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

Executive summary

International trade has been showing signs of unusual and persistent weakness in the last few years. However, a more positive outlook is forecast for 2017 and 2018. Still, there remain many downside risks in these forecasts, and the actual performance of international trade for 2017 and beyond will be heavily dependent on factors affecting the global economic environment. In particular, the risk of increased policy uncertainty and possible implementation of inward-looking trade policies are among the major concerns for the recovery of international trade that would need to be addressed by the international community.

Countries should energize international trade and strengthen its contribution to the achievement of the Sustainable Development Goals. Trade policies should be devised in such a way that trade brings not only economic growth, but also inclusive and sustainable growth. This implies that in the policymaking process, trade-enhancing strategies need to squarely address socioeconomic, environmental and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability.

Sustainable development, and in particular the Sustainable Development Goals, should be the focus of trade strategies. Since trade cannot solve all development issues alone, it should be closely coordinated with international policies and initiatives of other international organizations and United Nations agencies.

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Introduction

1. International trade has been characterized by unusual and persistent weakness in the last few years. The slowdown in trade in 2012–2014 and its decline in 2015 concerned all types of goods, some more than others. However, not all recent trade statistics point to a decline in international trade, as overall growth in the volume of international trade was still positive in 2015, but only at about 1.5 per cent. With regard to export growth, the catch-up process of developing countries, observed from the 1990s on, largely stalled in 2012, both in relation to goods and services. Since then, the trade patterns of developing countries have followed a trend similar to that of developed countries. Among developing countries, the slowdown in trade affected all regions, including Asian economies as well as sub-Saharan African countries. Since 2012, growth in South–South trade has slowed considerably: in 2014 such growth was virtually zero, and in 2015 it fell by about 10 per cent. The weakness in international trade is also having major repercussions for the integration of poorer countries into the global economy. While the share of the least developed countries (LDCs) in global merchandise exports grew rapidly before 2008, in the years that followed, it reached a plateau of about 1.2 per cent.

2. The continuing slowdown in trade follows a long period of intensive international trade and strong economic growth, which came to an end with the 2008–2009 global crisis. International trade further deteriorated in 2014 and 2015, especially in relation to developing countries. Preliminary data for 2016 show some increase in the volumes of trade, albeit still below historical trends. A more positive outlook is forecast for 2017 and 2018. Still, there remain many downside risks in these forecasts, and the performance of international trade in 2017 and beyond will be strongly affected by any turbulence that may arise in the global economic environment.

3. Chapter I of this paper presents recent data and discusses factors that have influenced trends in contemporary international trade, and the implications for developing countries. Chapter II argues that the reasons for current changes in international trade patterns can be found in a variety of factors. While some of these factors are likely to have only temporary effects and may be cyclical in nature, others are more likely to be long lasting and related to structural shifts. In addition, chapter II explains that a distinction between trade policy and non-policy factors should be made, stressing that while trade policy is important, it can explain only part of the variation observed in international trade flows. Chapter III explores the opportunities for countries to enhance and implement economic and social development strategies through trade liberalization and integration processes. It concludes with some policy recommendations on enhancing the impact of trade on achieving national, regional and internationally agreed development goals, including the 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

I. Changes in the patterns of international trade

A. Trade value

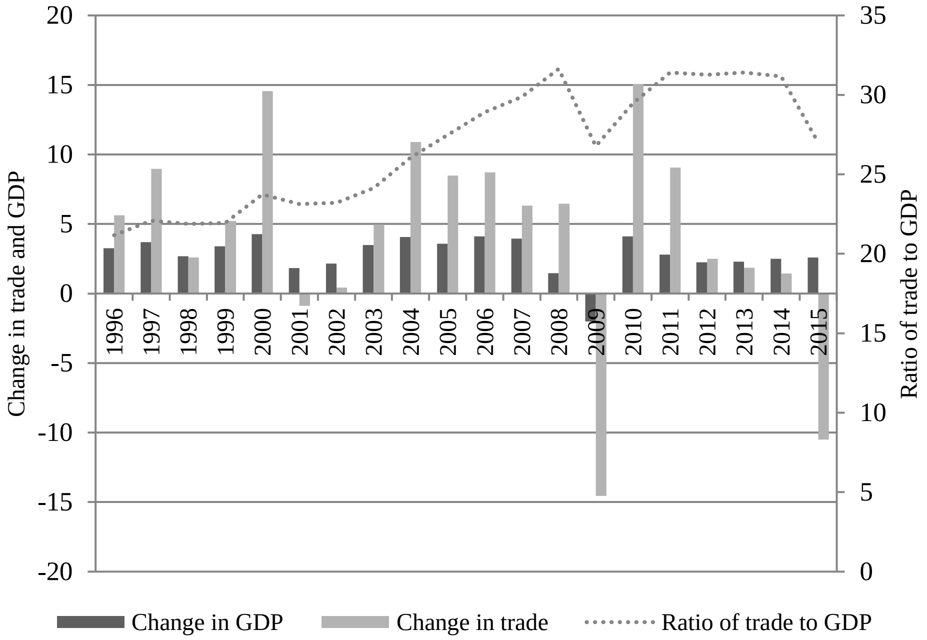
4. After growing steadily during most of the last two decades, international trade has recently been showing signs of unusual and persistent weakness (figure 1).[1] This slowdown follows a long period of high growth, which suddenly came to a halt as a result of the 2008–2009 global crisis. Driven by favourable policies, technological innovation and business models bringing down the costs of cross-border transactions, international trade in goods and services added more than $15 trillion per year between 1990 and 2008, from about $4 trillion in 1990 to about $20 trillion in 2008. Such expansion was the outcome of a reduction in cross-border transaction costs brought about by technological advancements

[1] For a detailed analysis see UNCTAD, 2017a, *Key Statistics and Trends in International Trade 2016 – A Bad Year for World Trade?* (United Nations publication, Geneva).

and liberalization policies, as well as sustained economic growth, especially among emerging economies.

5. However, after recovering from the Great Recession of 2008–2009, international trade has grown at a sluggish pace that further deteriorated in 2015. Such a trend suggests a change in the dynamics behind the process of international integration. The ratio of the value of world trade to global gross domestic product (GDP) – a proxy indicator of overall economic interdependence – stalled at about 30 per cent between 2011 and 2014 (a level first reached in 2007), and then fell by about 4 percentage points in 2015.

Figure 1
Trade and gross domestic product, 1996–2015
(Percentage)



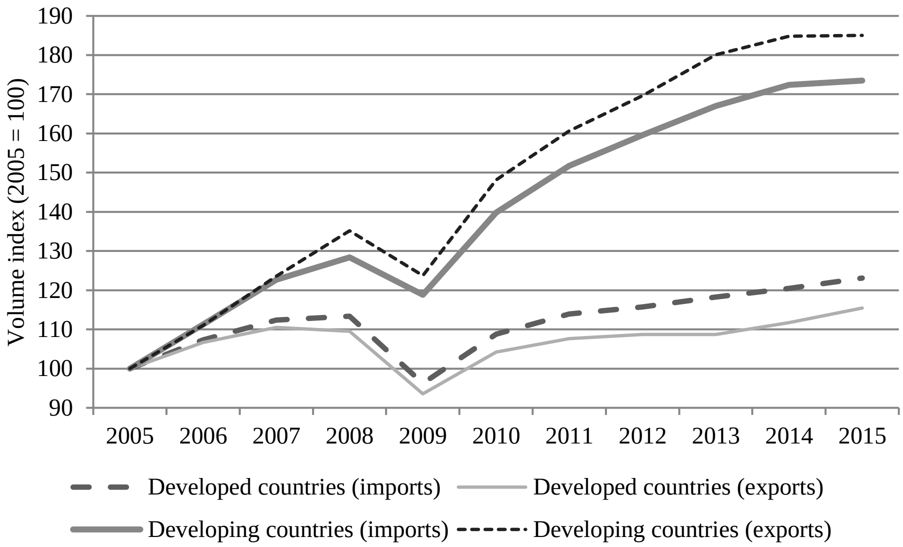
Source: UNCTAD, 2017a.

6. Recent trade developments have been at odds not only with previous trends but also with respect to overall economic growth. While the global economy continued to grow in 2015, world trade (as measured by exports of goods and services) declined by about 10 per cent (figure 1).

B. Trade volume

7. However, not all recent trade statistics point to a decline in international trade. Overall growth in the volume of international trade was still positive in 2015, although at only about 1.5 per cent. Therefore, at least part of the fall in the value of world trade was nominal rather than a real contraction, that is to say, driven by changes in prices and/or exchange rates. Although positive growth in trade volumes is consistent with overall economic trends, volume growth been much lower than its historical trend (figure 2). For developing countries in particular, while trade volumes were growing at rates of more than 10 per cent per year during the last decade, volume growth was close to zero in 2015. Moreover, in 2015, volume growth was below world economic growth. This seldom occurred in recent decades and only during economic downturns.

Figure 2
Trade growth, 2005–2015



Source: UNCTAD, 2017a.

C. Latest projections

8. Although final official statistics for 2016 are not yet available, preliminary and quarterly data show some increase in the volumes of trade, although still below historical trends (about 1.5 per cent, including trade in services). However, the value of world trade could continue its downward trend, given that prices of many commodities decreased further in 2016. A more positive outlook is forecast for 2017 and 2018. There is a consensus among various forecast entities, including international organizations, that 2017 and 2018 should see more sustained growth in the volumes of international trade, on average about 3 per cent in 2017 and 4 per cent in 2018. The value of international trade is also expected to grow, as commodity prices should also be resuming an upward trend.

9. Still, there remain many downside risks in these forecasts, and the actual performance of international trade for 2017 and beyond will be heavily dependent on any turbulence affecting the global economic environment. In particular, the heightened risk of increased policy uncertainty and the possible implementation of inward-looking trade policies are among the major concerns for the recovery of international trade. An accumulation of such policies by countries could cause trade frictions and ultimately dampen economic growth.

D. Types of goods

10. Growth in international trade before the Great Recession was a result of several factors, including strong growth in trade in services (about 15 per cent per year) and rising commodity prices after 2003, which pushed up the value of trade in primary goods (about 20 per cent per year). Growth in intermediate and investment goods (for example, machineries) also contributed to overall trade growth, but to a less extent (about 12 per cent yearly growth), while the value of trade related to consumer goods grew by about 10 per cent yearly. International trade started to progressively slow down after 2008 and went into reverse in 2015. The slowdown of 2012–2014 and the decline of 2015 concerned all types of goods, some more than others (table 1). Weaker demand and lower commodity prices resulted in a decline in the value of primary goods traded by more than 30 per cent. Demand for other types of goods also fell, but to a lesser extent, about 4 per cent for consumer and investment goods, and almost 10 per cent for intermediate goods. In 2015, the value of traded services fell by about 8 per cent.

Table 1
Annual trade performance, by services and type of goods
(Percentage)

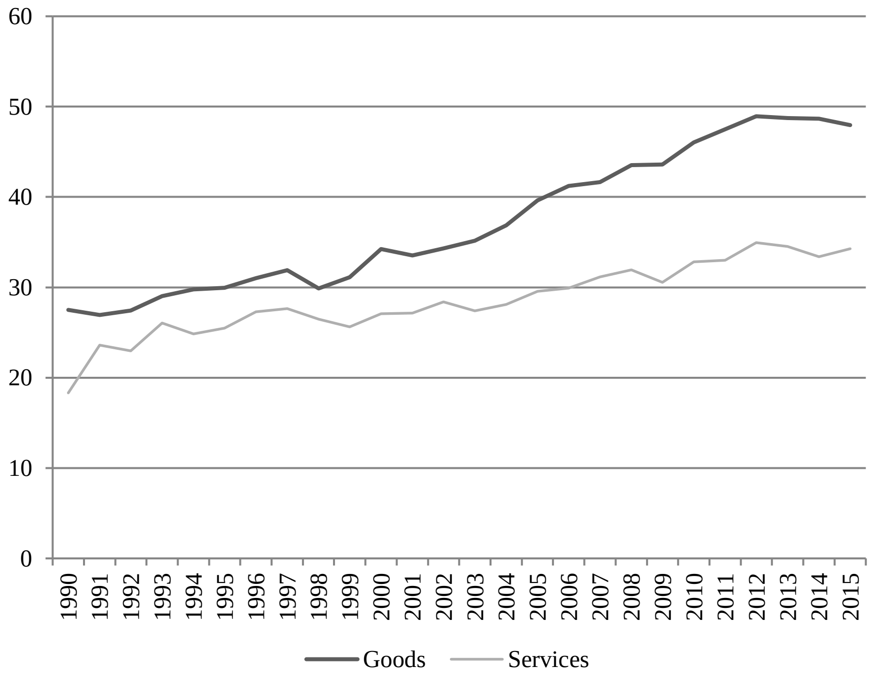
	2003–2008	*2009–2011*	*2012–2014*	*2015.*
Consumer goods	9.8	3.5	2.8	-3.7
Intermediate goods	12.7	3.5	1.3	-9.4
Primary goods	20.7	5.5	0.7	-32.7
Investment goods	12.2	2.9	1.6	-3.9
Services	15.7	3.8	4.0	-8.1

Source: UNCTAD calculations, based on data from the UNCTADstat database and the United Nations Commodity Trade Statistics Database (COMTRADE).

E. Developing countries

11. The strong performance of international trade in the 1990s and 2000s was driven by the gradual integration of developing countries into the world economy after the calamitous 1980s, often called “the lost decade”. On average, developing countries’ exports increased by about 11 per cent per year from 1990 to 2008. This figure was about 7 per cent per year for developed countries. As a result, developing countries gained a larger share in global trade during most of the 1900s and 2000s (figure 3). In relation to goods, the share of developing countries increased from less than 30 per cent in 1990 to almost 50 per cent in 2015. In relation to services, developing countries now account for about one third of world trade, up from less than 20 per cent in 1990. However, the catch-up process of developing countries in relation to export growth has largely stalled since 2012, both in relation to goods and services. Since then, the trade patterns of developing countries have followed a trend similar to that of the developed countries.

Figure 3
Share of developing countries in international trade
(Percentage)



Source: UNCTAD calculations, based on data from UNCTADstat.

F. Regional differences

12. Although there are important differences in the evolution of trade across developing countries, nominal trade growth rates have on average been a fraction of what they were in the pre-crisis period (table 2). Among developing countries, the trade slowdown affected all regions, including Asian economies and sub-Saharan African countries. Since the Great Recession, export growth rates have been close to zero for most of the countries in Latin America, Southern Asia and sub-Saharan Africa. Developed and Eastern Asian countries, as well as countries in Western Asia and Northern Africa, had relatively better export growth rates, but still much lower than those of the pre-crisis period (table 2). The post-recession trade slowdown turned negative in 2015, when the value of exports collapsed in all regions. On average, trade declined the most in commodity-exporting regions, less so in regions with more diversified exports. In particular, Eastern Asian exports fell by about 3.5 per cent, while those of developed countries fell by about 11 per cent.

Table 2
Annual export performance, by region
(Percentage)

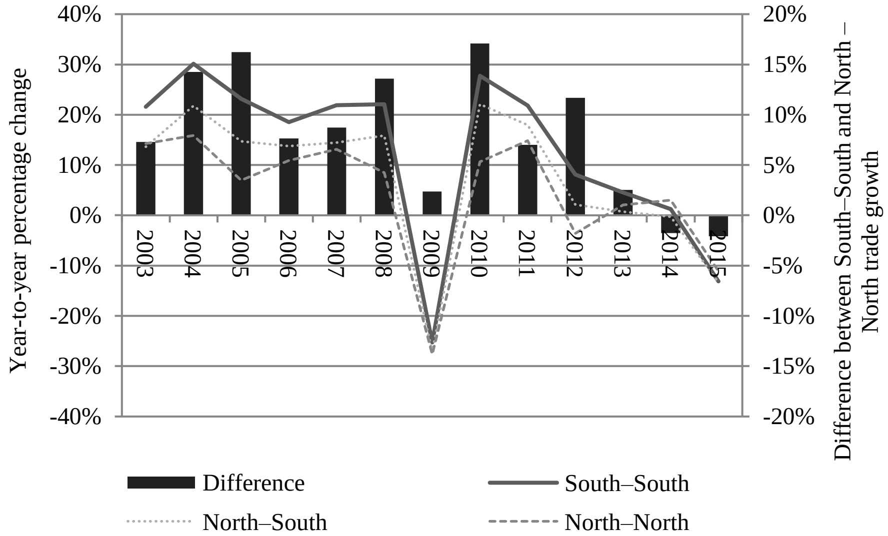
	2003–2008	*2009–2011*	*2012–2014*	*2015*
Developed countries	11.2	0.7	0.7	-10.9
Eastern Asia	15.4	4.2	3.1	-3.5
Latin America	14.7	-0.3	1.0	-14.6
Southern Asia	20.4	1.1	0.5	-17.2
Sub-Saharan Africa	17.9	-1.5	0.1	-28.4
Transition economies	21.1	-1.9	-0.5	-31.1
Western Asia/Northern Africa	18.9	3.0	2.8	-21.7

Source: UNCTAD calculations, based on data from UNCTADstat and COMTRADE.

G. South–South trade

13. The last two decades are characterized by a growing interdependence among developing country economies, especially on a regional basis. In 2015, trade among developing countries (South–South trade) was of the order of $5 trillion, up from less than $2 trillion in 2003. South–South trade grew at substantially higher rates than overall trade during most of the last 15 years, driven by two related factors: first, the emergence of large developing countries increased the demand for commodities; secondly, this higher demand trickled down into higher commodity prices (the 2003–2011 period is often called the "commodity supercycle"), which, in turn boosted the capacity of commodity exporters to import, owing to favourable terms of trade. With the exception of 2009, when South–South trade collapsed together with overall trade, South–South trade grew at rates higher than 20 per cent per year from 2003 to 2011. However, since 2012 growth in South–South trade has slowed down considerably. In 2014, such trade growth was virtually nil, while in 2015, it fell by about 10 per cent, a decline similar to that of other trade flows (figure 4).

Figure 4
Growth in South–South trade compared with other flows
(Percentage)



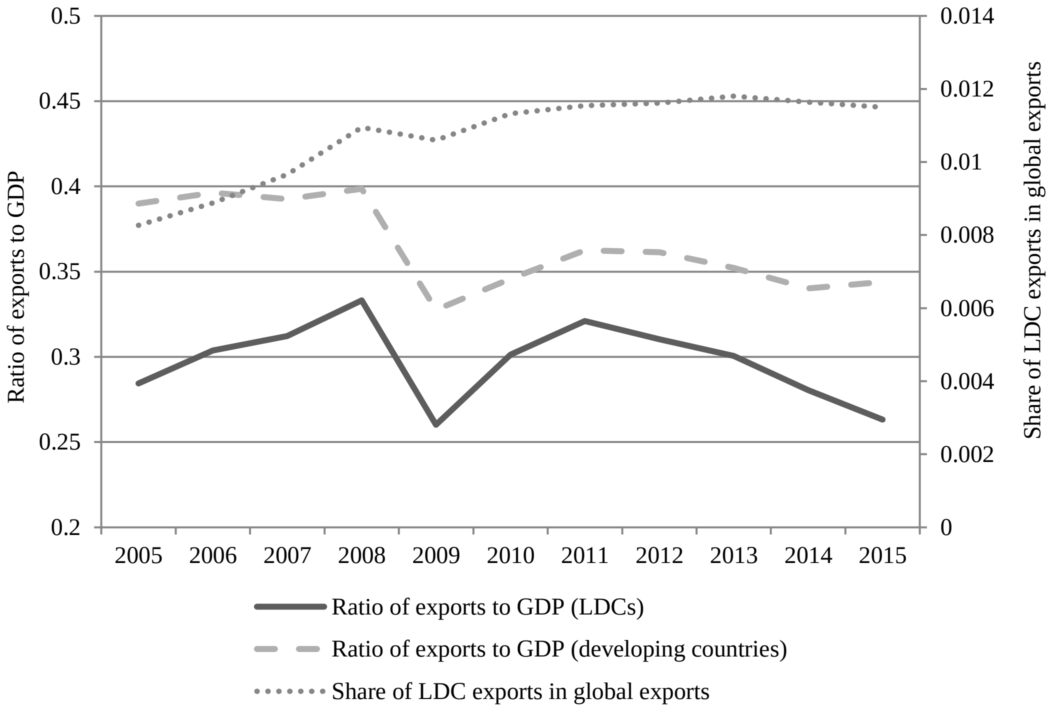
Source: UNCTAD calculations, based on data from UNCTADstat and COMTRADE.

H. Least developed countries

14. Weakness in international trade has major implications for the integration of poor countries into the global economy. While the share of LDCs in global merchandise exports rose rapidly before 2008, in the years that followed, it reached a plateau of around 1.2 per cent. Yet the weak integration of LDCs into the global economy is not only due to their relatively small economies, but also to the fact that LDCs generally trade much less than the size of their economy would suggest. This reduced participation reflects the supply constraints LDCs face when diversifying outside basic commodities and the high trade costs that their manufacturing exports have to overcome in order to remain competitive on the world market, despite low labour costs. The issue is even deeper in the case of services, which constitute a growing share of GDP of these countries, but are dramatically underrepresented in their exports.

15. The export-to-GDP ratios of LDCs are on average at about 25 per cent, substantially below the average for developing countries of about 35 per cent (figure 5). More importantly, export-to-GDP ratios of LDCs have been on a clear downward trend since 2011, suggesting that many LDCs continue struggling to compete in the global economy. These trends have direct implications related to the 2030 Agenda for Sustainable Development, the Sustainable Development Goals and the Programme of Action for the Least Developed Countries for the Decade 2011–2020. In particular, Goal 17 specifically calls for facilitating the integration of poorer countries into the global economy, including by doubling LDCs' share of global exports by 2020.

Figure 5
Exports of the least developed countries in the global economy, 2005–2015



Source: UNCTAD, 2017b, *Key Statistics and Trends in Trade Policy 2016* (United Nations publication, Geneva).

II. Factors and policies influencing the patterns of international trade

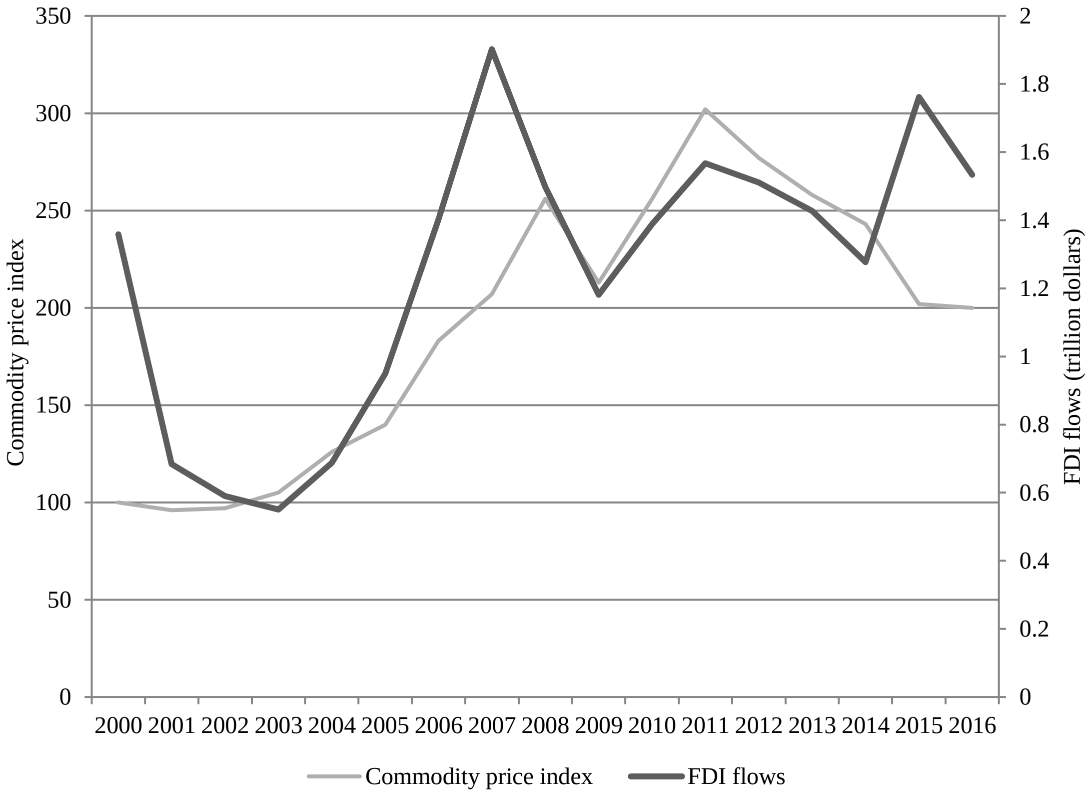
16. The reasons for the current changes in international trade patterns are to be found in a variety of factors. While some of these factors are likely to have only temporary effects and may be cyclical in nature, others are more likely to be long lasting and related to structural shifts. Another important distinction should be drawn between trade policy and non-policy factors. While trade policy is important, it explains only part of the variation observed in international trade flows.

A. Non-policy factors

Cyclical and macroeconomic factors

17. Among the cyclical factors at work, macroeconomic and commodity cycles have contributed substantially to the recent weakness of international trade. Since 2011, commodity prices have experienced a downturn that contributed to the fall in nominal trade, either directly or through the resulting balance of payments constraints on exporting countries. The decline in foreign direct investment (FDI) also played a role in the trade slowdown. Indeed, part of the slowdown in investments can also be attributed to poor overall trade performance. For example, declining commodity prices brought new projects in mining and oil extraction to an abrupt halt, while the dismal global outlook increased the perception of risk and discouraged investment in other activities. Flows of FDI took a downward turn in 2011, rising only in 2015 (figure 6) and falling again in 2016.

Figure 6
Commodity price index and foreign direct investment, 2000–2016



Source: UNCTAD calculations, based on data from UNCTADstat.

18. With relation to trade patterns in 2015, the fall in oil prices and the appreciation of the United States dollar were two important factors contributing to the nominal fall in world trade. Oil prices dropped from an average of more than $100 per barrel in 2014 to about $50 in 2015, a level which also persisted in 2016. The decline in the nominal value of trade also resulted from the appreciation of the dollar against all the major currencies. The trade-weighted United States dollar index appreciated by almost 15 per cent between 2014 and 2015. The dollar has continued to appreciate, although marginally so in 2016. This has affected the value of international trade because the same volume of goods can be purchased with fewer dollars.

Structural change

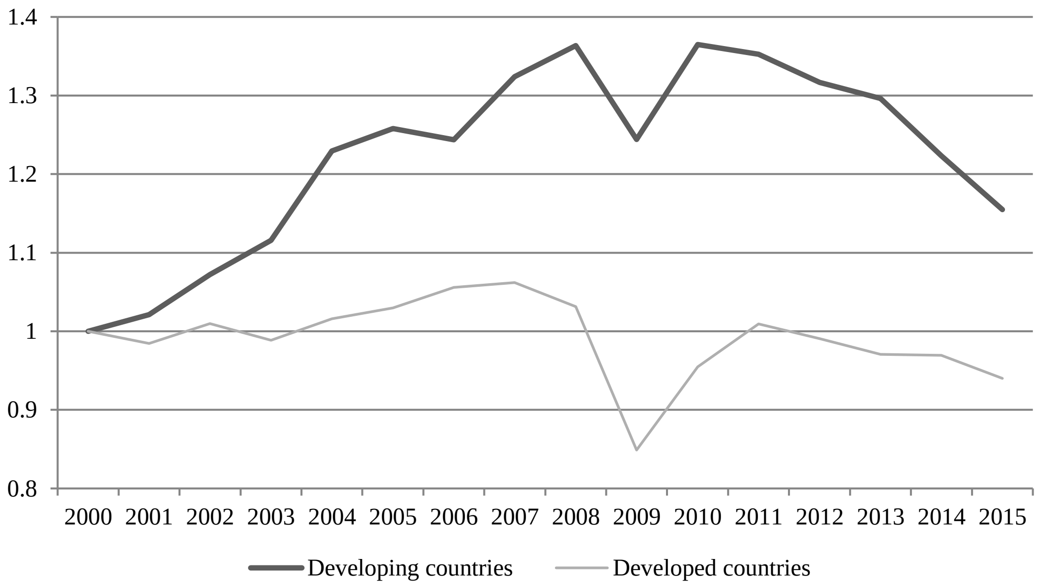
19. Falling commodity prices and macroeconomic factors can explain only part of the weakness of international trade. Recent patterns of international trade are also a result of deeper structural shifts occurring within the global economy. One important factor that has greatly influenced the international trade patterns of the last two decades is related to global value chains. The production structure of the past where goods, services, people, technology and capital remained within national borders was internationalized to exploit comparative advantages, lower production costs and economies of scale. This process was possible because of the declining cross-border transaction costs brought by technological innovations and more open trade policies. Non-economic factors, such as the end of the cold war, which split the world economy into two opposing blocs, is also to be credited for this structural change. The outcome of this process was the emergence of large developing countries as manufacturing hubs, leading to a steady increase in trade during the 1990s and early 2000s, particularly in relation to intermediate goods.

20. However, the unrelenting internationalization of production processes started to slowly lose steam after the Great Recession, and now appears to be stalling, if not reversing. The rationale is that the benefits from the innovations in information and communications technology have exhausted their effects, while trade liberalization and

regulatory harmonization have not progressed fast enough to provide new incentives for the further delocalization of firms. In practice, many global value chains found themselves overstretched after the Great Recession and are now rethinking their localization strategies. Moreover, the recent increase in nationalist sentiments, concerns about immigration, employment and jobs, and the concomitant policy incentives that Governments have started to implement are also contributing to bringing production processes closer to consumers.

21. A revealing trend of the reshoring process is the declining share of imports of intermediate goods compared with exports of manufacturing goods. This measure provides a rough approximation of the import content of exports. After rising for most of the period between 2000 and 2008, the import content of exports has been on a downward path since the economic crisis of 2008 (figure 7). For developing countries, the import content per unit of exports of manufacturing goods increased by almost 40 per cent between 2000 and 2008, falling back to 2003 levels in 2015. For developed countries, this figure is lower in 2015 than it was in 2000.

Figure 7
Change in the import content of exports, developing and developed countries, 2000–2015



Source: UNCTAD calculations, based on data from UNCTADstat and COMTRADE.

Eastern Asian growth models

22. A second element of recent trade trends is the slower economic growth of many emerging economies and the rebalancing of the growth model of Eastern Asian economies, especially China, towards policies less reliant on trade and more balanced towards domestic demand. This trend is clearly illustrated by the ratio of trade to GDP, which for China declined from about 65 per cent in 2005 to about 35 per cent in 2015. Parallel declines are observed in many of the Eastern Asian economies.

23. Given the importance of Eastern Asia for international trade, weaker economic growth and rebalancing towards domestic intermediate goods and final demand has important repercussions for international trade, not only in neighbouring countries but more so for countries in other parts of the world. This effect is more evident when examining the fall in the trade of manufactured goods in 2015. In value, world manufacturing trade fell by about $1 trillion. Eastern Asian countries’ imports accounted for about 25 per cent of this decline, a much larger share than the corresponding figure for exports (about 10 per cent). The resilience of Eastern Asian exports may not be surprising, as Eastern Asian manufacturing exporters are highly competitive and therefore better able to cope with weaker demand and a generally unfavourable trade environment. What this suggests is that the Eastern Asian manufacturing sectors are consolidating and increasingly relying more on

efficient regional and domestic suppliers, and less on suppliers from other parts of the world.

B. Government policies

Protectionism and tariffs

24. Patterns of international trade are clearly affected by government interventions. Indeed, there are some concerns that slow growth accompanied by the recent rise in populism and nationalist sentiments could translate into protectionist behaviour, with dramatic repercussions on international trade and economic integration. So far, however, there is little evidence that Governments have been implementing policies decidedly moving away from an open economy. The use of protectionist policies – at least in their traditional connotation – has been neither substantially different than usual nor widespread enough to contribute substantially to a weakening of trade.

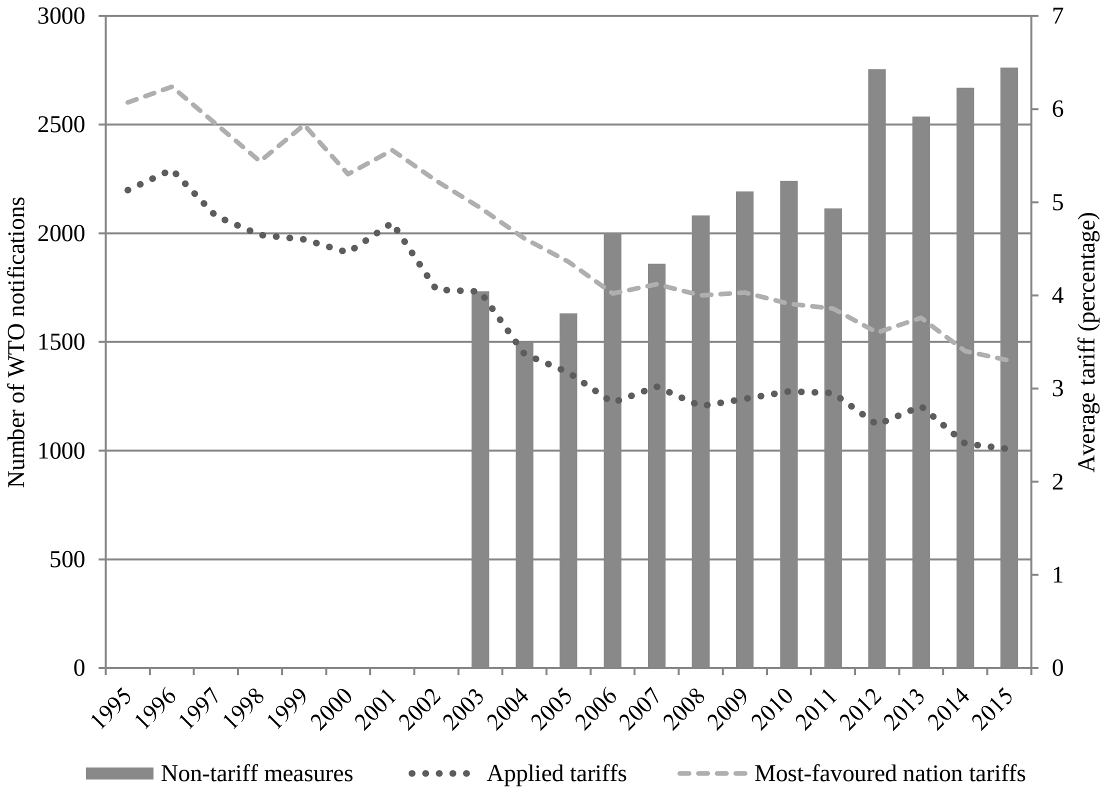
25. At the same time, it is also true that there has been little progress in the trade liberalization process in recent years, especially in tariff liberalization under the Doha agenda negotiations of the World Trade Organization (WTO). Indeed, while substantial between 1995 and 2005, it has been more marginal since then (figure 8). Nevertheless, the implementation of the Agreement on Trade Facilitation is expected to reduce non-tariff trade costs by a substantial margin.

Non-tariff measures

26. Amid generally low tariffs, during the last decade, there has been a rapid increase in the number of policies which, although they do not specifically target trade, have strong implications for international trade (figure 8). For example, subsidies for domestic industries and other measures to limit the delocalization of jobs have generally been on the rise in the post-crisis years. The effects of these policies on trade are likely to be negative.

27. In general, international trade is being increasingly regulated by a wide array of non-tariff measures (for example, sanitary and phytosanitary standards, technical barriers to trade, quotas and contingency measures). Those measures, although with non-protectionist intents, are likely to have major implications for international trade, both in terms of increasing trade costs and trade diversion effects. Although the extent to which non-tariff measures contributed to the trade slowdown is debatable, they are indeed an obstacle for many small and medium-sized firms to diversify outside their domestic market and explore export opportunities. Considering that most firms in developing countries are small by international standards, strict non-tariff measures create an additional burden on developing countries in their export diversification objectives. In addition, a growing multiplication of private voluntary product standards and certification schemes with traceability requirements in response to consumer concerns and corporate social and environmental responsibility concerns increasingly affect the market entry of goods. The array of trade policy measures beyond tariffs and their impact of market access require thorough assessment.

Figure 8
Tariffs and non-tariff measures, 1995–2015



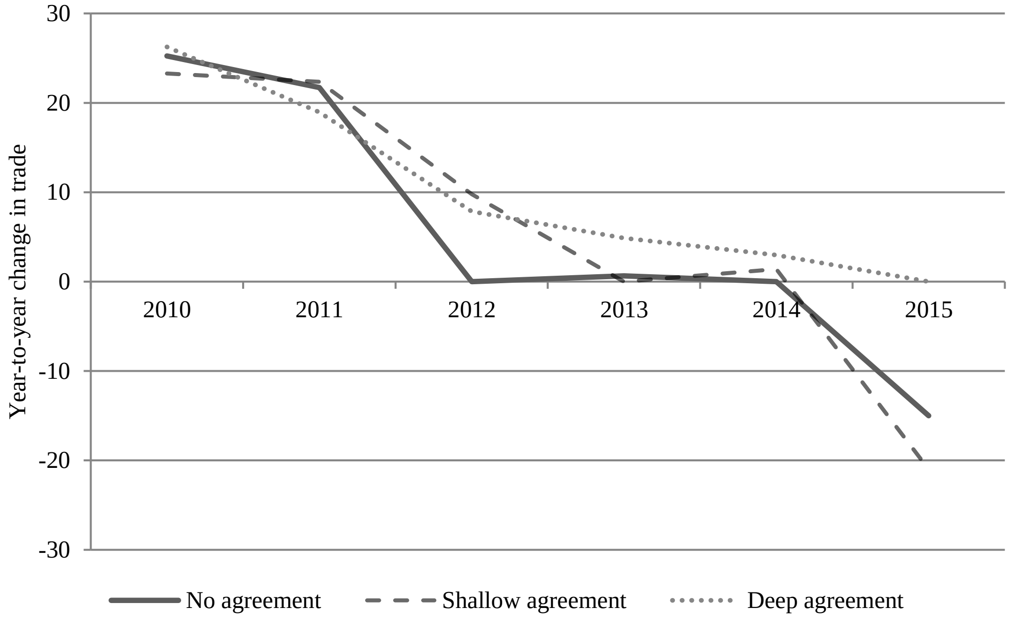
Source: UNCTAD, 2017a.

28. Measures such as the ones described above add costs to trade. In many cases, these costs are asymmetrical, with developing countries often incurring higher compliance costs. In this regard, a number of initiatives have recently been launched to reduce the cost of cross-border transactions at the bilateral and multilateral levels. In particular, the Agreement on Trade Facilitation contains provisions aimed to expedite the movement, release, and clearance of traded goods. When fully implemented, with necessary financial and technical assistance provided to developing countries to build up requisite capacities, the Agreement is expected to substantially reduce trade costs. Moreover, the Agreement provides a good opportunity to enhance the participation of developing countries, especially low-income developing countries, in the global economy.

Regional trade agreements

29. Provisions aimed at reducing trade costs among member countries are present also in many of the new regional trade agreements. Indeed, the last decade has seen a constant increase of trade agreements that go beyond reciprocal tariff concessions. These are usually referred to as deep trade agreements. Since 2015, almost half of world trade has occurred under preferential tariff schemes, with one third regulated by rules and norms beyond tariff concessions. Trade under deep trade agreements has shown more resilience during the last few years (figure 9). While trade under no agreement or just benefiting from tariff concessions has been stagnant since 2012, trade within deep agreements continued to increase in 2013 and 2014. In 2015, while trade growth with deep preferential trade agreement agreements was zero, trade under no agreement or under preferential access declined by more than 15 per cent. It is likely that trade under deep agreements has been more resilient because in a recessionary economic environment such agreements provide trading partners with competitive edges compared with foreign competitors, given that they address not only tariffs both also other trade costs (non-tariff measures).

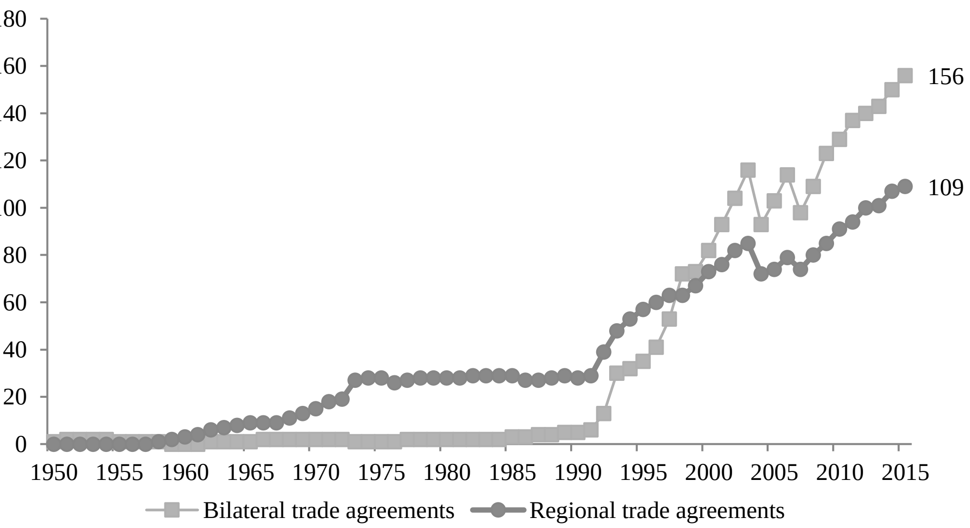
Figure 9
Year-to-year trade growth within and outside preferential trade agreements, 2010–2015



Source: UNCTAD calculations, based on data from the WTO Regional Trade Agreements Information System and COMTRADE.

30. Bilateralism – trade agreements between two countries – has been increasingly taking more space on the international trade agenda during the last two decades. Since 1995, the establishment of over 600 regional trade agreements (bilateral and plurilateral) has been notified to WTO. This trend increased sharply after the Great Recession (figure 10). While there were only 5 bilateral agreements in force, compared with 28 regional trade agreements in 1990, these figures were 156 and 109, respectively, in 2015. Major trading nations have been leading the rush to form bilateral and regional trade agreements, including in terms of altering their preferential trade agreements with developing countries into reciprocal trade agreements.

Figure 10
Number of bilateral and regional trade agreements in force, 1950–2015



Source: UNCTAD calculations, based on data from the WTO Regional Trade Agreements Information System.

31. Bilateral, regional, megaregional and multilateral agreements have been the part of the international trade since the foundation of General Agreement on Tariffs and Trade in 1947. Nevertheless, the new wave of bilateralism that has been recently observed can create more trade distortions than trade creation if it is closed bilateralism. This trend may raise protection and fragmentation of the multilateral trading system, which may further marginalize LDCs.

32. It has been argued that large trading nations have an advantage in bilateral trade negotiations, as they can use the leverage of their large economies to devise trade agreements that respond to their trade and economic interests. Smaller countries, in particular low-income countries, are in a weaker position to defend their trade, economic and development interests. But without progress in the WTO Doha agenda negotiations, small developing countries would have little choice but to enter into bilateral trade agreements with their major trading nations if requested. At present, the main export markets of many low-income countries are the leading developed countries; hence the need to continue to trade with them under fair, transparent and predictable multilateral trade rules.

III. Trade and sustainable development

33. Although uneven, the trade integration process of the last three decades has created vast opportunities for countries to enhance and implement their economic and social development strategies. Still, there are concerns that during the last two decades, the benefits of the globalized economy have materialized more in the economic dimension of development rather than in terms of social and environmental sustainability. From an economic standpoint, such an outcome is not surprising, as trade is primarily an economic activity, and trade policies are formulated largely to increase economic efficiency and productivity. Social and environmental concerns are the object of specific and more holistic policies that deal with both production and consumption patterns. Moreover, the multilateral trading system was conceived more to address mercantilist concerns that affected global governance and to prevent trade and military wars that usually came with mercantilism, rather than sustainable development. Still, the benefits of trade integration have often been concentrated among a few factors (mostly economic), while inclusive, social and environmental issues were seen as externalities. These uneven outcomes are among the reasons for the recent scepticism concerning the benefits of globalization and trade, and for the resurgence of nationalistic sentiments.

34. Among other factors, recent anti-trade rhetoric highlights the challenges of the current trading system in supporting a more inclusive and sustainable development model within a multilateral trade framework. This is especially relevant in the context of the new agenda for sustainable development launched by the United Nations in terms of the Sustainable Development Goals. In summary, to be more broadly acceptable, the process of trade integration should not be devised solely in terms of economic gains but also in the broader terms of sustainable development. This implies that in the policymaking process, trade-enhancing strategies also need to squarely address socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. Sustainable development, including the Sustainable Development Goals, should be the focus of trade strategies.[2] As trade cannot solve all issues alone, it needs to be closely coordinated with other international initiatives such as multilateral environmental agreements; initiatives dealing with labour, health and the environment, launched respectively by the International Labour Organization, the World Health Organization, and the United Nations Environment Programme; and those of other international organizations and United Nations agencies.

[2] For further discussion, see UNCTAD, 2016, *Trading into Sustainable Development: Trade, Market Access and the Sustainable Development Goals* (United Nations publication, New York and Geneva).

35. Recognizing international trade as a means of achieving socioeconomic development is not a new phenomenon. When UNCTAD was founded in 1964, the international community acknowledged that:

> Economic and social progress throughout the world depends in large measure on a steady expansion in international trade. The extensive development of equitable and mutually advantageous international trade creates a good basis for the establishment of neighbourly relations between States, helps to strengthen peace and an atmosphere of mutual confidence and understanding among nations, and promotes higher living standards and more rapid economic progress in all countries of the world.[3]

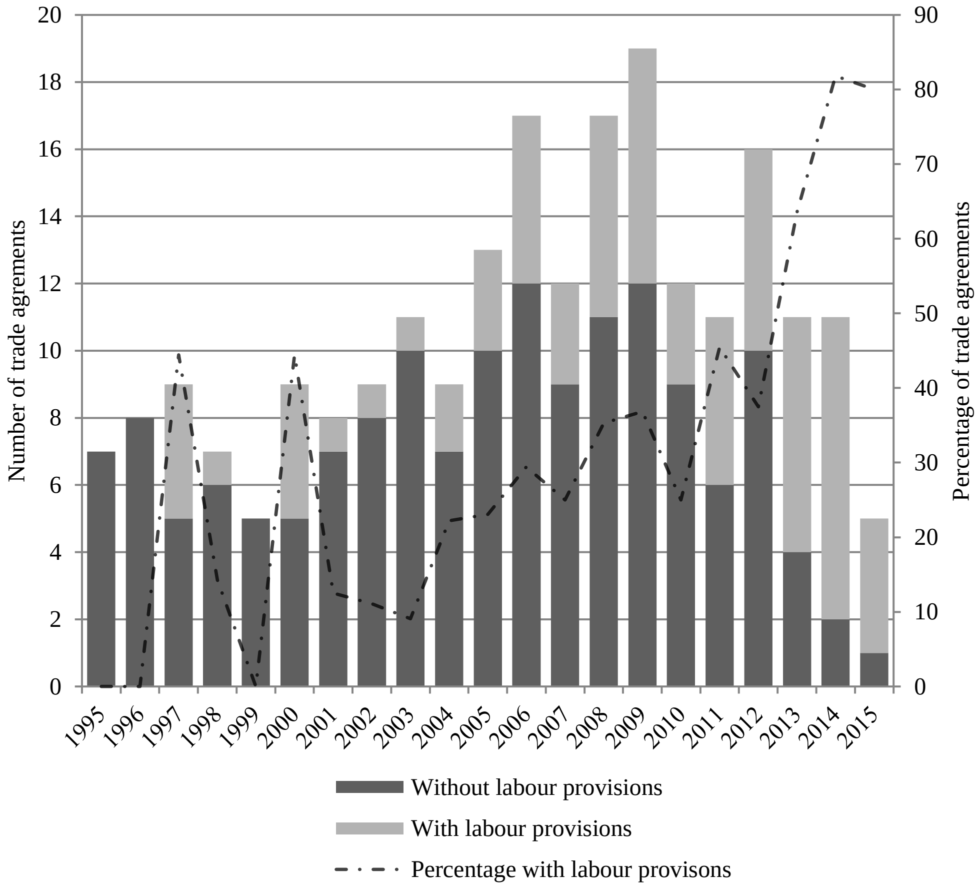
36. In practice, however, trade policymakers face a considerable challenge in making trade and trade policy supportive of sustainable development.

37. During the last 20 years, the framework of the multilateral trading system has progressively embraced some of the most relevant sustainable development concerns. For example, target 17.10 of the Sustainable Development Goals aims to "promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system" under WTO. The Addis Ababa Action Agenda of the Third International Conference on Financing for Development calls for the expeditious implementation of the development-oriented WTO ministerial decisions that the Doha Round of trade negotiations have so far agreed. In general, negotiations within the multilateral trading system have advanced, albeit slowly, in addressing concerns related to some aspects of sustainable development. For example, in 2014 various WTO members recognized the need for trade-related policies to reflect environmental concerns and launched plurilateral negotiations on the Environmental Goods Agreement. Although still unfinished, the purpose of this agreement is the reduction in tariffs on goods that benefit the environment. The signature of the Paris Agreement under the United Nations Framework Convention on Climate Change (2015) has given new stimulus to these negotiations.

38. However, negotiations on sustainable development issues are proceeding slowly at the multilateral level, and what has been agreed upon is still narrow. On the other hand, bilateral and regional trade agreements have advanced at a faster pace in addressing sustainable development concerns. Indeed, a growing number of bilateral, regional or interregional trade agreements incorporate provisions that address social and developmental concerns. One example is that of labour standards. At the multilateral level, labour standards are relegated outside the WTO negotiation framework, with the International Labour Organization being the designated body to deal with this matter. Multilateral negotiations on labour standards are often limited to general commitments. On the other hand, stricter obligations related to these standards are becoming increasingly common in many of the sustainability provisions of regional trade agreements. According to the International Labour Organization, in December 2015, there were 76 trade agreements in place (covering 135 economies) that include labour provisions, nearly half of which were concluded after 2008 (figure 11). Over 80 per cent of the agreements that have entered into force since 2013 contain provisions relating to labour standards. Those agreements generally cover the majority of the core labour standards set by the International Labour Organization, including freedom of association, the right to form unions and bargain collectively, limitations on child labour and the elimination of forced labour. Some of these agreements also cover also standards on minimum wages and issues related to occupational health and safety. Still, labour provisions in regional trade agreements show a varying degree of enforceability, with many still limited to general aspirations rather than enforced standards.

[3] United Nations, 1964, *Proceedings of the United Nations Conference on Trade and Development, Final Act and Report*, Volume I (Sales No. 4, II.B. 11, Geneva).

Figure 11
Evolution of regional trade agreements with labour provisions, 1995–2015
(Number and percentage)

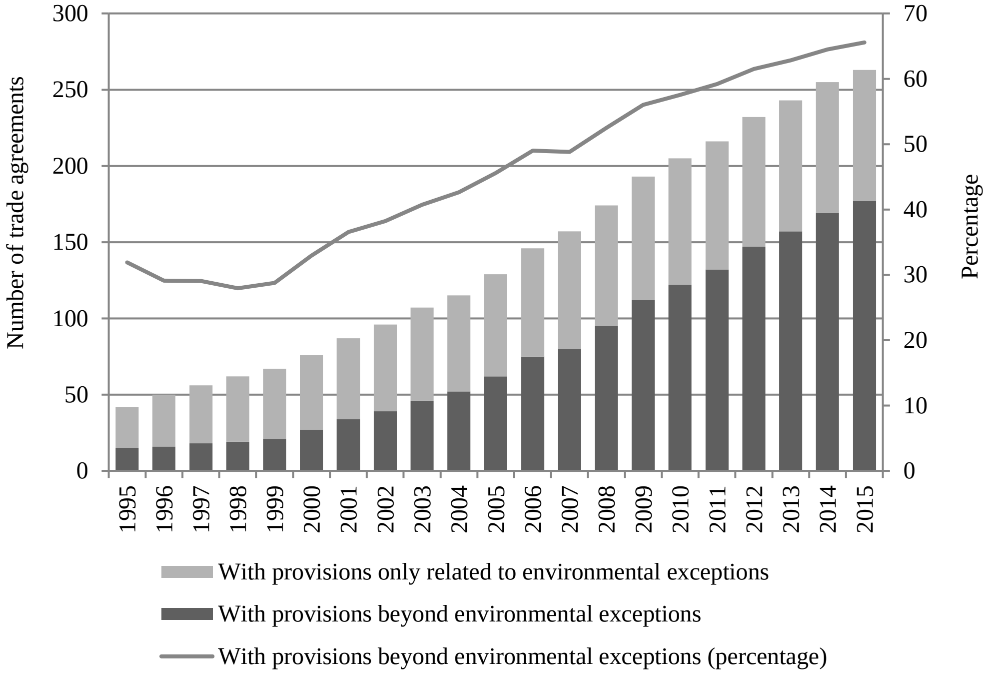


Source: UNCTAD calculations, based on data from the WTO Regional Trade Agreements Information System.

39. Another example of how regional trade agreements are becoming instruments of sustainable development strategies is in the area of environmental protection. According to the Organization for Economic Cooperation and Development, basic environmental provisions were already common in regional trade agreements in the early 2000s.[4] Since 2010, there has been an upward trend in the inclusion of more "substantive" environmental provisions in regional trade agreements, such as those that refer to environmental cooperation, public participation, dispute settlement, coverage of specific environmental issues, and implementation mechanisms (figure 12). According to WTO, there are over 250 multilateral environmental agreements in force dealing with various environmental issues. Clearly, there is much variation in the stringency of environmental provisions across trade agreements. From an environmental point of view, the most ambitious trade agreements are accompanied by side agreements dealing with environmental issues, or they have a specific chapter on environmental issues. At the other extreme, there are agreements that deal superficially with environmental issues, often in the form of exception clauses to general trade obligations under the agreements. However, while regional trade agreements have been contributing to better integration of trade and environmental issues, there is only slow progress at the multilateral level.

[4] Organization for Economic Cooperation and Development, 2017, Assessing implementation of environmental provisions in regional trade agreements, Joint Working Party on Trade and Environment, 6 June.

Figure 12
Evolution of regional trade agreements with environmental provisions, 1995–2015
(Number and percentage)



Source: UNCTAD calculations, based on data from the WTO Regional Trade Agreements Information System.

40. Consideration of gender equality issues is another example of an attempt by regional trade agreements to contribute to sustainable development. Many contemporary regional trade agreements recognize the importance of gender mainstreaming for achieving inclusive economic growth, as well as the key role that gender equality policies can play to foster social and economic development. Trade is increasingly recognized as an engine for development, and women’s increased participation in the domestic and international economy could ensure the achievement of inclusive and sustainable development. Further efforts to mainstream gender issues through regional trade agreements can be made by embedding gender-equality-related considerations in the text of agreements, taking into account those considerations during the design and negotiation of the agreement to ensure a gender-sensitive outcome and providing special treatment to the modes of trade where women are represented more, in particular in designing preferential schemes for small firms and e-commerce.

41. An important question is whether the provisions in regional trade agreements and the associated commitments on sustainable development issues would facilitate or hinder multilateral agreements on those matters. In general, policymakers are mindful of this problem. Indeed, while there are differences, it is important that sustainable provisions adopted at the regional or bilateral levels be “multilaterally friendly” so that they can promote convergence. For provisions of regional trade agreements to serve as building blocks, they should be coherent with the relevant commitments made under WTO, and when incorporating WTO-plus measures, regional trade agreements, should be reciprocally coherent. Regional agreements that are open to incorporate existing and potential future multilateral obligations, without the need of reopening the regional trade agreement negotiations, can ensure best coherence. More generally, regional trade agreements that encourage or require the use of relevant international standards can be considered to be multilaterally friendly.

42. Integrating the sustainable development dimension into trade negotiations and agreements is essential but may not be sufficient, given the ongoing international economic environment. Of particular concern is that the ongoing changes and the persistent weakness in international trade will likely affect development opportunities not only in economic

terms but also in terms of sustainable development. Many of the Millennium Development Goals were accomplished simply because their implementation period fell during a period of strong global integration and economic growth. Considering the recent trends of stagnant international trade and weak economic growth, it is likely that the achievement of the Sustainable Development Goals will encounter some hurdles. In particular, the period related to the achievement of the Millennium Development Goals coincided with a massive integration of many developing countries into the global economy, which resulted in fast economic growth in many parts of the world. Ultimately, such economic growth greatly contributed to achieving many of the Millennium Development Goals. For example, the proportion of people living with less than $1 a day was halved during that period (Goal 1). A further concern is that the Sustainable Development Goals, while necessarily more ambitious than Millennium Development Goals, fall within a period of a much more uncertain economic and geopolitical environment.

43. All considered, the current global economic uncertainty and the need for more inclusive and sustainable development strategies call for stronger policy commitments both at the national and international levels. This leads to a key concern: Are existing international trade rules adequate for the scope of sustainable development or do they need to be enhanced? As progress in implementing the 2030 Agenda for Sustainable Development cannot be further delayed, it is important that the trading system improve on delivery, not only in terms of economic growth but also in terms of inclusive and sustainable growth. Under the current framework, the achievement of sustainable development is largely within the domain of national policies.

44. However, while countries have foremost responsibility for their own development strategies, appropriate trading rules can support these strategies by providing a framework for long-term sustainable development objectives. With a view to "eradicating poverty and promoting prosperity in a changing world" (theme of the 2017 High-level Political Forum on Sustainable Development), the international community needs to act in the following areas, where policy coordination and coherence is most needed to increase synergies between trade and the Sustainable Development Goals:

(a) Reducing trade policy uncertainty;

(b) Combating trade protectionism at the regional and multilateral levels;

(c) Promoting structural transformation of low-income and/or commodity-dependent developing countries;

(d) Devising regulatory measures and standards, in areas such as health, the environment and competition policy, that enhance – not undermine – trade flows of developing countries;

(e) Developing policy measures to achieve inclusive trade, for example for small and medium-sized enterprises, women and youth.

IV. Conclusion and policy recommendations

45. There is a consensus among international organizations monitoring trade trends that 2017 and 2018 should see more sustained growth in the volumes of international trade, averaging about 3 per cent in 2017 and 4 per cent in 2018. The value of international trade is also expected to grow, as commodity prices should also be resuming an upward trend. Still, there remain many downside risks in these forecasts, and the actual performance of international trade in 2017 and beyond will be heavily dependent on any factors affecting the global economic environment. In particular, the risk of increased policy uncertainty and the possible implementation of inward-looking trade policies are major concerns for the recovery of international trade that the international community would have to address.

46. Drawing from the analysis of this paper, the following policy recommendations are suggested for consideration by countries to energize international trade and strengthen its contribution to the achievement of nationally, regionally and internationally agreed development goals, in particular the Sustainable Development Goals:

(a) Trade policies should be devised in such a way that trade brings not only economic growth but also inclusive and sustainable growth. This would mean that it is important to ensure the effective integration of national goals and Sustainable Development Goals into national and regional policy formulation and implementation strategies. Advancing the WTO Doha agenda and achieving tangible progress in the development dimensions of the negotiations, especially at the eleventh WTO Ministerial Conference, is critically important in the era of the Sustainable Development Goals. It would represent a much-needed boost towards greater policy certainty in regard to the contribution of the multilateral trading system to sustainable development. Additionally, social and environmental concerns should be the object of specific and more holistic policies that deal with both production and consumption patterns, including in the framework of regional and global value chains;

(b) Trade integration processes at the multilateral and regional levels could play a crucial role in contributing to sustainable development. This implies that in the policymaking process, trade-enhancing strategies also need to squarely address socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. Holistic development strategies, including trade policies that are directly (rather than indirectly) sensitive to developmental impacts, are increasingly relevant in achieving the Sustainable Development Goals;

(c) Regional trade agreements have become a strong feature of the international trading system. To serve as building blocks for the multilateral trading system, such agreements need to be coherent with the relevant commitments made under WTO and, when incorporating WTO-plus commitments, regional trade agreements should be reciprocally coherent. Regional agreements, which are open to incorporating existing and future multilateral obligations, without the need of reopening the regional trade agreement negotiations, can ensure best coherence between regionalism and multilateralism. More generally, regional trade agreements that encourage or require the use of relevant international regimes, such as on gender mainstreaming, can be considered to be multilaterally friendly. Further efforts could be made to mainstream gender issues through regional trade agreements by embedding gender equality-related considerations in the text of agreements;

(d) Sustainable development, and the Sustainable Development Goals in particular, should be the focus of trade strategies. Because trade cannot solve all development issues alone, it should be closely coordinated with other international initiatives such as such as those dealing with labour, health and the environment, launched respectively by the International Labour Organization, the World Health Organization, and the United Nations Environment Programme; and those of other international organizations and United Nations agencies. Coordination should also be sought with multilateral environmental agreements, including provisions for the implementation of climate change contributions set out in the Paris Agreement under the United Nations Framework Convention on Climate Change.

Annex

Trade downturn of 2009 and 2015: Any similarities?

1. In 2015 the overall value of world trade contracted by about 10 per cent. To put things into perspective, there has been only one time in the last 30 years in which the value of international trade fell by such magnitude. That year was 2009, when trade collapsed by more than 15 per cent. While there are some similarities, there are also important differences between these two events. To start with, the trade collapses of 2009 and 2015 had different dynamics. While the trade collapse of 2009 was a direct result of the economic depression brought by the financial crisis of 2008, the trade downturn of 2015 occurred in a period of mild but positive overall economic growth. This alone indicates that the trade decline of 2015 was not primarily due to a brutal and unexpected shock affecting global demand as in 2009, but that other factors were likely at play in 2015. Related to this, an important difference is that while 2009 affected international trade primarily through decreased demand in developed countries (which quickly spread to the developing world), the trade collapse of 2015 was more widespread across developing countries. While developing countries contributed about one third of the decline in total imports in 2009, this figure was about 50 per cent in 2015.

2. Developing countries were relatively more affected in 2015, owing to the long-lasting indirect effects produced by commodity prices. Commodity prices, especially oil, rebounded quickly at the end of 2009, and exporting countries could maintain their demand for imports using their accumulated international reserve account. The post-2011 cycle of low prices is more structural and induced deeper adjustments. Demand from commodity-exporting countries was weaker in 2015 because the lower export earnings affected governments' budgets, contributed to recessions and often resulted in depreciations in the exchange rates, which ultimately made imported goods more expensive. This trend developed in many of the commodity-exporting countries, including most of the economies in transition and sub-Saharan African countries. On the other hand, demand for imported goods declined relatively less in the Middle East, about 8 per cent against a drop of about 22 per cent in the value of exports. One likely reason is that some of the major oil-exporting countries have been using sovereign funds to sustain their budgets and stabilize their economies.

Declines in trade, 2015 and 2009

	2009				*2015*			
	Decline (percentage)		*As a percentage of decline in world trade*		*Decline (percentage)*		*As a percentage of decline in world trade*	
	Imports	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	Exports
Developed countries	-25	-22	64	54	-11	-11	51	50
Eastern Asia	-17	-16	14	16	-12	-4	26	9
Latin America	-25	-25	6	6	-10	-15	5	8
Southern Asia	-16	-17	2	2	-13	-17	4	4
Sub-Saharan Africa	-10	-29	1	3	-11	-28	2	6
Transition economies	-36	-41	5	7	-32	-31	8	10
Western Asia/Northern Africa	-35	-43	8	13	-8	-22	4	13

Source: UNCTAD secretariat calculations.

3. Another notable difference between the downturn of 2009 and that of 2015 relates to countries in Eastern Asia. The 2009 crisis hit Eastern Asia, mainly in its role as a world manufacturing power. In 2009, Eastern Asian imports fell mostly in relation to intermediate inputs and as a consequence of falling exports because of the weaker demand for final goods in developed countries. Eastern Asian imports and exports declined by the same magnitude in 2009, about 16 per cent. On the other hand, in 2015 imports fell three times as much as exports (12 per cent, compared with 4 per cent). Likewise, Eastern Asia accounted for about 15 per cent of the world trade collapse in 2009, while in 2015 it accounted for about 9 per cent in exports and about 26 per cent in imports, part of it due to a fall in commodity prices linked to its reduced demand.