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

Note by the UNCTAD secretariat

Executive summary

The last two decades have been characterized by unprecedented trade integration. International trade in goods and services has grown dramatically from about US$5 trillion in 1994 to about US$24 trillion in 2014. The trade integration process has brought many benefits to the world and has created enormous opportunities for economic development of many countries. However, the benefits and opportunities of trade integration have not always been inclusive and have not always translated into sustainable economic, social and environmental well-being.

For the ultimate objective of inclusive and sustainable development, trade integration should not only foster economic growth but should also address socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. The close linkage between trade and sustainable development and poverty alleviation will be a defining feature in the post-2015 development paradigm if trade is to have an impact on the sustainable development goals.

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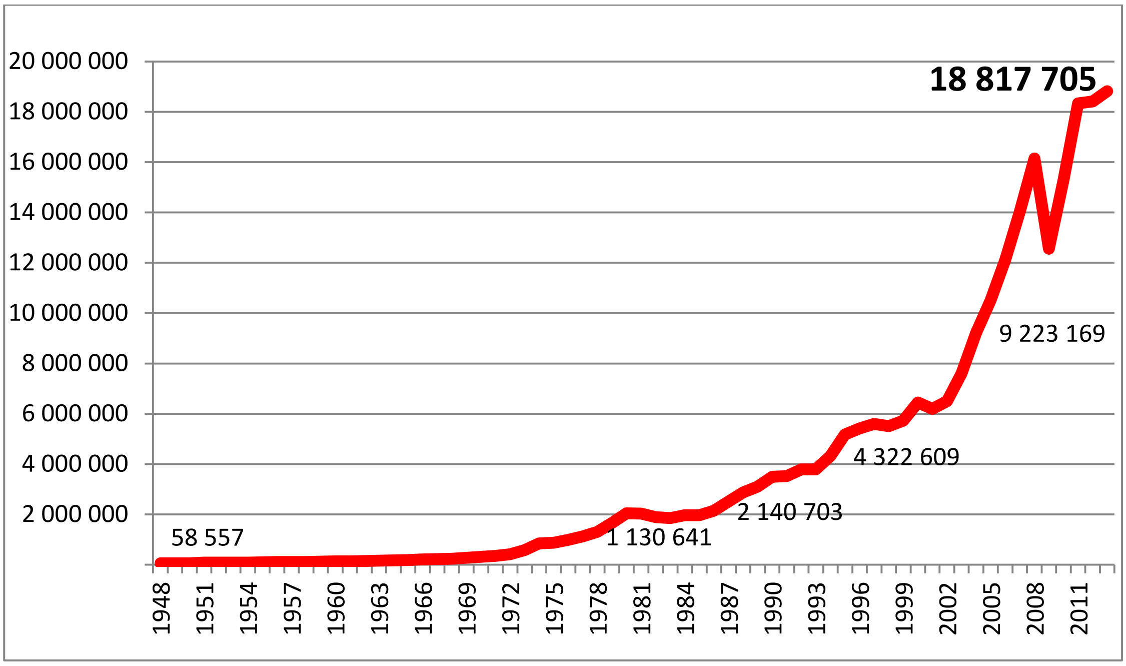
I. Introduction

1. Paragraph 18(d) of the Doha Mandate of the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII) states that UNCTAD should "Continue to monitor and assess the evolution of the international trading system and its trends from a development perspective". Accordingly, the present report (a) examines the relationship between international trade and inclusive and sustainable development in the context of the unprecedented trade integration of the last two decades; (b) reviews issues relating to: the gender dimension of trade policy, value chains and production networks, food security, trade and environmental sustainability, and commodity dependence; (c) analyses recent trends in international trade in goods and services and trade policy; (d) examines current issues related to the multilateral trading system and regional trade agreements (RTAs). On the eve of the expiry of the Millennium Development Goals-focused development agenda and a transition to a new development paradigm characterized by inclusive and sustainable development, the report reviews the contribution made by international trade.

II. Trade integration

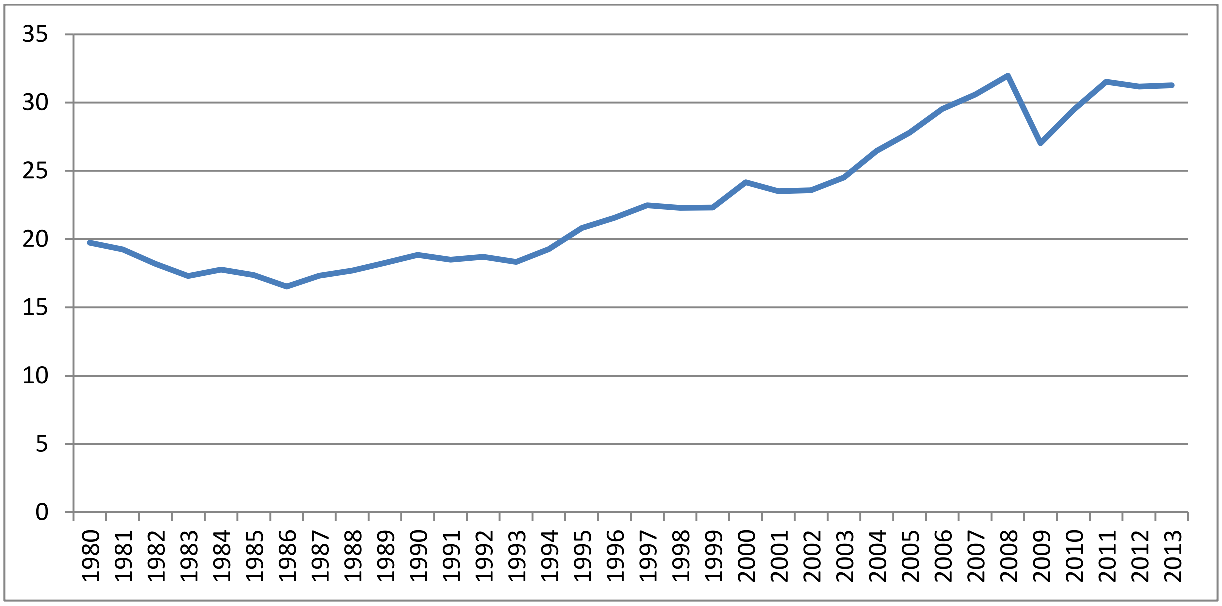
2. The last two decades have been characterized by unprecedented trade integration. International trade in goods and services has grown dramatically from about US$5 trillion in 1994 to about US$24 trillion in 2014, notwithstanding the slump in the years of the great recession. World trade has been doubling every decade for the last four decades, facilitated, inter alia, by the reduction of trade costs, including tariff barriers (see figure 1). Developed countries continue to constitute the main players in international trade. However, developing countries account for an increasing share. By 2013, developing countries accounted for over 45 per cent of world trade. The trade integration process has brought many benefits to the world and has created enormous opportunities for economic development of many countries.

Figure 1
World merchandise exports
(US$ current millions)



3. Trade can be a powerful enabler of economic growth, poverty reduction/eradication and sustainable development. This can be gleaned for example from the share of trade in goods and services in gross domestic product (GDP) globally which rose from under 20 per cent in 1980 to over 30 per cent by 2013 (see figure 2). Trade allows countries to share their unique comparative advantages in the production of goods and services for consumption in each other's markets. As such, it provides market opportunities for all nations. When these opportunities are seized, particularly by developing countries, they induce investment and technology transfer that strengthen trade's ability to create jobs and incomes, deepen economic diversification and advance structural transformation. Overtime, incomes in poorer countries rise and poverty and unemployment decline, thus providing impetus to advance the social objectives (for example, in the area of health and education). Development must be environmentally sustainable across all economic sectors, generating no net harm to, nor depletion of, ecosystems and natural resource bases (terrestrial, oceanic or atmospheric).

Figure 2
Share of trade in goods and services in gross domestic product, 1980–2013
(Per cent)

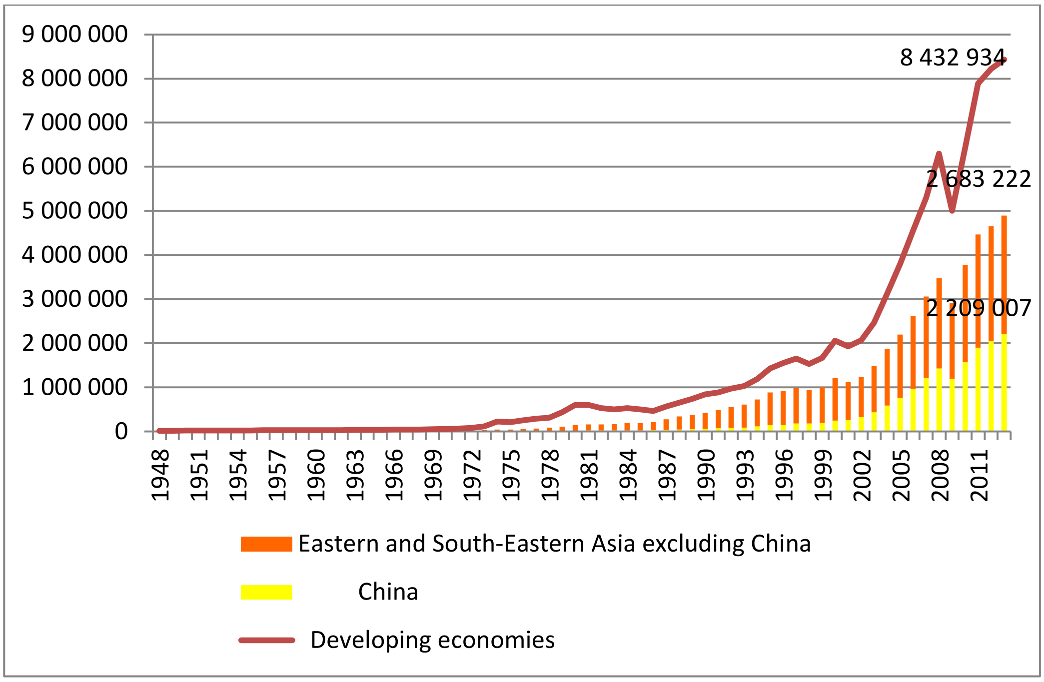


Source: UNCTAD.

4. Supported by dynamic trade growth, developing countries have on the whole witnessed much higher GDP growth rates than developed countries in the last four decades. Developing countries experienced annual average GDP growth rates of 5.7 per cent since 2000 as compared to an annual average of 1.6 per cent for developed countries. With such rates of growth it is taking fewer years to double output per capita, showing that developing countries are slowly catching up with developed countries in terms of GDP.

5. However, the benefits and opportunities of trade integration have not always been inclusive and have not always translated into sustainable economic, social and environmental well-being. The trade growth has been mainly in China and in East and South Asia (see figure 3). Least developed countries (LDCs) in particular (apart from some oil- and petroleum-exporting countries) remain less integrated into and marginalized from the global economy. Exports per capita are very low for African countries (less than US$200) as compared to other developing and developed countries. The export growth has also been uneven, with East Asian countries showing much faster growth of exports than other developing countries.

Figure 3
Growth in trade
(US$ thousands)



Source: UNCTAD.

III. International trade and inclusive and sustainable development

6. For the ultimate objective of inclusive and sustainable development, trade integration should not only foster economic growth but also address socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. The close linkage between trade, sustainable development and poverty alleviation will be a defining feature in the post-2015 development paradigm if trade is to have an impact on the sustainable development goals. Some of the critical areas in which more inclusive and sustainable approaches to international trade, trade policy and the trading system are required are discussed in this chapter.

A. Gender dimension of trade policy

7. Promoting the gender perspective is a sine qua non. It has been well established by UNCTAD that trade policy has different impacts on different segments of the population and affects men and women differently. In turn, gender-based inequalities can impact significantly on trade policy outcomes and trade performance. There are clearly identifiable structural constrains that should be addressed if women are to benefit from expanded trade and fully contribute to economic development. These include labour market segmentation and gender wage gaps; limited access to productive resources, training, credit, technology and market information; and time poverty. Gender is a key issue in the integrated treatment of trade, finance, investment, and technology. Gender-specific supply-side obstacles are multidimensional. They straddle across finance (gender-based inequalities in access to

credit), trade (gender biases in access to markets), and productive assets (investment). The acknowledgement and integration of the gender dimension in trade policy thus prompts the integrated treatment of trade, investment and finance for inclusive and sustainable development.

B. Value chains and production networks

8. The structure of international trade has dramatically changed during the last two decades. In the past, trade was largely about countries exchanging goods produced domestically. Today, trade increasingly concerns firms geographically fragmenting production processes under value chains and production networks. Value chains and production networks have become a dominant feature of the world economy, involving countries at all levels of development, from the poorest to the most advanced. About 60 per cent of global trade consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption.[1] The production of goods and services is increasingly carried out wherever the necessary skills and materials are available at competitive cost and quality. This growing fragmentation of production across borders has important implications for trade and investment patterns and policies, and offers new prospects for growth, development and jobs.

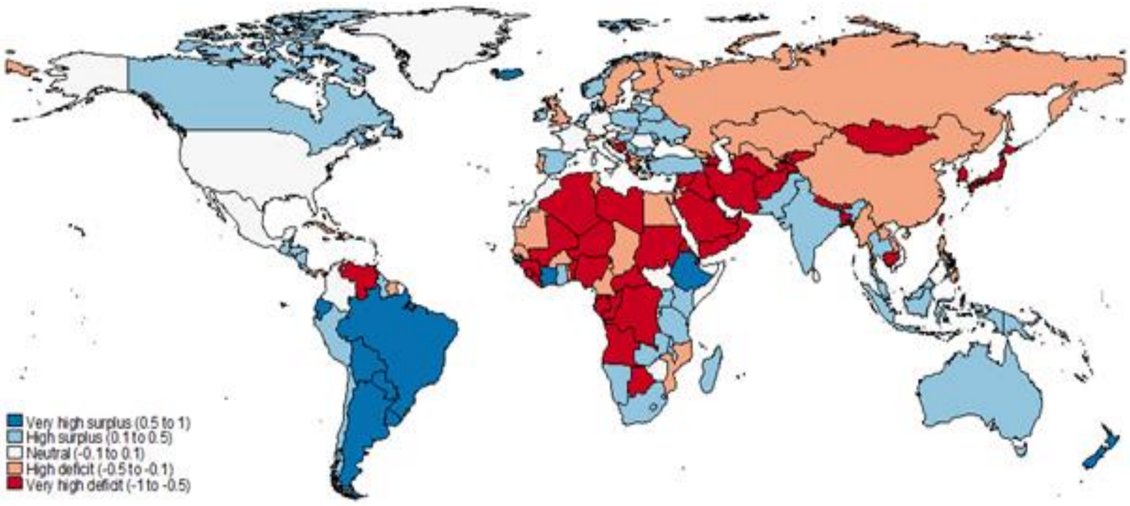
9. For smaller firms from developing countries, the participation in global production networks is instrumental in accessing technology and know-how, which will ultimately increase their productivity. Policies facilitating the integration of domestic firms into international production processes and promoting the adoption of foreign technology and know-how are, therefore, very important in translating trade into increases in productivity and ultimately economic development. The internationalization of production processes poses challenges to developing countries as their firms may often find themselves locked into low value added activities. Moving from low value to higher value activities requires a policy mix that favours upgrading in industrial processes and increasing export sophistication. Deliberate policy measures need to be taken to ensure a greater participation of women in such chains, and also the incorporation of energy efficient and climate friendly production processes.

C. Food Security

10. A major challenge is related to food security. World food demand is rapidly increasing with rising income levels and strong population growth. Although many countries have developed and could possibly further develop food security policies, including by subsidizing production of staple foods, such strategies may not always be possible (for example, because of geographical factors), economically viable or optimal (such policies may hinder diversification and structural transformation), or environmentally sustainable (they may imply the use of marginal land and deforestation). With very few exceptions, any food security strategy cannot be dissociated from international trade (see figure 4).

[1] From UNCTADStat, 2015.

Figure 4
Food security – agricultural dependency index based on net trade of agricultural products



Source: UNCTAD.

Note: Food dependence is estimated as a country's exports of agricultural products minus its imports of agricultural products. The resulting figure is then normalized by dividing it by the country's agricultural trade (imports plus exports). The index varies between -1 and 1, with positive values meaning that the country exports more agricultural products than it imports.

Disclaimer: The boundaries shown on this map do not imply official endorsement or acceptance by the United Nations.

11. In general, countries in Latin America, East Africa and South Asia tend to be net food exporters, while most remaining Asian and African countries are net food importers, and therefore rely on international markets for food security purposes. The UNCTAD food dependency index shows that since 2008, many African as well as Asian economies have experienced an increasing reliance on imported food products, for example, Bhutan, Botswana, Myanmar, the Niger and the Syrian Arab Republic (Bhutan and the Niger are both LDCs and landlocked). Given that world food demand is projected to increase by 20 per cent by 2030, international markets are likely to become even more important for food security.

12. In this context, there is a need to guarantee that agricultural markets are fair and, most importantly, predictable. As food availability and prices have real social and political effects, especially on the poor, minimizing uncertainty in food markets is crucial. In this regard, multilateral agreements should lock in open and reliable markets to ensure access to staple foods. There is also a need to increase investment into strengthening food production and, in line with sustainability requirements, increasing emphasis on sustainable agriculture, including organic agriculture food products, which deserve greater attention.

D. Energy and environmental sustainability

13. A sustainable and cleaner energy future is another major challenge, especially in meeting energy needs while at the same time reducing climate change. Economic and population growth leads to increased energy demand, and consequently increase in CO_2 emissions. Fossil-based energy sources continue to dominate the energy consumption of countries, with clean energy representing about 20 per cent of global consumption. Unless the problems of energy availability and climate change are resolved, the prosperity that all nations legitimately strive for will be compromised. By emphasizing the need for

environmental sustainability, the post-2015 development agenda and sustainable development goals are a recognition that neglecting to effectively manage pollution, waste and overconsumption of natural resources is no longer an option.

E. The green, blue and creative economies

14. Sustainable production (and consumption) processes will be a major policy theme influencing national, regional and international development strategies in the post-2015 sustainable development agenda. The production of goods and services for exports will increasingly need to take into account environmental sustainability, and new economic opportunities arising from production and exports of green goods and services will need to be developed. In this respect two areas of potential include the green and blue economies, with possible significant impact on livelihoods of rural farming and fishing communities.

15. In support of a greening of the global economy, countries could examine and develop opportunities at national and regional levels for reviewing, producing and trading in green exports. Interested countries can engage in country-driven and country-owned action plans with specific policy reforms to be effected, and actions to be undertaken, to seize opportunities in greening global markets. In Vanuatu, for example, UNCTAD is supporting a national green export review focusing on adding value to traditional exports including coconut, cocoa and sandalwood. Likewise in Ecuador, UNCTAD has supported the elaboration of national action plans to promote more sustainable production and exports of cocoa and value-added chocolate, as well as sustainable fisheries. Closely related are new opportunities for sustainably produced biodiversity-based products and services in a wide variety of sectors such as food, personal care, fashion, pharmaceuticals, sustainable tourism, and handicrafts, among others. The opportunities created through “biotrade” are a source of jobs, incomes, export diversification and rural development for populations, small and medium-sized enterprises and multinational corporations. Benefits to rural communities in terms of jobs, income earning opportunities and improved lifestyles can be substantial.

16. As regards the blue economy, oceans and seas cover over two thirds of the earth’s surface, provide food and minerals, generate oxygen, absorb greenhouse gases and keep in check climate change, determine weather patterns and temperatures, and serve as highways for sea-borne international trade. The global ocean-based economy is estimated at between US$3 trillion and US$6 trillion per year. More than 3 billion people rely on the oceans for their livelihoods and more than 350 million jobs are linked to the ocean worldwide. Healthy, productive and resilient oceans and seas are essential in the quest for a more sustainable future, but face significant pressures and threats to their sustainability from climate change, over-exploitation and poor management of marine resources or pollution. Harnessing the ocean economy for development in a sustainable way will be a major challenge. There is a need to support developing countries in creating enabling national and regional policy and regulatory environments to promote the conservation and sustainable use of ocean-based resources, as well as in developing economic and trade strategies in using the “oceans space” to promote sustainable trade in ocean-based resources. These include resources such as fish and seafood, wave energy potential, algae bioenergy, marine bioprospecting and biotech, and maritime and coastal tourism.

17. A third area in which the production scope of countries can be enhanced is the creative economy and creative industries.[2] Many countries already recognize the importance of culture and the creative economy and support the elaboration of national

[2] See the *Creative Economy Report 2010*, UNCTAD and United Nations Development Programme, available at http://unctad.org/en/Docs/ditctab20103_en.pdf.

plans to stimulate it and reposition the creative industries as important vehicles for economic and social transformation. Policies targeting the creative economy respond not only to economic needs but also to the special needs of local communities related to education, cultural identity, social inclusiveness and the protection of local natural and environmental resource endowments and the integration of these into local, regional and international markets. Cultural and creative industries also improve the competitive advantage of countries by innovative products rooted in the country, reinforcing brand-building and country image. For example, China is moving forward its development strategy from “made in” to “created in” China. It is estimated by UNCTAD that the global market for trade in creative goods and services totalled a record US$547 billion in 2012, with about 69 per cent of this accounted for by design and new media and 31 per cent by publishing, visual arts, art crafts and performing arts.

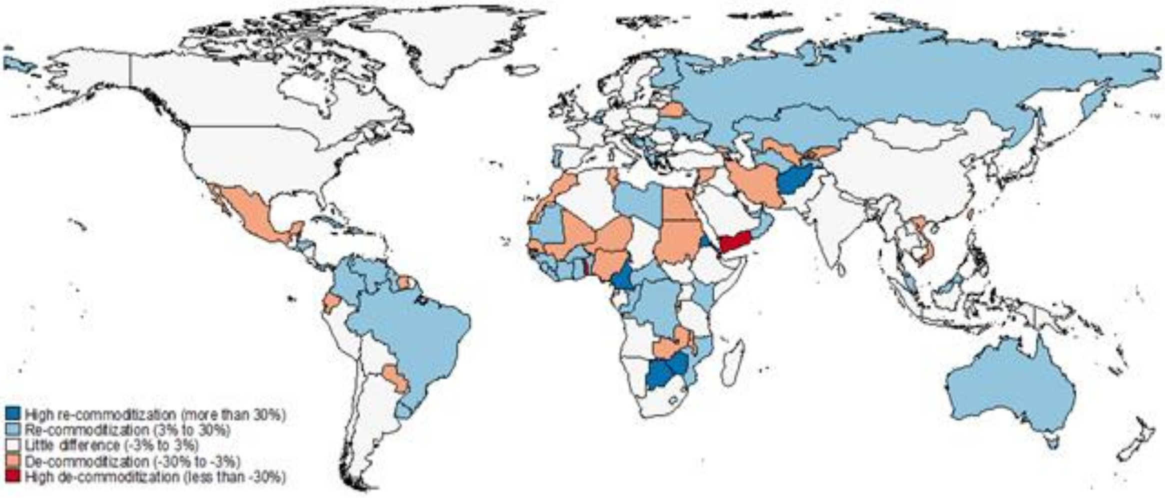
F. Commodities

18. Commodity dependence is a feature in many of the developing countries and LDCs, particularly in the African region. In recent times, most of the African and Latin American countries’ export basket has changed towards commodities. However, it is evident that the almost decade-long commodity boom is coming to an end. This is coupled with a difficult situation in global financial markets, which have provided the impetus to this boom.

19. Global demand for intermediate, consumer and capital goods is predominantly met by developed countries’ exports. Similarly, trade in both agriculture and manufacturing largely originates from developed countries. However, the importance of developed countries as suppliers of world markets in these categories of products is declining. On the other hand, developing countries remain by a wide margin the main suppliers in international markets for primary products and natural resources. Developing countries’ exports represent about two thirds of international trade in primary products and about three quarters of that in natural resources. Since 2008, developing countries’ export shares have increased in all categories except primary products and natural resources.

20. The degree of recommoditization is measured by comparing the share of commodities in total exports in two time periods. Negative values imply decommoditization, meaning that the export basket is less biased towards commodities, whereas positive values imply an even stronger tendency to export commodities. Figure 5 shows changes in commodities during the two periods 2008–2013 and 2011–2013.

Figure 5
Changes in commoditization, 2008–2013



Source: UNCTAD.

Note: The degree of commoditization is measured by comparing the share of commodities in total exports in two time periods. Negative values imply decommoditization, meaning that the export basket is less biased towards commodities, whereas positive values imply an even stronger tendency to export commodities (recommoditization).

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IV. Global economic and trade trends

A. Key economic trends

21. The world economy is growing in 2015 at rates slightly higher than during the three previous years. However, this improvement remains modest, unevenly distributed among different regions, and is vulnerable to financial shocks. World output is expected to expand at around 2.7 per cent in 2015 compared to an annual rate of 2.4 per cent between 2012 and 2014. This is mainly the result of a better economic performance in developed countries, which are expected to grow at around 2 per cent compared to 1.6 per cent in 2104; in particular, growth in Japan and the euro area is experiencing a moderate acceleration, although from very low rates.

22. Developing countries as a whole will continue to expand at a rate of close to 4.5 per cent, thanks in particular to growth resilience in most of the Asian region and, to a lesser extent, in sub-Saharan Africa. However, other regions are experiencing a significant slowdown, due to lower commodity prices and capital outflows that, in some countries, have prompted tighter macroeconomic policies. Latin America, West Asia and the transition economies are among the most affected; in the latter, recessionary conditions are already present.

23. The central problem of insufficient global demand that resulted from the global financial crisis has not yet been resolved. When the global crisis erupted in 2008, the collapse of aggregate demand in systemically important economies was so sharp that there was little room for an ambiguous policy response. Public spending sought to compensate for lower spending by households and firms, while monetary expansion addressed the tendency towards deflation, falling asset prices and balance sheet distress. However, there

was no concerted attempt to adopt concrete measures to tackle the rise in income inequality, in particular the deterioration of the labour share in total income, which had been falling in a majority of economies since the early 1980s.

24. In the absence of widespread and sustained increases in labour income, neither consumption nor investment regained sufficient strength in most of the countries affected directly by the crisis. As a result, in early 2015, most developed countries find themselves with private consumption levels below long-term projections, sluggish investment and weak public sector demand. Recent improvements in the economic activity in developed countries are due to a less stringent fiscal stance and some recovery in household consumption, following a reduction in energy prices and, in some countries (including the United States of America, the United Kingdom of Great Britain and Northern Ireland, and to a lesser extent Australia and Canada), a strong rebound of asset prices and related "real-balance effects".

25. Economic trends in developing economies followed a different pattern. In response to the initial shock in 2008–2009, some applied more ambitious counter-cyclical policies, including increased fiscal spending and income policies that were sustained for long enough to encourage a continuing rise of household expenditure and, by extension, of private investment. Some of these countries are scaling back or even reversing the policy stimulus as they face capital outflows or lower export prices; by contrast, for oil importers, the recent improvement in the terms of trade enlarges the room for manoeuvre.

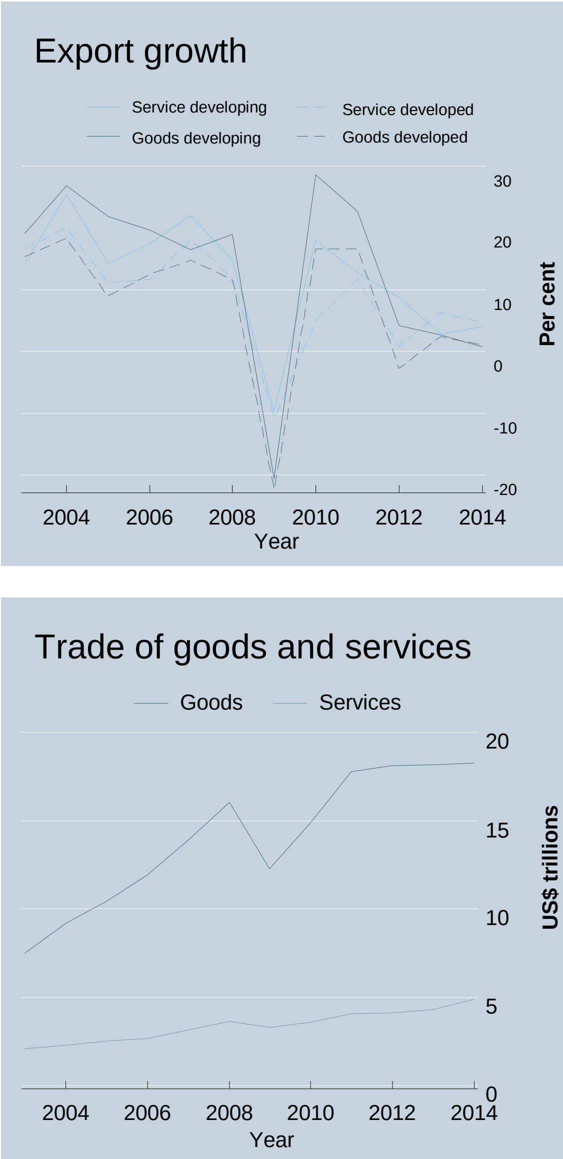
B. Overall trade trends

26. Although world trade recovered swiftly from the effects of the global economic crisis, it has grown only modestly since 2011. Following the strong rebound in 2010 and 2011, export growth rates have stabilized at lower levels (figure 6). From 2011 to 2013 world trade grew at a rate of about 2 per cent per year, notably below the growth rate of more than 5 per cent per year observed in the pre-crisis period. Between 2011 and 2014 world trade in goods and services increased by nearly US$1 trillion to reach around US$24 trillion in 2014 (with services accounting for about US$5 trillion), with developing countries accounting for about US$11 trillion of the world exports.[3]

27. While most international trade flows are now generally larger than their pre-crisis levels of 2008, the increase in world trade since 2011 has been relatively limited and almost exclusively driven by increases in import demand from the East Asian region. A concern with the low levels of trade growth since 2010 is that they reflect a weakening import demand in some developed countries and emerging markets. If this trend persists, coupled with declining commodity prices, it could disproportionally affect export-driven growth strategies in many developing countries.

[3] From UNCTADStat, 2015. Statistics for developing countries include transition economies.

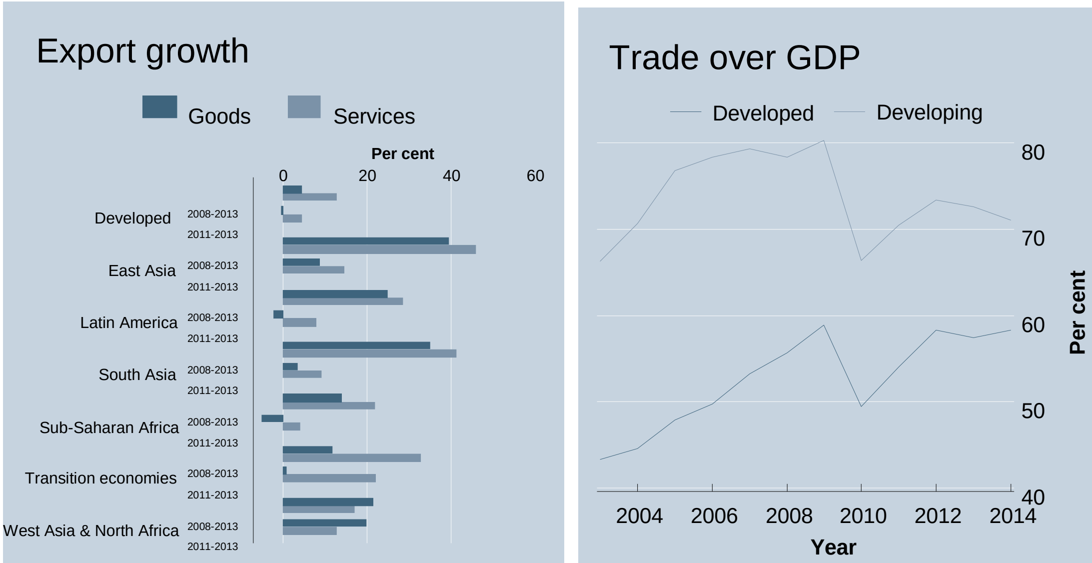
Figure 6
Values and growth rates of world trade in goods and service



Source: UNCTAD (figures for 2014 are preliminary).

28. Since its earlier peak of 2008, international trade has continued to grow, at times substantially, but also quite diversely across regions (figure 7). While developed countries' trade has increased minimally, developing countries have generally fared much better. Among developing country regions, East Asian trade (both imports and exports) has grown by the greatest extent, with an increase of 40 per cent or more between 2008 and 2013. On the other hand, exports from sub-Saharan Africa only increased by about 15 per cent in the case of goods and 22 per cent in services over the same period. The recent increase in world trade has mainly been attributed to the strong rebound achieved between 2009 and 2011. Since 2011, international trade has grown notably less, even declining in a number of cases. For a large number of Latin American and African countries, exports have contracted. In particular, total exports from sub-Saharan Africa were about 5 per cent lower in 2013 than in 2011.

Figure 7
Growth of trade in goods and services, and value of trade

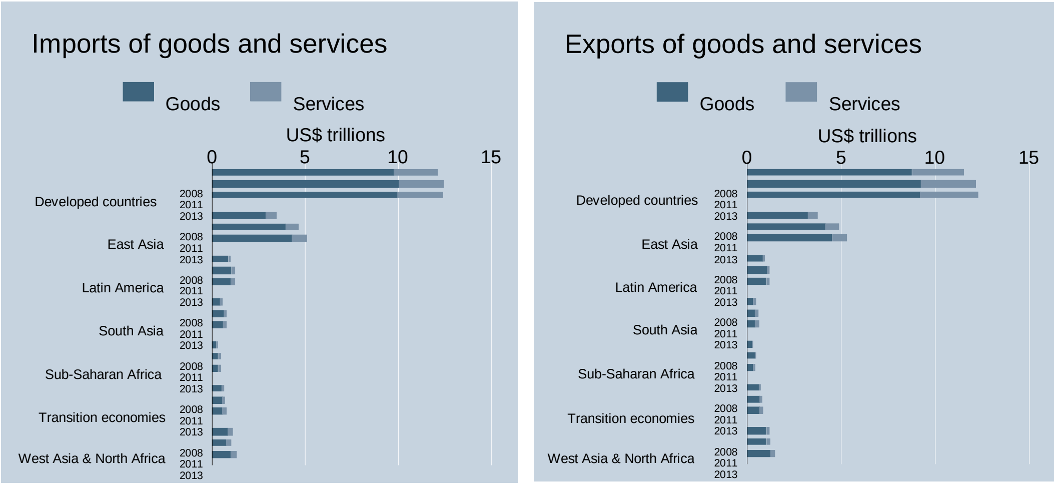


Source: UNCTAD.

29. In 2013, developed countries still remained the main players in international trade, accounting for about half of the value of world trade in goods and about two thirds of the value of trade in services. In 2013, developed countries' imports of goods reached about US$10 trillion, while that of services added up to US$2.5 trillion (figure 8). Total exports were of similar magnitude (figure 8). During the past few years developing countries have continued their integration into the world economy although at a typically slower pace and to a diverse extent. On the one hand, East Asian countries have continued to outperform many other developing countries in terms of export and import growth. In 2013, East Asia traded close to US$4.5 trillion in goods, and around US$800 billion in services. On the other hand, recent years have witnessed a decline in international trade for a number of Latin American and especially sub-Saharan African countries.

30. With regard to specific economic sectors, fuels (at about US$3 trillion in 2013) and chemicals (at about US$2 trillion) continue to represent the largest product categories in terms of the value of trade. Since 2011, trade flows in many commodity-related sectors have declined, while they have increased in manufacturing sectors such as motor vehicles, machineries and electronics. Trade in agricultural products has remained roughly stable. In the case of services, most sectors have continued to register significant rates of growth, with transportation, travel and business services reaching values of about US$1 trillion in 2013.

Figure 8
Values of trade in goods and services by region



Source: UNCTAD.

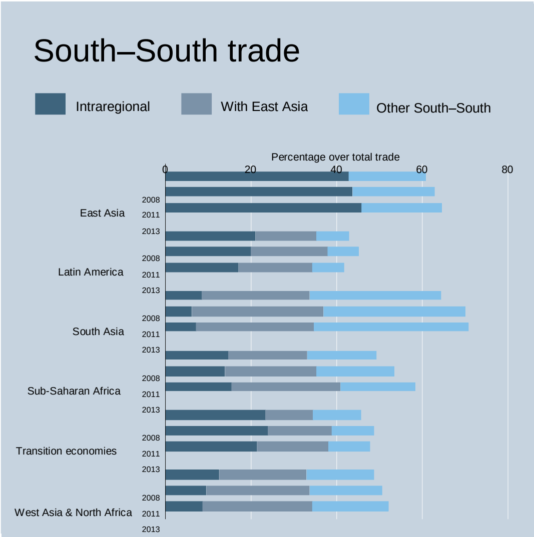
31. International demand and supply across categories of goods tend to be associated with a nation's level of development. With the exception of product categories pertaining to processing industries, world trade is still largely fuelled by demand in developed countries. In 2013, developed countries accounted for about 75 per cent of global imports of apparel (down from about 80 per cent in 2008) and for about two thirds of imports of a range of products including tanning, motor vehicles, food products, wood products and furniture, animal products, rubber and plastics, and paper products and publishing. Developing countries, on the other hand, were major importers of mining and metal ores, communication equipment, electrical machinery and several agricultural products. On the supply side, developed countries' share in world markets declined in almost all sectors, but remained dominant in some large sectors such as motor vehicles (75 per cent), chemicals (70 per cent) and various machinery (65 per cent). Sectors where international markets are largely supplied by developing countries include oil, gas and coal, apparel, communication equipment, textiles, office machinery, oils and fats, and tanning.

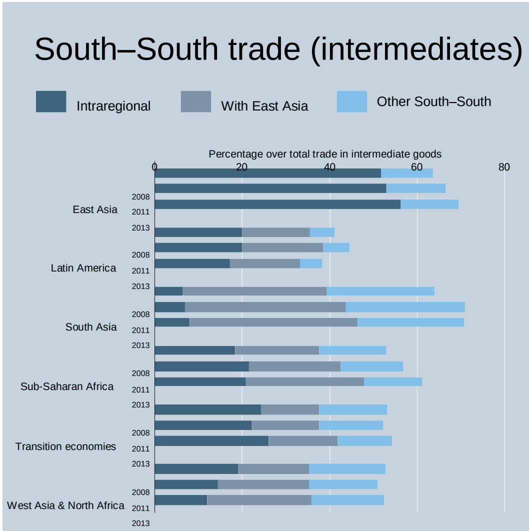
32. With regard to world trade in services, it continues to be largely dominated by developed countries both in terms of demand and supply, especially in sectors including computer and information services, financial services, royalties and licence fees, and communication services. Although the importance of developing countries as importers of services has increased in recent years, they nevertheless account for the largest share only for construction and transportation services. Turning to export market shares, these reveal that international markets are mainly supplied by developed countries (the single exception being construction services, where the market share is more or less equally divided). For instance, developed countries account for over 95 per cent of global exports of royalties and licence fees, and around 80 per cent of financial and insurance services.

33. Despite having greatly increased during the last decade, trade between developing countries (South–South) has also stagnated since 2011. South–South trade in goods for 2013 was valued at circa US$5 trillion, a magnitude close to that of trade between developed countries (North–North). This figure represents more than half of overall developing country trade (figure 9). This share varies by region, ranging from above 40 per cent in Latin America and transition economies, to almost 70 per cent in South Asia and East Asia. Although a proportion of South–South trade encompasses intraregional flows, the largest part involves trade with the East Asian region. Since 2008, East Asia has become an increasingly important trading partner for all other developing country regions.

The significant and growing relevance of East Asia in South–South trade is similarly evident when focusing on trade in intermediates (figure 9). This indicates the presence of production networks not only within East Asia, but also connecting East Asia with other developing countries.

Figure 9
Regional composition of South–South trade





Source: UNCTAD.

34. Trade between developed and developing countries (North–South and South–North) also increased substantially over the period, and represented a share of about 40 per cent of world trade in 2013, mainly comprising exports from developing nations towards the developed world. Intermediate products have represented the bulk of trade, except in the case of South–North flows. Primary products account for a sizeable share of South–South and South–North trade. Driven by demand in developed countries, consumer products represent an important share of North–North and South–North trade. Capital goods represent about 20 per cent of trade from developed to developing countries.

V. Trade policy and market access

Tariffs

35. During the last decade international trade has been characterized by a progressive shift in the use of trade policy instruments. While tariff protection remains an important instrument only in certain sectors and/or for a limited number of countries, the use of other, non-tariff trade restrictive measures has become more widespread.

36. As of 2013, around one third of world trade was free under most-favoured-nation (MFN) regimes, with an additional third exempt from tariffs due to preferential access. However, tariffs applied to the remainder of international trade can be relatively high. In 2013, trade subject to duties faced an average tariff of about 7 per cent in manufacturing and about 18 per cent in agriculture. In this regard, preferential access continues to play a key role for agricultural market access.

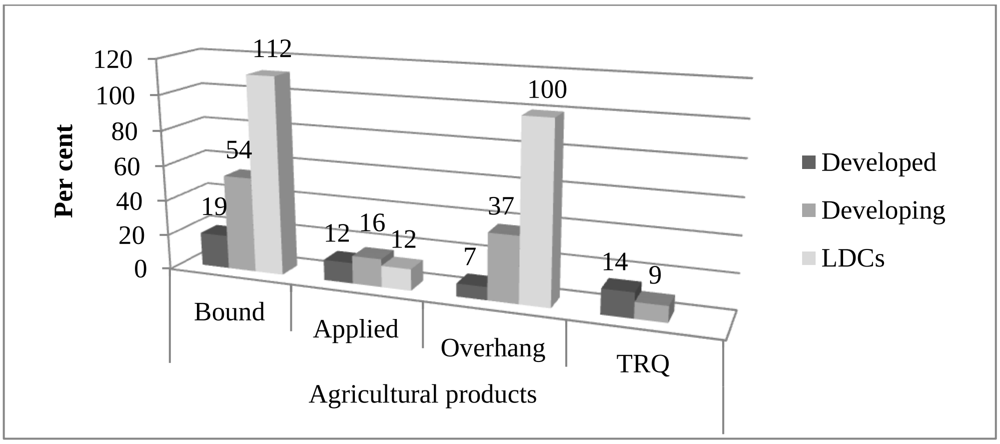
Agricultural trade and preferential trade agreements

37. Most the trade in agriculture happens under preferential trade arrangements. Only 20 per cent of international trade in agriculture happens under MFN tariffs, which are 18 per cent on average. It is worth noting, however, that in comparison with World Trade Organization (WTO) provisions, limited progress has been made in some of the RTAs with respect to several rule-making areas, including agricultural safeguards, export subsidies and export duties with significant absence of discipline or any measures affecting domestic support in agriculture.

38. It is still an open question as to how RTAs can complement the multilateral trading system or provide guidance towards appropriate solutions to the key outstanding issues in the Doha Round negotiations on agriculture – which include a reduction in tariffs and domestic support and the elimination of export subsidies – and beyond these negotiations. This may consequently limit the overall potential of RTAs for promoting convergent and development-oriented trade liberalization in agriculture.

39. Figure 10 compares final WTO bound tariff averages with currently applied tariff averages on agricultural products of developed and developing countries, and LDCs. While averages of applied tariffs are relatively not very different across these three groups of countries, at 12 per cent, 16 per cent and 12 per cent respectively, the gap between their bound average tariffs is quite high, with 19 per cent, 54 per cent and 112 per cent for developed countries, developing countries and LDCs, respectively. The difference between bound and applied average tariff (also known as overhang) is therefore much greater for LDCs and developing countries than for developed countries, as shown in figure 10. The overhang for these three groups of countries is, respectively, 100 per cent, 37 per cent and 7 per cent.

Figure 10
Average tariffs on agricultural products



Source: UNCTAD Trade Analysis and Information System/World Integrated Trade Solution database using latest available data.
Note: TRQ = tariff rate quota.

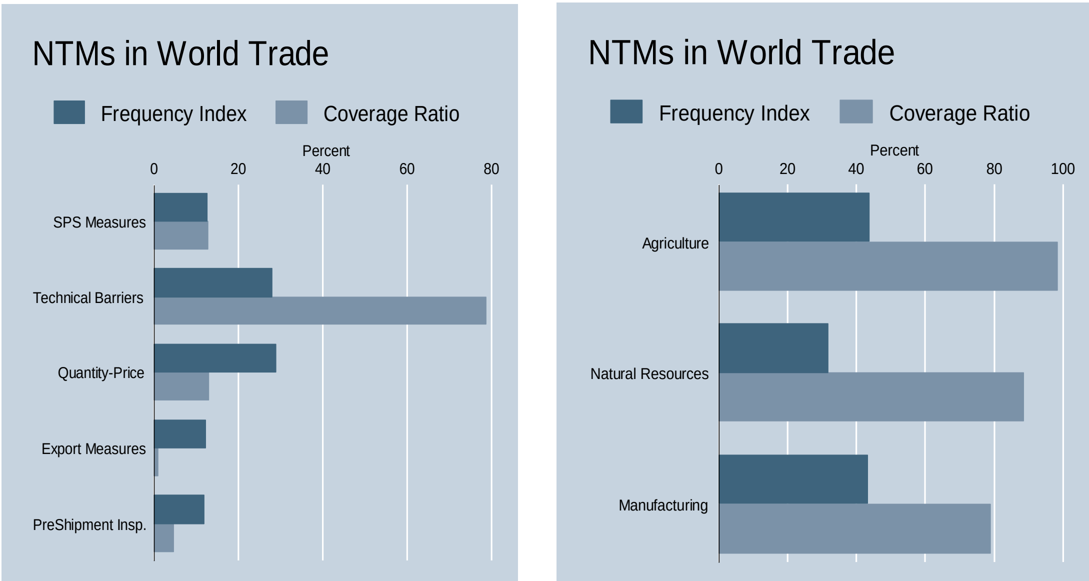
Non-tariff measures

40. International trade is increasingly regulated and influenced by a wide array of policies and instruments reaching beyond tariffs. As of 2013, technical measures and requirements regulate about two thirds of world trade, while various forms of sanitary and phytosanitary measures are applied to almost the totality of agricultural trade. Non-technical measures such as quantity and price measures still affect almost 30 per cent of trade flows, often in economic sectors of importance for developing countries. The past few

years have also seen an increase in the use of trade defence measures within the WTO framework.

41. Data on non-tariff measures is still fragmentary and therefore does not allow computation of comparative statistics. The data may also not be fully representative of world trade. Nevertheless, some preliminary statistics may be derived from the available data. Figure 10 illustrates the distribution of non-tariff measures across five broad categories. For each category, both the frequency index (that is, the percentage of HS 6 digit lines covered)[4] and the coverage ratio (that is, the percentage of trade affected) are reported. International trade is highly regulated through the imposition of technical barriers, with more than 25 per cent of product lines and almost 80 per cent of world trade affected. Quantity and price control measures (which also include non-automatic licensing), as well as sanitary and phytosanitary measures still affect about 15 per cent of world trade, and cover over 25 per cent of lines for the former and around 15 per cent for the latter. Export measures and pre-shipment inspections are applied to international trade less frequently as their use is either specific to particular sectors or they are employed by a specific group of countries (for example, pre-shipment inspections in low-income countries). When considering the coverage of non-tariff measures by broad category (figure 10), one can observe that agriculture is the most affected, with nearly all of world trade and almost half of HS 6 digit lines covered. In the case of natural resources and manufacturing, non-tariff measures affect, respectively, almost 90 per cent and 80 per cent of their respective trade.

Figure 11
Prevalence of non-tariff measures, by type and broad category (2013)



Source: UNCTAD.

[4] The Harmonized System (HS) of the World Customs Organization uses code numbers to define products. A code with a low number of digits defines broad categories of products; additional digits indicate subdivisions into more detailed definitions. Six-digit codes are the most detailed definitions that are used as standard. Countries can add more digits for their own coding to subdivide the definitions further according to their own needs. Products defined at the most detailed level are “tariff lines”.

VI. Regional trade agreements

42. The greater prominence of twenty-first century RTAs, particularly emerging "mega" RTAs, characterizes the recent configuration of the international trading system. Mega RTAs – such as the Trans-Pacific Partnership Agreement and the Transatlantic Trade and Investment Partnership Agreement – are qualitatively different from previous RTAs in their size, depth and systemic consequences. They are oriented towards a deeper and comprehensive integration with a strong regulatory focus to provide a viable platform for regional value chains by ensuring a duty-free and non-tariff-barrier-free trading environment through deep regulatory integration to make regulatory systems more compatible and transparent. In addition to full market opening, they now encompass a range of behind-the-border regulatory measures, including investment, competition policy, capital movement, intellectual property rights and government procurement. By inducing deeper liberalization and high-standard, cutting-edge regulatory harmonization covering an increasing share of world trade, these RTAs run the risk of further affecting incentives to negotiate MFN liberalization at the global level even though some issues of systemic relevance, most notably domestic agricultural support, continue to be negotiated at the multilateral level.

43. The focus of the emerging mega RTAs will likely be increasingly towards regulatory harmonization to reduce divergence in national standards affecting trade. Regulatory harmonization and mutual recognition could remove barriers arising from diverse technical standards on goods and services. Some new proposed disciplines under mega RTAs include regulatory coherence. For a third country adopting lower standards, this could represent upward harmonization of regional standards and might have adverse effects in exporting in regional markets in developing countries. While trade facilitating, some regulatory provisions are seen to constrain developing countries' ability to pursue proactive development strategies. For instance, recent mega RTA negotiations (for example, the Trans-Pacific Partnership Agreement) have also sought to address the potentially anticompetitive effect of state-owned enterprises by ensuring "competitive neutrality"; however, such enterprises continue to play a key role in developing countries in some strategic sectors such as in energy and financial services. The investor–State dispute settlement, increasingly incorporated in RTAs, is seen to confer greater rights to foreign investors and may prove to be amenable to "regulatory chill" as regulators might refrain from taking certain regulatory actions for fear of legal challenge under such settlements.

44. From a development perspective, mega RTAs, and the twenty-first century RTAs more generally, might represent a risk for weaker and more vulnerable developing countries as they may simply be left out. Larger and more competitive developing countries face challenges in effectively securing improved market access, as RTAs often preserve high tariffs on imports of sensitive products that had attracted high protection on an MFN basis. In contrast, ensuring an adequate content, pace and sequence of their own liberalization is a key concern of developing countries, especially given the stronger behind-the-border regulatory "WTO+" or "WTO-X" disciplines increasingly incorporated in RTAs. It is therefore important that market opening objectives are critically balanced with the flexibility to design and implement measures to build essential productive capacities and move up in the value ladder.

45. At the same time, many South–South regional economic and monetary cooperation arrangements are being introduced and/or strengthened to deepen trade and economic cooperation among member developing countries in support of growth and development. In Africa for example, the establishment of the Tripartite Free Trade Area in 2015, and following this the launching the African Continental Free Trade Area by 2017, under the

aegis of the African Union, are both expected to generate substantial trade and economic benefits. The creation of the Brazil, Russian Federation, India, China and South Africa (BRICS) Development Bank, and recently that of the Asian Infrastructure Bank, herald a new form of financial cooperation among mainly emerging economies to provide financing for, inter alia, infrastructure development, which has been a major constraint on economic growth and development in developing countries.

VII. Developments in the multilateral trading system

46. Following the ninth WTO Ministerial Conference in Bali in December 2013, WTO members had until 31 July 2014 to adopt a protocol to amend the Marrakesh Agreement Establishing the World Trade Organization to incorporate the Trade Facilitation Agreement (TFA) on a definitive basis. However, this did not materialize owing to the concern expressed by some developing countries regarding the implications of the “early harvest” of the TFA for the remaining Doha negotiating agenda. This stalemate was unblocked by the General Council’s decisions of 27 November 2014, which cleared the path for the TFA to become operational, for the negotiations aimed at a permanent solution on food security issues to start in earnest, and to launch a process to develop “a clearly defined work programme” by July 2015. As of May 2015, five countries have completed ratification of the TFA and some 60 countries notified their “category A” commitments. It was significant that the Trade Facilitation Facility became operational to support developing countries, particularly LDCs, in their implementation of the TFA. The tenth WTO Ministerial Conference, scheduled for 15–18 December 2015 in Nairobi, is expected to provide further guidance on the way forward, including by adopting some of the deliverables.

47. The current negotiating efforts focus on developing a post-Bali work programme by July 2015 on the remaining issues of the Doha Round. Ongoing discussions have underlined key principles: (a) the need for a balanced approach to agriculture, non-agricultural market access (NAMA) and services, addressing all core market access issues in a simultaneous (not a sequential) manner; (b) the centrality of the development dimension, particularly LDC issues; (c) the need to focus on “doables”. At the time of writing in June, this work has yet to produce a concrete outcome. For instance, progress in core market access issues continues to be conditioned by the progress in agriculture. Views also differ on whether or not to use the draft modality texts on agriculture and NAMA of 2008 as the basis. Some newly proposed approaches, such as the use of the request-and-offer approach instead of the Swiss formula in NAMA, have not found consensus. In the areas of services, following the submission of a collective request by LDCs, a high-level meeting was held in February 2015 at which developed countries and some developing countries indicated areas where they intend to provide preferential treatment to LDCs.

48. One of the key challenges facing countries is to find a way to better adapt negotiating approaches to changing economic and policy environments since 2008. For instance, higher commodity prices and national agricultural policy reform processes have led to a substantial reduction in the use of trade-distorting support and export subsidies in traditional subsidizing countries. The shape of the post-Bali work programme is also likely to be influenced by parallel plurilateral and regional processes. The negotiations on expanding the product coverage of the WTO Information Technology Agreement aim at reaching an early agreement, also to be presented and agreed upon during the tenth Ministerial Conference. Fourteen countries representing 86 per cent of global environmental goods trade have launched since 2014 plurilateral negotiations for an environmental goods agreement. The negotiations for a trade in services agreement involving 23 WTO members representing 70 per cent of global services trade aim at comprehensive and ambitious services liberalization.

VIII. Conclusions

49. International trade and the trading system have witnessed a significant transformation towards fragmented production processes, multipolarization and regionalization, with integration into the global economy proceeding at different speeds for different countries. Trade continues to play a major role in development and should be firmly anchored in the post-2015 development agenda as a major enabler of inclusive and sustainable development.

50. The expected broad-based contribution of trade to various post-2015 sustainable development goals would necessitate active policies supporting a positive interface between trade and related public policies to support gender empowerment, poverty alleviation, job creation and environmental sustainability. The evolving national policy needs and priorities would call for an enabling environment internationally, assuring a fair and open trading environment and providing space for countries to implement such policies, so that trade can flourish and development dividends can be equitably shared among and within countries.

51. At the international level, multilateral cooperation should be pursued and scaled up. Reinvigorating the multilateral trading system as a global public good with renewed impetus, credibility and relevance is required in order to address the twenty-first century development challenges of inclusive and sustainable development being faced by the poorest and most vulnerable countries. Coherence should also be reinforced between multilateral and regional agreements, so that these arrangements in their totality can be turned into an effective enabling environment for development.

52. The imperative of responding to the need to protect and preserve the environment – terrestrial, oceanic and atmospheric – and sustainably use it in support of economic growth and inclusive development necessitates a re-examination and reorientation of trade and economic policies to more environment-friendly and climate-resilient production and consumption patterns. The greening of international production and trade patterns should occur as a major priority in the post-2015 development period.