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**Reflections on the international trading system
and inclusive development**

UNCTAD XIII special event

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Summary prepared by the UNCTAD secretariat

Reflections on the international trading system and inclusive development

1. The panel at this event was comprised of Mr. Supachai Panitchpakdi, Secretary-General of UNCTAD; Mr. Pascal Lamy, Director-General, World Trade Organization (WTO); Mr. Rob Davies, Minister of Trade and Industry, South Africa; Mr. Jayant Dasgupta, Ambassador of India to WTO; Mr. Zhang Xiangchen, Director-General, Policy Research Department, Ministry of Commerce, China; Mr. Roberto Carvalho de Azevêdo, Ambassador of Brazil to WTO; Mr. Julio Lacarte Muró, Former Deputy Executive Secretary, General Agreement on Tariffs and Trade; Mr. Talal Abu-Ghazaleh, Chair, Talal Abu-Ghazaleh Organization; Mr. José Manuel Salazar-Xirinachs, Executive Director, Employment Sector, International Labour Organization; Mr. Pradeep Singh Mehta, Secretary-General, Consumer Unity & Trust Society (CUTS) International; and Mr. Bernard Hoekman, Director, International Trade Department, World Bank. The panel discussion was moderated by Mr. Ransford Smith, Deputy Secretary-General, Commonwealth Secretariat.

2. Amid the economic uncertainty in the post-crisis period and the transformation under way in the actors and the architecture of international trade, participants pointed out the role of trade as a major driver of growth and development, particularly for developing countries. However, it was recognized that trade benefits were not automatic. Trade was a necessary but not sufficient condition for triggering and sustaining development. What, how, and in what sequence countries liberalized mattered, as did the complementary policies and national development strategies that they chose to implement. It was noted that the trade and development paradigm had not changed, but that some countries were more successful than others at using industrial policies and at implementing adjustment mechanisms and safety nets to meet the challenges arising from trade liberalization. While trade-led growth remained a valid strategy, the need was recognized to adjust the strategy in the light of the post-crisis realities, with economic opportunities increasingly shifting to the South. Where tension existed between the trade liberalization agenda and national strategies, national development objectives should take precedence and the international trading system should cater for such developmental needs. The importance of knowledge and technological development as a source of innovation was also stressed.

3. It was noted that trade liberalization should serve as a development tool, and should not be seen as an end in itself. Real industrial capacities, not lowered tariffs, were the decisive element. The need was recognized for developing countries to adopt focused policies to support industrial development and participate in global value chains. Participants emphasized that market opening should be undertaken strategically and guided by the level of industrialization and development. The adjustments necessitated by trade liberalization could be unsustainable for developing countries with weak domestic capacities. Given the prevalence of unemployment and of the informal economy, there was a need to address the effect of trade on the quantity and quality of employment, as well as on income distribution, in view of the fact that poverty remained the largest development challenge. Sound regulatory frameworks and institutions, complementary policies (e.g. competition policy) and social safety nets were key to sustainability and inclusiveness. The international trading system should pay more attention to the objective of promoting full and productive employment and productive capacities, including by aligning liberalization approaches with these broader objectives and by allowing developing countries to adopt gradual approaches to facilitate smoother labour-market adjustment.

4. Participants recognized that the international trading system had become considerably more complex, polarized and regionalized. However, the multilateral trade architecture continued to play a central role, acting as a major stabilizer in the global economy. The multilateral trading system was considered as a global public good for all,

and should be supported and strengthened. While trade structures and actors continued to evolve, the issues dealt with at WTO remained unchanged. Many participants emphasized that the current architecture of the international trading system remained largely valid and sound; at the same time, a view was expressed that there was a need for institutional reform. Different views were expressed regarding the merit of a single undertaking approach under the Doha Round in creating multilateral consensus on a broad range of issues.

5. With regard to the way forward in the Round, various panellists said that developing countries needed a balanced and equitable outcome, prioritizing development concerns in terms of improved market access and elimination of trade distortion. While recent trade discourse had emphasized a new paradigm focused on global supply chains and twenty-first century trade issues, what was often absent from that new trade narrative was development. It was underlined that global supply chains were not a panacea, and that the so-called “old” trade issues – agricultural reform, trade in goods – should not be forgotten. One view expressed was that tariffs had been reduced in many countries, yet their incidence remained unequal, adversely affecting some developing countries. The impasse of the Doha Round was about an equitable balance, especially between agriculture and industrial products, and political will. What had changed over the last decade was the number of significant actors in the international trading system, and their relative economic capabilities, with each actor facing domestic political constraints. In many countries, domestic constituencies had changed their attitude to trade liberalization. The tension arose from different perceptions over the relative importance of emerging developing countries, and their role and contribution in the negotiations.

6. Particular attention should be given to the services sector, including regulatory and institutional frameworks. Given its contribution to gross domestic product and to employment, services were a major source of future growth, competitiveness and jobs. Movement of natural persons, IT-enabled outsourcing, and knowledge and digital economy represented major opportunities for developing countries.

7. Participants noted new trade issues that had emerged, and development challenges that persisted. Various twenty-first century challenges were identified, such as food and energy security, climate change, and exchange rates. Global supply chains had transformed the way in which international trade was conducted, creating new opportunities and challenges. Participants stressed that a major challenge for developing countries was to formulate national strategies and build industrial capacities to better integrate their economies into high value-added activities in global supply chains to create jobs. At present, many developing countries were producing raw materials and consuming finished goods. There was a need to differentiate the positions of multinational companies engaged in the high end of value chains from the positions of those companies (particularly small and medium-sized enterprises) that were engaged in the lower end of value chains. This required strategic policies that would support industrial manufacturing and employment. Standards and non-tariff barriers had increasingly become salient, and could lead to unequal benefits from trade. Trade facilitation measures should be supported by the development of infrastructure and of ICT. Without adequate infrastructure, trade facilitation alone would not deliver results. Developing countries needed to be supported in this regard.

8. As the multilateral process was proceeding slowly, countries had increasingly resorted to bilateral and regional trade agreements and liberalization. Recent new-generation regional trade agreements (RTAs) had become deeper and more comprehensive, affecting developing countries’ economies more significantly. The expansion of regional supply chains had made freer movement of goods and services on a regional basis particularly important. On the other hand, the proliferation of RTAs was considered as weakening the centrality of the multilateral trading system. While RTAs had covered a substantial proportion of world trade, the point was made that the amount of trade conducted on a preferential basis was not as great as some research had indicated. A major

risk was the possible fragmentation of regulations across different trade regimes, which was an argument for greater multilateral convergence. How to achieve coherence across different trading regimes, and to ensure that the poorest and most vulnerable countries were not left behind, was a challenge.

9. South–South trade integration had provided new trade opportunities for South–South trade. The efforts towards deepening and consolidating existing integration initiatives, such as a pan-African continental free trade area, had served to counteract difficulties arising from the small size of individual countries. Reference was made to the Global System of Trade Preferences Among Developing Countries (GSTP) and the recent conclusion of the São Paulo Round, and the potential of these to further expand South–South trade. The participation of a greater number of countries in the São Paulo Round results would significantly enhance the potential of GSTP to boost South–South trade.

10. Participants recognized the traditional and longstanding role of UNCTAD as a forum and platform for building consensus and for examining and discussing new and emerging issues in international trade and the international trading system, so that these issues might be taken up for negotiation in other forums, such as WTO. It was noted that this consensus-building function should be reinvigorated to better contribute to forging multilateral consensus on issues of particular importance to inclusive and sustainable development, in order to achieve greater coherence in international economic policymaking.
