and Southern Africa and the Eastern and Southern Africa group, the African Union has decided to fast-track the operationalization of the Continental Free Trade Area by the indicative date of 2017, and to this end, implement an Action Plan for Boosting Intra-African Trade.<sup>19</sup> The development potential of South–South integration and cooperation could create formidable opportunities for countries to benefit from larger markets, economies of scale and economic diversification. South–South cooperation is particularly useful in facilitating broader policy and regulatory coordination to facilitate trade, as well as in pooling resources and building common regional transport networks and infrastructure for closer market connectivity.

---

<sup>18</sup> See [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm) (accessed 5 July 2013).

<sup>19</sup> “Decision on boosting intra-African trade and fast-tracking the Continental Free Trade Area” (Assembly/AU/Dec.394(XVIII)), adopted by the eighteenth ordinary session of Assembly of the African Union (Addis Ababa, 23–30 January 2012).