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Towards an enabling multilateral trading system for inclusive and sustainable development

Note by the UNCTAD secretariat

Executive summary

The international community is set to define the post-2015 development framework and sustainable development goals wherein trade is expected to play a key catalytic role. Experience suggests that the transmission of efficiency gains from trade integration to broad-based development is not automatic and remains to be established with conscious policy efforts. This will require coherent and integrated policy intervention at the macroeconomic and individual sectoral levels supportive of structural transformation to build broad-based productive capacities with possibility for diversification, technological upgrading and job creation.

Such changing policy needs and priorities need to be supported by an enabling economic environment, of which an open, transparent, inclusive, non-discriminatory and rules-based multilateral trading and financial system remains an integral part. Despite recurrent setbacks, multilateralism remains a global public good to be supported and upheld. The centrality and credibility of the multilateral trading system is increasingly under stress as global trade governance becomes fragmented with the increased prevalence of regional and plurilateral processes. While the ninth Ministerial Conference of the World Trade Organization (WTO) (3–6 December 2013, Bali, Indonesia) adopted a package of decisions, including the Agreement on Trade Facilitation, difficulties in implementing the Bali package have again cast uncertainties over the prospects for the post-Bali work to conclude the Doha Round. Efforts are needed to ensure that multilateral and other processes can create an enabling environment for sustainable development.

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Introduction

1. The Doha Mandate adopted at UNCTAD XIII (Doha, 21–26 April 2012) recognized the importance of an enabling economic environment at all levels in support of inclusive and sustainable development.[1] Consideration by member States of this agenda is particularly opportune, as the international community is set to define the post-2015 development framework and sustainable development goals this year wherein trade is expected to play a key catalytic role in promoting broad-based economic growth, structural transformation and job creation. Further, it is expected to act as an essential enabler ("means of implementation") for other substantive goals, for example, in the areas of poverty, hunger, health, education, gender, environment, water and sanitation, energy, technology, inequality, human settlements, climate change, biodiversity, and peaceful and inclusive societies.[2]

2. Positive domestic policies, as well as an enabling economic environment, will be essential in harnessing the potential of trade for inclusive and sustainable development. An open, transparent, inclusive, non-discriminatory and rules-based multilateral trading system remains an integral part of an enabling economic environment. Despite recurrent setbacks, multilateralism remains a global public good to be supported and upheld, and continues to represent the best guarantee for all countries against protectionism and discrimination. The difficulties in concluding the Doha Round negotiations have underlined the need to seek new ways to foster multilateral consensus. The effective integration of developing countries into the multilateral trading system remains a priority, and ways and means should be found on how best to achieve this objective.

3. The current architecture and instruments of the multilateral trading system, and more broadly, the international trading system, require careful review to assess what adaptations are necessary to deal more effectively with rapidly evolving economic realities and development priorities in the twenty-first century. This is important, as the international trade and trading system has witnessed a significant transformation towards fragmented production, multi-polarization and regionalization, with integration proceeding at different speeds for different countries. Consideration of the enabling environment thus needs to factor in such ongoing processes. Domestic and foreign measures to foster such an environment and enhance the contribution of trade to inclusive and sustainable development should be based on the changing realities of world trade and development.

4. To assist the member States in their deliberations, the present note provides an overview of recent trends in international trade. It examines recent developments and issues in the multilateral trading system, as well as the systemic and developmental implications of increasingly prevalent regional integration initiatives, and discusses ways and means of fostering an enabling multilateral trading system, with particular attention to new and emerging issues on trade and development.

I. Changing landscape of trade and development

5. Trade is instrumental for growth and development under appropriate conditions. Trade provides means to overcome constraints posed by small domestic markets and allows countries to access larger external markets, as well as skills, technology and capital, which in turn enable a better use of productive resources to catalyse structural transformation.

[1] TD/500/Add.1.

[2] Introduction and proposed goals and targets on sustainable development for the post-2015 development agenda, 2 June 2014 (http://sustainabledevelopment.un.org/content/documents/4528zerodraft12OWG.pdf).

Over the past decades, international trade has undergone a multitude of transformative shifts in size, structure and patterns. The manner in which trade contributes to the economy has also changed. These shifts have created opportunities and challenges for a new growth path towards the post-2015 imperatives of inclusive and sustainable development.

6. The volume of world trade in goods and services increased fivefold from 1990 to 2013. Dynamic growth in import demand in large developing countries acted as a major stimulus. Since 2002, trade has steadily grown faster than gross domestic product (GDP) annually, with the notable exception of 2009. In addition, the share of exports in GDP in developing countries rose from 25 per cent in 1990 to 41 per cent in 2008 before receding to 37 per cent in 2012, indicating that a growing proportion of national income is earned abroad. The increase in trade was accompanied by rising real per capita incomes. Per capita income grew faster during the 2000s than in previous decades in most developing regions (table 1).

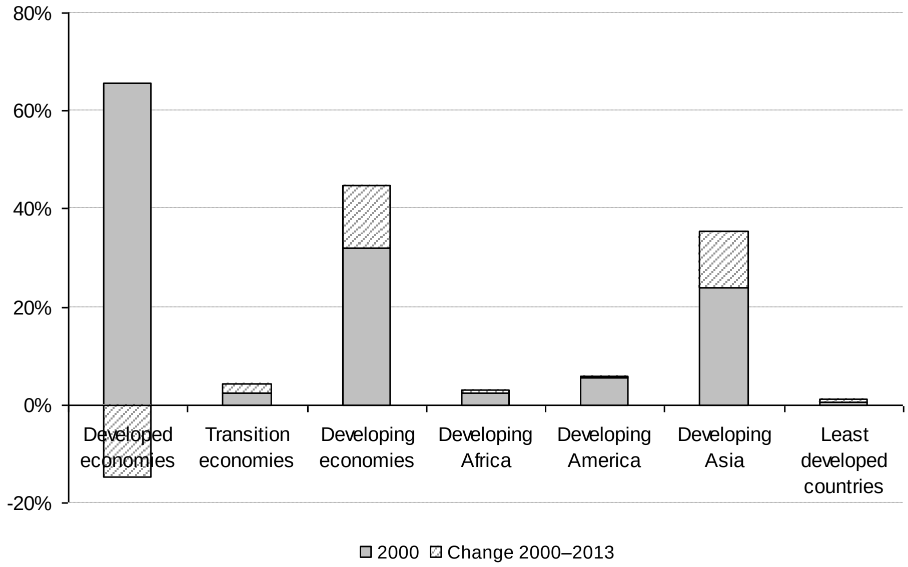
Table 1
Average real gross domestic product per capita growth rates, 1970–2012

	1970–1980	*1980–1989*	*1990–2000*	*2000–2005*	*2005–2012*
World	1.87	1.45	1.43	1.68	0.87
Developing economies	3.43	1.29	3.12	3.90	4.39
Transition economies	4.03	2.46	[4.87]	6.73	3.00
Developed economies	2.60	2.64	2.01	1.53	0.11
Developing Africa	1.53	[0.96]	0.06	2.79	1.72
Developing America	3.49	[0.31]	1.41	1.22	2.34
Developing Asia	3.88	3.18	4.65	5.33	5.65
Least developed countries	[0.45]	[0.10]	0.83	4.20	3.69

Source: UNCTADStat.

7. The increased participation of developing countries in world trade led this global trend, and their share in world merchandise exports climbed from 24 per cent in 1990 to 45 per cent in 2013 (figure 1). Asia alone came to represent 36 per cent of world exports, and China, for instance, became the world’s largest exporter in 2009; its economy is projected soon to overtake the United States of America in size with regard to purchasing power. However, there is substantial variation in trade performance across countries, which has given rise to a multipolar world economy. Trade participation is heavily skewed towards a handful of economies with the largest 20 exporters, mainly from developed and Asian regions, representing 70 per cent of world exports. While 75 developing countries experienced an average annual export growth rate of over 10 per cent between 2000 and 2012, 5 countries experienced export contraction and 60 registered persistent current account deficits, placing them at an inherent disadvantage in pursuing export-led growth.

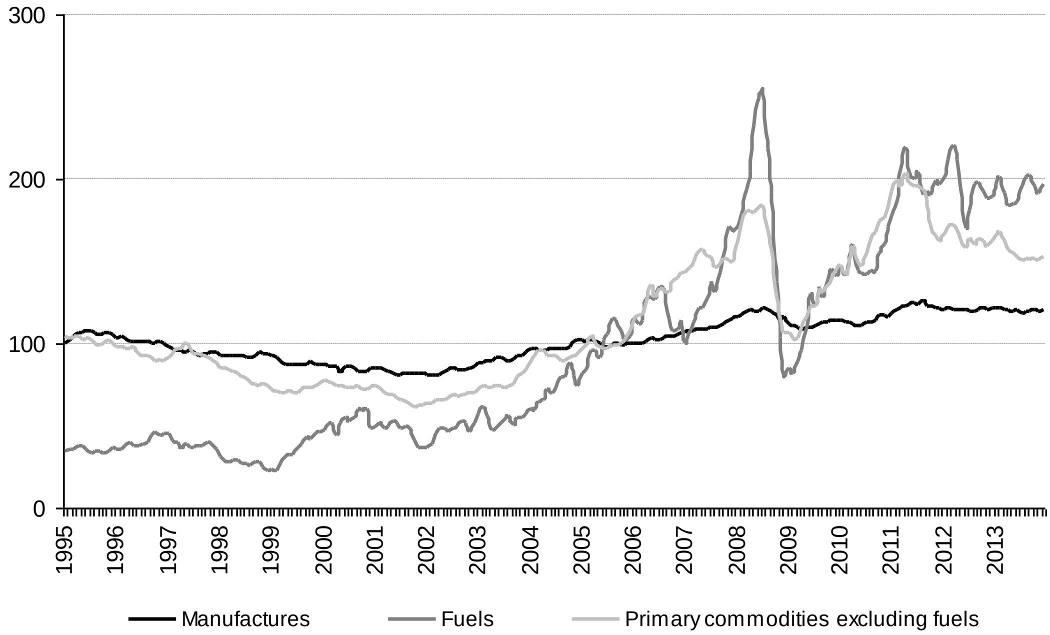
Figure 1
Share of developing countries in world merchandise exports by region, 2000 and 2013
(Percentage)



Source: UNCTADStat.

8. Rising commodity prices in the periods preceding and following the financial crisis have underpinned growth in the nominal value of world trade and improved terms of trade for commodity exporters (figure 2). Export earnings of oil-exporting countries increased by 16 per cent between 2002 and 2013, and non-fuel mineral exporters, by 13 per cent. Many undiversified commodity exporters, such as least developed countries (LDCs), countries in sub-Saharan Africa, and to a lesser extent some in Latin America and West Asia, remain essentially marginalized in world trade, with their economies vulnerable to price reversals and short-term volatility. High commodity prices have accentuated traditional specialization patterns and discouraged diversification (de-industrialization). Food price hikes in 2007–2008 heightened food-security concerns, as many agricultural commodity exporters are increasingly specializing in export crops in exchange for importing staple food for domestic consumption. In 2012, only 4 of the total 13 developing country regions had a positive trade balance in basic food.

Figure 2
Price index of selected commodities, 1995– 2013
(2005 = 100)

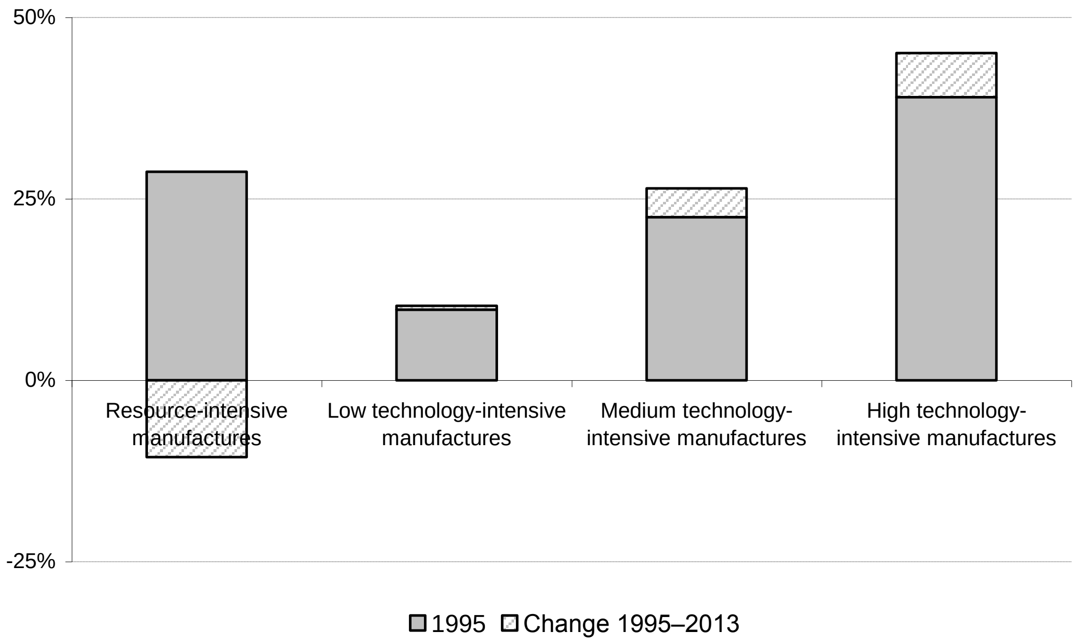


Source: CPB Netherlands Bureau for Economic Policy Analysis.

9. The dynamic expansion of world trade has marked the past decades, driven by technical advances, falling trade costs, an open trading environment in general and the rise of global value chains (GVCs). The rapid expansion of developing country exports has been underpinned by the growing importance of manufactured goods since the late 1990s with the expansion of trade within GVCs in the production of goods such as electronics and automotive products. The share of manufactured goods in non-fuel exports averaged 83 per cent between 2000 and 2008 for developing countries, and the degree of technology intensity increased markedly (figure 3). Much of trade within GVCs is intra-industry and intraregional. Their expansion was also driven by the cross-border movement of capital, technology and know-how. According to UNCTAD estimates, 80 per cent of global trade involves transnational corporations, and one third is intra-firm.[3]

[3] UNCTAD, 2013, *World Investment Report 2013: Global Value Chains – Investment and Trade for Development* (New York and Geneva, United Nations publication) and UNCTAD, 2014, *World Investment Report 2014: Investing in the SDGs – An Action Plan* (New York and Geneva, United Nations publication).

Figure 3
Change in share of product categories in developing country manufacturing exports by technology intensity, 1995 and 2012
(Percentage)

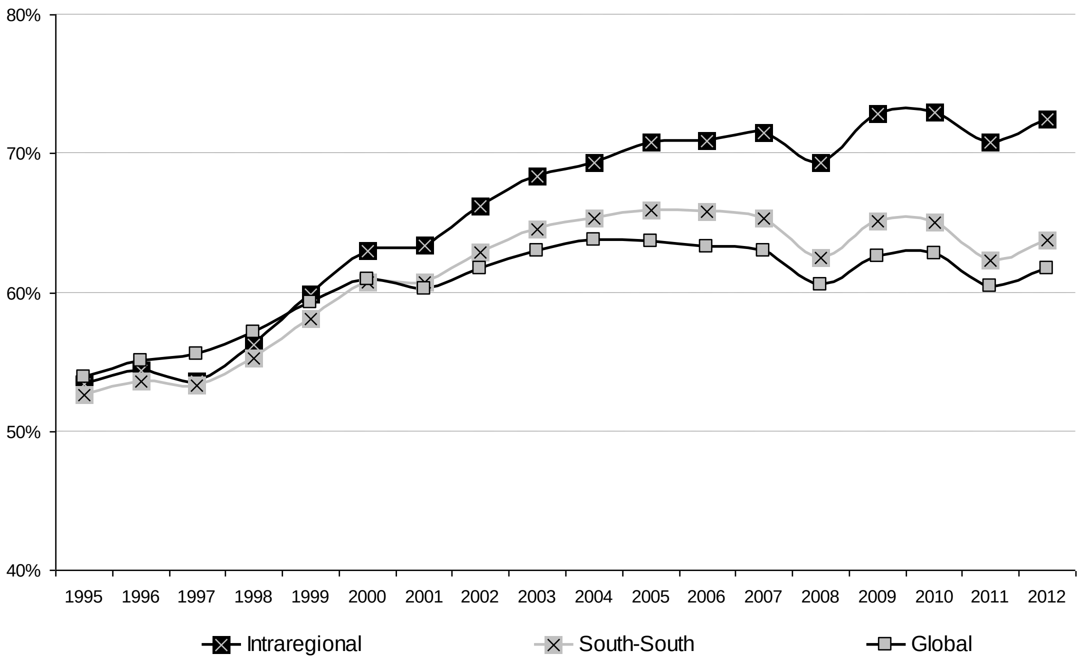


Source: *UNCTADStat.*

10. An important attribute of GVC trade is that imports of intermediate goods are needed for the exports of processed or consumption goods. Intermediate goods accounted for 55 per cent of world trade in 2012. Measured in value added terms, domestic value added represented 68 per cent of the gross value of exports for the top 25 exporting countries in 2010, implying that the remaining 32 per cent originated in other countries. Trade in GVCs has also allowed countries to specialize in specific tasks performed in a certain production segment (vertical specialization), rather than in entire industries, thereby opening opportunities for fast-track industrialization at a lower cost. While some countries benefited, however, this has often led to thin industrialization, where a country specializes in low-skill labour-intensive activities without the ability to upgrade. The degree of value added varies across value chain and certain segments; services – research and development, engineering, product design and marketing – often add more value than others (for example, assembly). Such mixed experiences underscore the importance of upgrading productive capacities towards greater sophistication, particularly in services.

11. Dynamic growth in South–South trade, particularly intraregional trade, is in large part a reflection of growing GVC trade. South–South trade represented 57 per cent of developing country exports in 2012, up from 40 per cent in 2000, and one fourth of world exports. South–South trade outpaced global exports in all developing regions between 2000 and 2012. In Asia, which accounts for 84 per cent of global South–South trade, half of its South–South exports are intraregional, and this trade tends to be more technologically intensive than other exports (figure 4). The high import content of Asian exports has favoured intraregional and intra-industry trade within the region as the region emerged as a major production platform to supply consumer markets, mainly in developed countries.

Figure 4
Shares of technology-intensive products in total exports for East and South-East Asia, by direction of exports, 1995–2012



Source: *UNCTADStat.*

12. The increased prevalence of the services economy and trade has been instrumental for sustained world trade growth, as the sector helps improve efficiency and competitiveness in other sectors, including manufacturing and agriculture (figure 5).

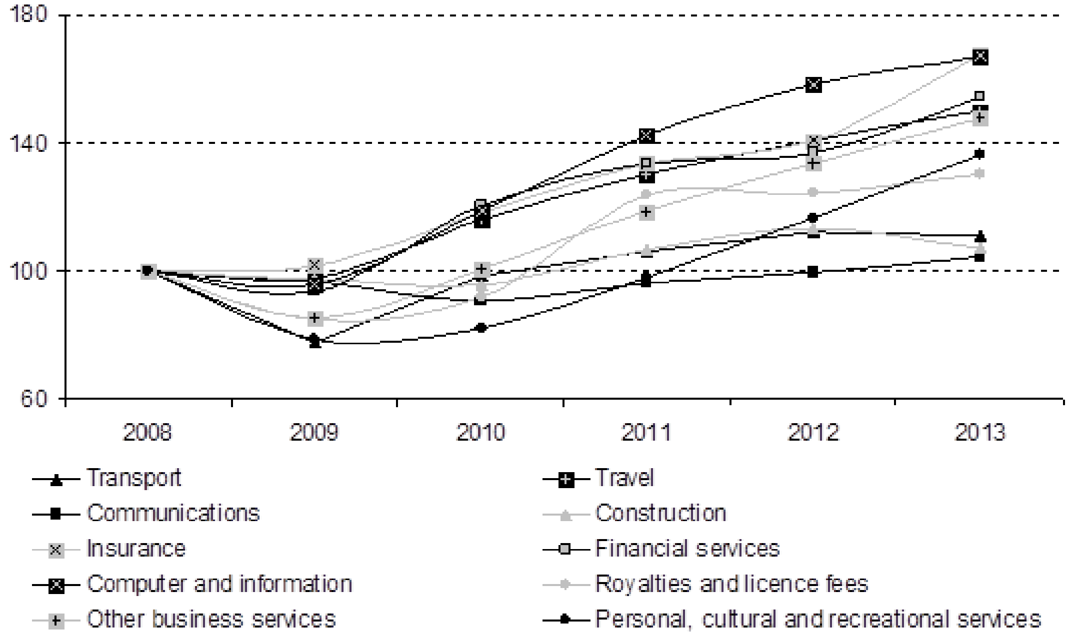
Figure 5
Specialized services associated with agricultural production in different stages of the value chain

	→	→	→
• Research and development • Marketing and market research • Equipment and machinery rental • Extension services	• Research and development • Extension services • Rental of equipment and machinery • Certification and testing, labelling	• Packaging • Marketing • Warehousing • Logistics • Transport • Research and development	• Marketing • Research and development • After-sale services

Source: N Oddone and R Padilla Pérez, 2014, El mejoramiento de las cadenas de valor a través de los servicios profesionales y de soporte, International Centre for Trade and Sustainable Development, *Puentes*, Vol. 15, No. 3.

13. In 2012, services represented 14 per cent of total exports of goods and services of developing countries, and 51 per cent of their GDP. From 2000 to 2013, their share in world services exports rose from 23–30 per cent, particularly in construction and computer and information services (figure 6).

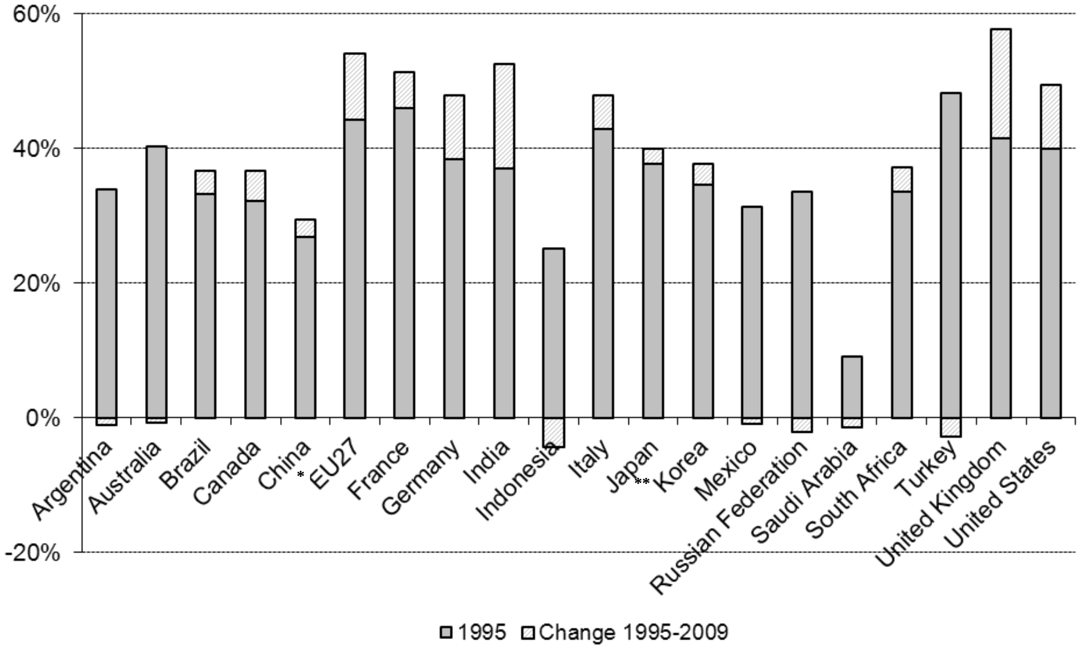
Figure 6
Evolution of developing country services exports by sector, 2008–2013
(2008 =100)



Source: *UNCTADStat.*

14. Services activities are pivotal for GVC trade, as many services – financial, information and communications technology (ICT), logistics and infrastructure – are incorporated in the gross value of exported goods as inputs and often capture a substantial proportion of value added (figure 7). Measured in trade and value added terms, services accounted for 45 per cent of the value of world merchandise exports in 2009. Exports in modern exportable business and ICT services have outpaced other services. These modern sectors have exhibited strong economies of scale and externalities absorbing highly skilled labour.

Figure 7
Services value added in gross exports
(Percentage)



Source: UNCTAD, based on the Organization for Economic Cooperation and Development (OECD)–WTO *Trade in Value Added* database, May 2013 release.

Note: * European Union; ** Republic of Korea.

15. Services trade increasingly occurs through foreign direct investment (FDI). UNCTAD estimates the value of all sales by affiliates at $35 trillion in 2013. If half of this is assumed to be in services, trade through foreign affiliates could be in the order of $17 trillion, three times greater than global cross-border services exports. Indeed, FDI increasingly targets the services sector. Over 70 per cent of world FDI outflows ($1.5 trillion in 2010–2012) were in services activities. The share of developing countries in global FDI outflows into services is still low at 10 per cent, but this represents a remarkable increase from 1990–1992 (0.4 per cent). Services trade also require cross-border movement of people supplying services (Mode 4). Mode 4 supply is particularly important in the provision of professional and business services. Continued growth in global remittance flows implies that this trade appears to be on a rising trend. In 2013, developing countries received $404 billion in remittances, with global remittances flows standing at $542 billion.[4] The services economy and trade deserve particular attention for promoting competitive capacity and diversification.

[4] World Bank, 2014, Migration and remittances: Recent developments and outlook, Migration and Development Brief No. 22.

Box 1. Remittances and financial inclusion

Financial inclusion is a major issue for developing countries, in particular in the context of sustainable development goals. Remittances have a significant potential to contribute to social development.[5] The effective use of financial services – through greater financial inclusion, universal access to basic services and financial education – can contribute to harnessing this potential. One of the targets of sustainable development goals under consideration is to reduce to 5 per cent or below the transaction costs of migrants' remittances by 2030, as high costs of remittances transfer have often restricted flows, and the underuse of financial services has constrained their productive use. It is estimated that a 5 per cent reduction in remittances costs might yield $15 billion in savings. The combined use of banking, postal and telecommunication networks, and enhanced interoperability, including through the use of mobile money, help lower costs with more potential to reach low-income recipients in remote locations. A multiplicity of channels is important in promoting competition, incentivising cost-effective channels of remittances, and formalizing informal channels and productive investment.

16. Many countries continue to face challenges in making economic growth inclusive and sustainable by distributing economic benefits equitably across different segments of the population. The global unemployment rate remains persistently high at around 6 per cent, with some 200 million people unemployed, 30 million more than before the global financial crisis. The average unemployment rate in developed economies in particular saw a sharp rise from 5.8 per cent in 2007 to 8.5 per cent in 2013, with increasing youth and long-term unemployment. Globally, income inequality has risen. Over the past three decades, the share of world labour income in world GDP fell from over 60 per cent in 1980 to some 54 per cent in 2011.[6] The high level of informal employment (40–50 per cent) remains a major concern in developing countries, and poverty ratios are still high in low-income countries, at above 45 per cent.[7]

17. Furthermore, recent trade performance leaves no room for complacency. Trade dynamism has yet to regain the rapid growth trajectories of the years preceding the global financial crisis. In 2013, international trade in goods and services expanded at a modest pace of 2.2 per cent (figure 8). This pace of growth is below the average growth rate between 2000 and 2013, and indeed among the weakest since 2002.[8] Such a weak trade performance reflects continued stagnant growth in import demand in the world economy. While world trade has tended to grow roughly twice as fast as GDP since the 1990s, in 2013 trade grew almost at a similar pace with GDP for the second time in a row. Whether such declining elasticity of GDP to trade reflects structural changes in the trade–development nexus or simply cyclical development, would warrant further attention.

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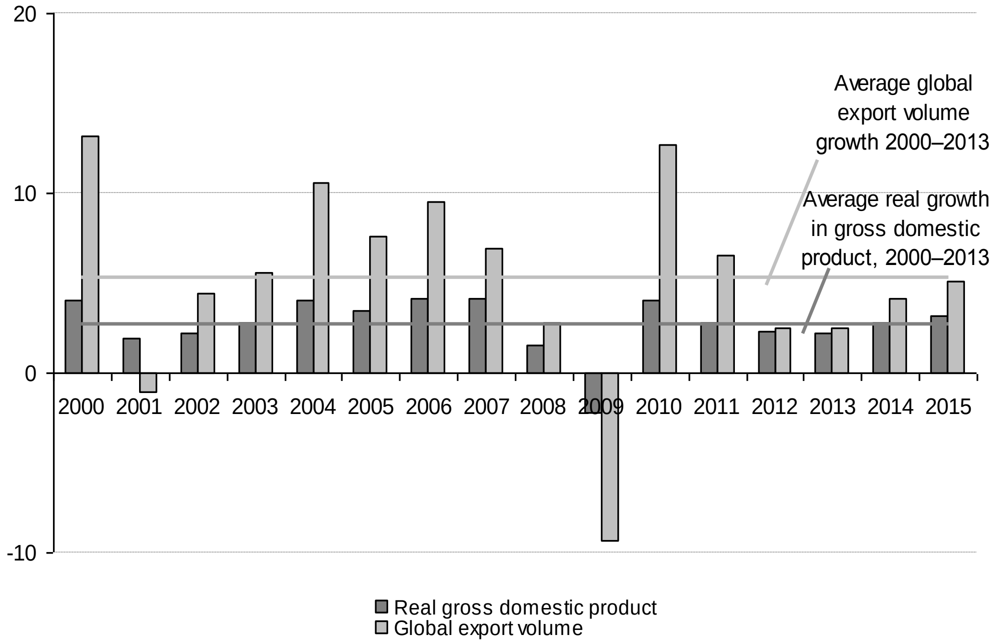
[5] UNCTAD, 2014, Impact of access to financial services, including by highlighting remittances on development: Economic empowerment of women and youth, TD/B/C.I/EM.6/2, 3 September.

[6] UNCTAD, 2013, *Trade and Development Report, 2013* (New York and Geneva, United Nations publication).

[7] International Labour Organization, 2014, *World of Work Report 2014: Developing with Jobs* (Geneva).

[8] Department of Economic and Social Affairs, 2014, *World Economic Situation and Prospects 2014* and *Update as of mid-2014* (New York, United Nations publication).

Figure 8
Annual changes in real gross domestic product and exports worldwide, 2000–2015



Source: Department of Economic and Social Affairs.

18. The trends depicted in figure 8 suggest that the transmission of efficiency gains from trade integration to broad-based development is not automatic and remains to be established. Conscious policy efforts will require coherent and integrated policy intervention supportive of structural transformation at the macroeconomic and individual sectoral levels to build broad-based productive capacities with possibility for diversification, technological upgrading and job creation. An enabling economic environment is important in underpinning such changing policy needs and priorities.

II. Multilateral trade negotiations

19. The Doha Round was launched in 2001 with a broad-based agenda under a single undertaking. In the sequence of negotiations, priority attention was given to implementation difficulties experienced by developing countries and special and differential treatment to redress the imbalances left unaddressed under the previous Uruguay Round, in addition to the two built-in agendas of agriculture and services carried over from that Round. The original intention was to conclude the Round by 2004. Recurrent setbacks and the growing prevalence of alternative negotiating forums, such as regional and plurilateral processes, were increasingly perceived as affecting the credibility of the multilateral trading system and significantly raised the stakes of the ninth WTO Ministerial Conference. At issue in the run-up to the Conference was finding tangible deliverables, focusing on a limited number of issues to enable a subsequent conclusion of the entire Doha Round.

20. The Conference resulted in the adoption of the Bali Ministerial Declaration and a set of decisions known as the Bali package, listed below:

(a) Agreement on Trade Facilitation;

(b) Five decisions on agriculture concerning:

(i) The definition of general services;

(ii) Public stockholding for food-security purposes;

(iii) Tariff-rate quota administration;

(iv) Export competition;

(v) Cotton;

(c) Four decisions on development-related issues:

(i) Preferential rules of origin;

(ii) Operationalization of LDC services waivers;

(iii) Duty-free and quota-free market access for LDCs;

(iv) A monitoring mechanism on special and differential treatment.

21. These texts were negotiated as a package, thus the balance of ambition and interests within and across the issues was a major stumbling block. The Bali outcome was important above all in regenerating confidence in the multilateral trading system and paving the way for a sober reflection on the ways to proceed with the multilateral negotiations. The recent failure of the WTO General Council to adopt a legal protocol necessary to implement the Agreement has generated significant uncertainties over the prospects of the implementing of the Bali package and the entire Doha Round.

Trade facilitation

22. The negotiations on trade facilitation were aimed at clarifying and improving disciplines on customs procedures relating to articles V (freedom of transit), VIII (fees and formalities) and X (publication and administration of trade regulations) of the General Agreement on Tariffs and Trade. At issue was improving customs procedures to facilitate trading activities and services, for example, transport, logistics and express delivery. The Agreement on Trade Facilitation is the first binding multilateral agreement negotiated since the Uruguay Round and addresses some 40 substantive customs procedures. Among these, legally binding disciplines were introduced on some core measures aimed at smoother customs clearance, such as advance ruling, pre-arrival processing, release of goods, post-clearance audit, authorized operators and expedited shipments. Best-endeavour language or special provisions were kept on those measures sensitive to some countries, including the single window, as well as the proposed prohibition of pre-shipment inspection and customs brokers. Many contentious issues, such as the ban on consularization, freedom of transit through pipelines and fixed infrastructure for oil and gas, and trucking transport, were dropped.

23. Trade facilitation is expected to generate gains similar to tariff reduction to the extent that onerous customs procedures raise trade costs. Estimates based on some assumptions suggest that bringing countries even halfway to best practices in trade facilitation would add 4.7 per cent to world GDP. Other research using OECD trade facilitation indicators finds that comprehensive implementation of all measures in the Agreement would reduce trade costs by 10 per cent in developed countries and by 13–15.5 per cent in developing countries. Reducing global trade costs by 1 per cent would increase worldwide income by over $40 billion, most of which would accrue in developing countries.

24. Developing countries not adopting international best practice and lacking institutional capacities continued to be concerned over implementation costs, as some measures such as risk management were found to be relatively costly to implement, while other measures that they heavily rely on were difficult to eliminate – customs brokers and consularization, for example. An UNCTAD study assessing the implementation of trade facilitation measures in 26 developing countries found that out of the areas covered by the Agreement, the lowest implementation levels were observed on measures pertaining to

publication and the availability of information, advance ruling, border agency cooperation, and prior publication and consultation.[9]

25. The Agreement contains an unprecedented form of special and differential treatment for developing countries, which formally establishes a linkage between their implementation capacity, the provision of capacity-building support, and the timing and level of commitments. Developing countries enjoy the right to self-designate and implement different obligations under different implementation schedules. Accordingly, the implementation of commitments is divided into three categories: immediate implementation, implementation subject to pre-determined transition periods and implementation subject to the provision of capacity-building support and capacity acquisition. The timely and effective provision of capacity-building support has been a major cause for concern for many developing countries, as the Agreement contains no binding requirement to provide such support to developing countries. Recent efforts have led to the creation of a WTO facility on trade facilitation.

26. Following the Conference, WTO Members had until 31 July 2014 to adopt a protocol to amend the Agreement Establishing the World Trade Organization (1994) to incorporate in its legal structure the Agreement on Trade Facilitation on a definitive basis, which would then be open for acceptance. In this connection, concern emerged among some developing countries over the implications of the early harvest of the Agreement on Trade Facilitation for the remaining negotiating agenda under a single undertaking. They held the view that early harvest would affect the notion of a single undertaking and deprive them of negotiating leverage to obtain concessions in other areas, including in finding a permanent solution for food security issues in agriculture. Such concerns had led some countries to consider implementing the Agreement only on a provisional basis or pending the conclusion of the entire Doha Round, or relinking the adoption of the protocol to accelerated negotiations on food security issues. Owing to a lack of consensus among WTO Members on this matter, the protocol was not adopted by the due date.

Agriculture

27. Against a backdrop of rising food prices, many food-insecure countries had introduced public stockholding programmes, such as the procurement of wheat and rice at subsidized administered (i.e. higher-than-market) prices from low-income and resource-poor farmers, as implemented in India. The original proposal on food security was aimed at exempting such price support from the scope of the aggregate measure of support, so that such support would be exempt from any quantitative limits. In the absence of agreement on a permanent solution, an interim solution was found at the Conference in the form of peace clause – exemption from legal challenge under dispute settlement procedures. The interim nature of the peace clause was the key stumbling block in the negotiations. It was agreed at Bali that WTO Members were to engage in negotiations to find a permanent solution for adoption by 2017. This work is still at a preliminary stage with some new proposals submitted by different groupings (for example, the United States, Group of 33) with the proponents reemphasizing their original proposals to introduce formal changes in relevant WTO provisions, the others, underlining the need for evaluating countries' experiences on food security issues and policies.

[9] UNCTAD, 2014, *The New Frontier of Competitiveness in Developing Countries: Implementing Trade Facilitation* (Geneva, United Nations publication).

Box 2. Food security under the Agreement on Agriculture

Public stockholding for food security purpose in developing countries is permitted under the WTO Agreement on Agriculture as part of the “green box” not subject to reduction commitments but to the condition that “the difference between the acquisition price and the external reference price is accounted for in the aggregate measure of support" (annex 2, footnote 5 of the Agreement). Since the external reference price was fixed as the average price for a product prevailing over 1986–1988 when the commodities price level was low, the proponents have found this calculation method inadequate, as it could inflate the amount of implied subsidies, particularly given the recent high food prices – hence high administered prices. Since most developing countries had made no commitment on the aggregate measure of support during the Uruguay Round, and the only trade-distorting subsidy entitlement available to them was de minimis support – defined as 10 per cent of domestic production for developing countries – this proviso would mean that the difference between the acquisition price and the external reference price should be within a de minimis limit. Therefore, they saw the risk that the amount of implied subsidies as calculated above could breach this limit. Possible options considered for a permanent solution include allowing larger aggregate measure of support entitlements for developing countries, exempting administered prices under food-stockholding programmes from price support altogether and redefining the calculation method, for example, by using a three-year rolling average instead of a fixed reference price.

Development issues

28. While fully delivering on LDC-specific issues constituted the central elements of development issues, the Bali outcomes in these areas are seen to be relatively modest. Duty-free and quota-free market access is an agreed international development target contained in Millennium Development Goal 8, as further reaffirmed in the Istanbul Programme of Action setting the target of doubling the share of LDC exports by 2020. The Bali outcome urged, but did not require, an expeditious improvement of duty-free and quota-free coverage by 2015 for those countries that had not provided such treatment for 97 per cent of tariff lines. The outcome on preferential rules of origin takes the form of non-binding guidelines for making rules of origin simpler and more transparent. Further, the importance of continued technical assistance addressing the development aspect of cotton was reaffirmed, and a mechanism on special and differential treatment to monitor the implementation of existing special and differential treatment provisions was established.

29. As regards the operationalization of LDC services waivers, the Bali decision provided a road map for the implementation of preferential market access for LDC services and services suppliers to be covered by the waiver. The waiver is aimed at allowing non-LDCs to deviate from obligations relating to most-favoured nations under the General Agreement on Trade in Services (GATS) to provide services preferences in relation to market access restrictions, but not national treatment, the inclusion of which is subject to approval. Although the waiver was adopted in 2011, WTO Members have not yet introduced services preferences for LDCs. The proposed road map rests largely on the formulation by LDCs of a collective request identifying the sectors and modes of their export interest. On that basis, the Council for Trade in Services would convene a high-level meeting within six months, so that developed and developing countries in a position to do so would pledge the provision of services preferences for LDCs. While this implied that the onus was on LDCs to identify existing markets access barriers affecting their exports and to request their elimination on a preferential basis to facilitate their exports, the LDC group submitted such a collective request in July 2014. This has placed the convening of the high-level meeting on agenda.

Box 3. Services request by the least developed countries

The LDC collective request addresses market access and national treatment restrictions, and all modes of supply in a broad range of sectors. The request identified some of the most binding horizontal and sectoral barriers affecting their exports, including the following sectors: travel and tourism, banking and insurance, transport and logistics, education and training, ICT, business process outsourcing and the creative industry. Those barriers affecting Mode 4 supply are particularly burdensome. These include obstacles to the recognition of educational institutions, diplomas and professional skills relating to LDCs; the imposition of transit taxes and other fees on tourists traveling to those countries and onerous application fees for visas, licences, and residence and work permits; burdensome or prohibitive documentation, applications and registration requirements; and related delays in response to visa applications.

The way forward

30. The inability of WTO Members to implement the Agreement on Trade Facilitation has created fresh uncertainties over the prospects for the post-Bali work on the Doha Round. At Bali, it had already been recognized that the package, although important, was not a substitute for the overall Doha Round. As a way forward, WTO Members were to prepare a clearly defined work programme on the remaining issues of the Doha Round by the end of 2014, prioritizing issues where legally binding outcomes were not achieved at the Conference, and all other Doha issues central to concluding the Round, while also fully exploring different negotiating approaches, presumably including plurilateral or sectoral approaches. Discussions to date have pointed to some key principles:

(a) The need for a balanced approach to agriculture, non-agricultural market access and services;

(b) The centrality of the development dimension;

(c) The need to focus on doables.

31. Views differ on whether to use the draft modality texts on agriculture and non-agricultural market access of 2008 as the basis for future work.

32. In the process of defining a balanced package for the post-Bali work, it appears important to reflect new trade and policy developments affecting various negotiating areas. For instance, the environment surrounding agricultural negotiations has evolved significantly since 2008. Higher commodity prices have sharpened food security and rural livelihood concerns and prompted many net-food importing countries to seek to secure domestic food supply through a variety of policy interventions, including production support, public stockholding, international purchases and border protection against import surges. High prices and national policy reforms have led to a substantial reduction in the use of trade-distorting support and export subsidies in major subsidizing countries, which in some cases has led to box shifting, raising concern over the potentially trade-distorting effect of green box support.

33. The relative incidence of non-tariff measures, such as sanitary and phytosanitary measures and technical standards, in affecting developing country exports has increased over the years. UNCTAD estimates suggest that the trade restrictiveness of non-tariff measures is about twice as great as that of tariffs. In agriculture, the average restrictiveness of non-tariff measures is about 20 per cent, more than twice as much as the average tariff of 7 per cent. The costs of compliance are disproportionately high for low-income countries, as many lack capacities to comply. On the other hand, while average industrial tariffs declined in the 2000s, tariff protection remains important in manufacturing sectors, as many

countries seek to support manufacturing capacities and job creation, particularly in labour-intensive consumer industries.

34. The composition of the post-Bali work programme is likely to be influenced by parallel plurilateral and regional processes. In July 2014, 14 countries representing 86 per cent of the global environmental goods trade launched plurilateral negotiations for an environmental goods agreement. The agreement is argued to promote green growth and sustainable development, while providing impetus for the conclusion of the Round. The negotiations are open to all WTO members, and the results would be extended on a most-favoured-nation basis. These would be built on a list of 54 environmental goods identified by the countries members of the Asia-Pacific Economic Cooperation in 2012 to reduce import tariffs to below 5 per cent by 2015. These include wind turbines, air-quality monitors and solar panels. The negotiations would first aim at eliminating tariffs on environmental goods and subsequently address non-tariff barriers affecting the products and environmental services.

35. Another important plurilateral initiative is under way. Negotiations for a trade in services agreement (TISA), involving 23 WTO members and representing 70 per cent of global services trade, aim to achieve comprehensive and ambitious services liberalization by capturing autonomous and preferential liberalization, and seeking to adopt a horizontal application of national treatment to all sectors and modes of supply. The agreement is expected to build upon the GATS approach to promote the multilateralization and participation of new members. Automatic multilateralization of the results based on the most favoured-nation principle is temporarily pushed back as long as there is no critical mass of countries joining TISA, implying that the future TISA would be a preferential agreement to be covered under GATS article V. The development implications of the agreement for participants, non-participants and the multilateral GATS negotiations would require careful assessment. Further, plurilateral requests under the Doha Round suggest that the overall export interests of TISA participants may lie primarily with non-TISA participants.

36. Plurilateral discussions also continue on expanding the product and country coverage of the existing WTO Information Technology Agreement. The revised Agreement on Government Procurement, concluded in 2012, became effective in April 2014. Whether plurilateral approaches are useful in bringing forward the Doha Round negotiations would warrant careful reflection, together with their systemic implications.

III. Evolving regional trade agreements

37. The most significant challenge to the multilateral trading system is the increased prevalence of regional trade agreements. As of June 2014, some 585 notifications were made to WTO, 379 of which were in force. Each developed country had preferential access to an average of 23 countries in 2012; about 60 per cent of their trade is covered by regional trade agreements.[10] Twenty-first century regional trade agreements differ from previous regional trade agreements in their scope, composition and depth. 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 the regulatory system 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.

[10] UNCTAD, 2013, *Key Statistics and Trends in Trade Policy* (Geneva, United Nations publication).

38. The emergence of “mega-regional trade agreements” has brought a quantum leap in in the recent trend towards regional trade agreements, over which many developing countries have no control. These include the Trans-Pacific Partnership Agreement, the Transatlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership, which would all create giant economic zones covering a substantial proportion of world trade in goods and services (table 2).

Table 2
Comparison of mega-regional trade agreements

Regional trade agreements	*Number of members*	*Share in world exports*	*Intra-group exports as a percentage of global exports*	*Intra-group imports as a percentage of global imports*	*Combined gross domestic product as a percentage of world gross domestic product*	*Number of bilateral agreements among the parties*
Pacific Alliance	4	2.7	3.9	4.5	2.8	6
Regional Comprehensive Economic Partnership	16	27.3	42.0	47.4	29.5	23
Trade in services agreement	23	70.3	na	na	67.3	
Trans-Pacific Partnership Agreement	12	26.0	46.3	38.3	38.9	25
Tripartite Free Trade Agreement	26	1.7	11.9	12.9	1.6	4
Transatlantic Trade and Investment Partnership	2	43.9	17.3	14.3	45.4	0

Source: *UNCTADStat* and WTO.

Abbreviation: na, not available

39. Mega-regional trade agreements differ from previous regional trade agreements in size, depth and systemic consequences and generally draw on a template developed by major players. By inducing deeper liberalization and high-standard, cutting-edge regulatory harmonization covering an increasing share of world trade, they could further affect incentives for multilateralism and erode the primacy of the multilateral trading system built upon the non-discrimination principle. This would have significant implications for countries’ incentives to negotiate most-favoured-nation liberalization at the global level, while some issues of systemic implications, most notably domestic agricultural support, would continue to be most efficiently negotiated at the multilateral level. By developing cutting-edge disciplines, it is often argued that mega-regional trade agreements would create a new template for future trade and investment cooperation.

40. Emerging mega-regional trade agreements would shift their focus towards regulatory harmonization to reduce divergence in national standards affecting trade. Regulatory harmonization and mutual recognition could remove barriers arising from diverse technical standards, and licence and qualification requirements for services and services suppliers. Such regulatory cooperation would be more feasible under regional trade agreements. Some new proposed disciplines under mega-regional trade agreements include regulatory coherence, whereby each member is required to have an institutional mechanism at the level of the central government to facilitate central coordination and review of new covered regulatory measures. This would include conducting impact assessments of a

regulatory measure in the light of its objective and efficiency. This could constrain the ability of regulatory authorities. For a third country adopting lower standards, this could represent an upward harmonization of regional standards and might have an adverse effect on exporting in regional markets in developing countries.

41. Recent mega-regional trade agreement negotiations (for example, theTrans-Pacific Partnership Agreement) have also sought to address the potentially anticompetitive effect of State-owned enterprises that tend to receive some preferential treatment, including preferential finance.[11] Some regional disciplines have sought to establish competitive neutrality between State-owned enterprises and private companies by eliminating such structural advantages. Developing countries have stressed the importance of State-owned enterprises in delivering public policy goals, including in energy, telecommunications, postal and financial services. Concern over the possible limitation of regulatory autonomy has also arisen in relation to the investor–State dispute mechanism increasingly incorporated in regional trade agreements. The mechanism is seen to confer greater rights to foreign investors and leads to “regulatory chill”, as regulators might refrain from taking certain regulatory actions, such as environmental regulations, for fear of legal challenge under the mechanism.

42. From a development perspective, mega-regional trade agreements, and the twenty-first century regional trade agreements more generally, might represent a risk for weaker and more vulnerable developing countries, as they can be simply left out. When they take part, locking in existing preferential market access conditions under unilateral preferential arrangements is often a key motivation. Larger and more competitive developing countries face challenges in effectively securing improved market access, as regional trade agreements often preserve high tariffs on import-sensitive products that have attracted high protection on a most-favoured-nation basis, including dairy, sugar and apparels. In contrast, ensuring an adequate content, pace and sequence of their own liberalization is a major concern of developing countries, as the effect of reciprocal tariff elimination would be greater for them, given economic asymmetries. Furthermore, with their stronger behind-the-border disciplines that are “WTO+” or “WTO-X”, regional trade agreements may limit countries’ policy space to implement proactive trade and industrial policies for development purposes. It is therefore important that market-opening objectives be critically balanced with the flexibility to design and implement measures to build essential productive capacities and move up the value ladder.

43. The level of services commitments is illustrative of the significance of regional trade agreements in inducing effective liberalization, particularly in developing countries. Trade in services has become a major feature of such agreements, particularly North–South regional trade agreements. Research based on the WTO dataset on services commitments suggests that for developed countries, regional trade agreement commitments represent only limited improvements, compared with their GATS commitments, although these countries generally register a higher level of GATS commitments than developing countries. In contrast, for developing countries, the level of regional trade agreement commitments is markedly higher than GATS commitments in all sectors. This can be attributed in part to the relatively low initial GATS commitments of developing countries. This can also be explained by the asymmetric bargaining structure of North–South regional trade agreements. For instance, a particularly high level of openness was achieved in all sectors for those developing countries that had concluded regional trade agreements with the United States, including in those sectors considered sensitive, such as postal, transport, professional and financial services.

44. While different liberalization approaches – negative- versus positive-list approach – can have an impact the outcomes, recent regional trade agreements have introduced

[11] See, for instance, http://www.ustr.gov/tpp (accessed 26 September 2014).

innovations for triggering deeper liberalization. For instance, commitments may be based on applied levels of market access conditions, including through standstill requirements, that is to say, not allowing countries to decrease the conformity of the measure with respective obligations, and the ratchet clause, which provides for an automatic incorporation of future liberalization. National treatment may be applied on a horizontal basis to all sectors and modes. Unlike the GATS most-favoured-nation principle, the (third-party) most-favoured-nation clause aims to ensure that a party to a regional trade agreement will obtain the best possible preferential treatment available in other regional trade agreement partners. There is concern that the clause could dissuade a party from engaging in an ambitious market opening with a third party, including under South–South regional trade agreements.

Box 4. Services provisions under regional trade agreements

Deep integration under regional trade agreements is also pursued through sector-specific regulatory disciplines such as on financial and telecommunication services. With regard to financial services, concerns have been raised that “standstill obligations” may effectively lock in existing levels of regulations and limit future re-regulation, as they pertain to commitments. The obligation to allow new financial services by any foreign suppliers through Mode 3 may run counter to the increased regulatory attention given to financial product safety. In contrast, the liberalization of Mode 4 remains limited, even in the context of regional trade agreements. Mode 4 commitments under North–South regional trade agreements are closely associated with Mode 3 in that enhanced commitments typically apply to key personnel (business visitors, intra-corporate transferees and managers), graduate trainees and business services sellers associated with commercial presence, not to contractual services suppliers and independent professionals delinked from Mode 3. A key stumbling block in Mode 4 liberalization has been its linkage with immigration and labour market policies. Regulatory cooperation, including to facilitate temporary labour movement, has been pursued under some regional trade agreements, such as the mutual recognition of services qualifications and extended annual quota for temporary entry visa for business persons.

45. The consolidation and expansion of South–South regional integration initiatives are being increasingly pursued to create a platform to support the integration of developing countries into regional value chains and foster economies of scale, diversification and technology upgrading. In Africa, efforts are directed at boosting intra-African trade by fast-tracking the establishment of a continental pan-African free trade area (Continental Free Trade Area) by 2017, building upon the existing tripartite free trade area initiative between the East African Community, the Common Market for Eastern and Southern Africa and the Southern African Development Community. In Asia, the Association of Southeast Asian Nations (ASEAN) is headed towards the formation of an ASEAN free trade area in 2015 to support the establishment of the ASEAN Economic Community in 2020. In Latin America, new initiatives such as the Pacific Alliance have emerged alongside traditional arrangements, the Andean Community and Mercosur. Many South–South regional trade agreements have also acted as platforms for the development of productive capacity, regional transport, infrastructure networks and connectivity. Such cooperative initiatives, along with liberalization, have proved to be essential components of developmental regionalism.

46. The quantitative expansion and proliferation and qualitative deepening of regional trade agreements point to the need for coherence between the multilateral trading system and regional trade agreements. It is important to secure convergence between the multilateral and regional processes to ensure an optimal mix of both arrangements, as well as coherence among regional processes, so that they can create an enabling environment for sustainable development. There is also a need for strong multilateral oversight and effective disciplines, including by setting minimum standards for regional regulatory provisions.

Developmental coherence is necessary so that special and differential treatment and policy space available under the multilateral trading system will not be overridden by regional trade agreements. These could also promote broader cooperation.

IV. The way forward: Towards an enabling multilateral trading system

47. While much attention is given to the prolonged Doha Round negotiations, the non-negotiating functions of WTO are fundamental to the transparency, predictability and stability of international trade and remain an integral part of the global public good.

48. Existing WTO rules and disciplines serve as the guardian against protectionism and discrimination in international trade. In the aftermath of the global financial crisis, the surge in protectionism was much feared but was relatively well contained, essentially thanks to countries' adherence to WTO norms and self-restraints. It is important to uphold the legal foundation of the multilateral trading system, as trade-restrictive measures risk disrupting trade. A recent WTO report finds that Group of 20 members put in place 112 new trade-restrictive measures between mid-November 2013 and mid-May 2014, over half of which are trade remedy actions.[12] While trade affected by these measures remains marginal, caution is advisable, as 934 of a total of 1185 trade-restrictive measures taken since the global financial crisis remain in place, and these measures are estimated to cover 4.1 per cent of world imports.

49. It is also generally believed that the WTO dispute-settlement mechanism continues to function well as countries continue to use the system. The number of panels established in 2013 registered a 10-year high of 12. This indicates unaffected legitimacy enjoyed by the mechanism but also rising tensions in trade relations. Recent disputes have increasingly addressed measures reflecting global concerns at the interface of trade and neighbouring public policy areas, such as packaging regulations on tobacco, measures promoting renewable energy, including through domestic content requirement, the sustainable exploitation of natural resources and animal welfare. Traditional disputes continue to emerge, including on anti-dumping and subsidies.

50. The centrality of the multilateral trading system is also evidenced by the fact that it continues to be headed towards universality, attracting new members. Thirty-two countries have acceded since 1995, bringing the number of WTO membership to 160, Yemen being the most recent Member. The accession of Seychelles is expected by the end of 2014. These countries have embarked on substantial policy reforms to make their trade regime WTO compatible. Negotiating balanced terms of accession consistent with their development needs has been a major challenge.

51. While the public good nature of the multilateral trading system is not questioned, provision of such public goods increasingly faces challenges in reinforcing its relevance and credibility by delivering negotiated outcomes in the Doha Round and strengthening its architecture to better respond to changing economic realities and global challenges. Various twenty-first century trade issues have also been proposed by different commentators as the future agenda for the multilateral trading system. For instance, the increased prevalence of trade within global value chains is said to have called for a shifting focus of trade liberalization approaches. The shift would favour deeper liberalization, addressing the trade–investment–services–know-how nexus in a cluster, adopting a whole-of-supply-chain perspective and eliminating tariff and non-tariff regulatory barriers. This argument should

[12] WTO, Report on G-20 trade measures, 16 June 2014, available at http://www.wto.org/english/news_e/news14_e/g20_wto_report_jun14_e.pdf (accessed 26 September 2014).

be weighed against the fact that tariff protection remains prevalent even in countries integrated in global value chains and that tariff and industrial policy intervention continue to be used in developing countries to build productive capacity, trigger structural transformation and promote upgrading within global value chains.[13]

52. Another idea is to update the WTO rule book to better reflect the increased interaction of trade with broader public policies, as such interaction has emerged as new sources of trade disputes. The prioritization chosen by WTO Members of the trade facilitation and food security agenda in the Bali package already reflects the changing policy focus to promote trade in global value chains and address interaction between trade and food security. Other suggested agendas include the relationship between trade and climate change and green growth, for example, border tax adjustment, local content subsidies, trade-related investment measures and government procurement for renewable energy. Like food prices, high energy prices have heightened the concern over access to energy and raw materials (renewable and fossil fuel subsidies, export restrictions). Exchange rate misalignment has been regarded as the main determinant of international competitiveness.

53. The manner in which the Doha Round has evolved over the past 13 years indicates the importance of strengthening the negotiating function of WTO in the future.[14] In retrospect, a large negotiating agenda going beyond the two built-in agendas of agriculture and services may be viewed as having contributing to slow progress throughout the Round negotiations. The appropriate level of contribution to be made by developed and developing countries, for example, in terms of liberalization commitments, became a persistent stumbling block, leading some commentators to question the validity of the current design of special and differential treatment. It was found that institutional factors, such as consensus-based decision-making, large and diverse membership, the single-undertaking principle, a lack of leadership and low levels of business interest, are not amenable to efficient negotiations. Careful reflection would be warranted on how best the negotiating function could be strengthened in the presence of parallel plurilateral and regional negotiating processes.

V. Conclusion

54. Fifty years of work on trade and development by UNCTAD confirm the key role of trade as an engine of development. The expected broad-based contribution of trade to various post-2015 sustainable development goals would require policies supporting a positive interface between trade and related public policies, including policies relating to employment, finance, technology, health, energy, education, the environment and migration. Evolving national policy needs and priorities would call for an enabling environment ensuring a fair and open trading environment and reserving space for countries to implement such policies, so that trade can flourish and development dividends are equitably shared among countries and within an economy. It is necessary to reinvigorate the multilateral trading system as a global public good with a renewed impetus, credibility and relevance in the light of twenty-first century development challenges towards inclusive and sustainable development. Coherence should also be reinforced between multilateral and regional agreements, so that these arrangements can be turned into an effective enabling environment for development.

[13] UNCTAD, 2014, *Trade and Development Report, 2014* (New York and Geneva, United Nations publication).

[14] For instance, see WTO, 2013, *The Future of Trade: The Challenges of Convergence*, Report of the Panel on Defining the Future of Trade, Geneva.