UN SYSTEM TASK TEAM ON THE POST-2015 UN DEVELOPMENT AGENDA

Trade and development and the global partnership beyond 2015

Thematic Think Piece

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Following on the outcome of the 2010 High-level Plenary Meeting of the General Assembly on the Millennium Development Goals, the United Nations Secretary-General established the UN System Task Team in September 2011 to support UN system-wide preparations for the post-2015 UN development agenda, in consultation with all stakeholders. The Task Team is led by the Department of Economic and Social Affairs and the United Nations Development Programme and brings together senior experts from over 60 UN entities and international organizations to provide system-wide support to the post-2015 consultation process, including analytical input, expertise and outreach.

Trade and development and the global partnership beyond 2015

Efforts to meet the MDGs have taken place against a backdrop of a generally favourable trading *environment* but an increasingly fragmented and incoherent international trading *system*. In the former, strong market demand in both traditional and "emerging" markets, rising commodity prices, and new trading relations, notably the spread of international production networks, have helped bolster trade flows. At the same time, negotiations at multilateral level have reached an impasse with little sign of completion as a single undertaking. This has encouraged a proliferation of bilateral and regional agreements, while the incoherence between the trade and financial system continues. The damage that such systemic incoherence can inflict on economies was witnessed in the wake of the 2008 financial crisis which seriously disrupted the trading environment. That environment remains challenging, particularly for poorer and more vulnerable countries. Accordingly, the post-2015 development framework must think much harder about ways in which the trading system can be strengthened in support of inclusive and sustainable outcomes. Doing so will require clear guidance on how international trade fits into that framework, suggest ways to address incoherence between the international financial and trading system and also the systemic biases and asymmetries which continue to impede the full sharing of gains from increased trade flows. Given the deficit in trust at the multilateral level bolder thinking is also needed on how to make the system more participatory.

Trade and Poverty: What Do We Know?

Trade remains the most reliable and productive way of integrating into the global economy and of supporting the efforts of poorer countries to become less aid dependent. From the point of view of developing countries, access to world markets can open a “vent for surplus”, permitting the employment of underutilized resources, particularly land and labour, easing their balance-of-payments constraint, and introducing competitive pressures to improve efficiency.

Although these gains are tangible there is a persistent danger of countries becoming locked into an established pattern of production and trade that may not generate the more dynamic productivity gains that drive catch-up growth over the longer term. These gains depend on a variety of macroeconomic, structural and technological factors that encourage a fast pace of investment, unlock scale and learning economies, promote innovation and support a more diversified economic structure.

At the end of the Second World War, a flexible rules-based trading system created under the General Agreement on Tariffs and Trade (GATT), accompanied by controls on finance and capital flows, helped establish a stable trading system that supported growth in many countries. As the international division of labour increased in complexity, trade expanded faster than global output. However, the gains have been spread unevenly both geographically and over time with a bias in favour of richer countries. Conventional thought has attributed this to policy distortions in developing countries that were thought to be incompatible with an interdependent world. Since the international debt crisis of the early 1980s, most developing countries have accelerated their participation in the international division of labour through increased trade liberalization, adherence to WTO and WTO-plus trade agreements, incentives to attract FDI, tighter intellectual property laws and so on. Suggestions for a more measured pace of integration have often been resisted, particularly at the international level, and portrayed as a sign of reluctance to implement the reforms required to compete globally.

However, the link from trade liberalization through global competition to falling poverty levels has been a tenuous one for many countries. It depends, of course, on many factors, including the strength of social safety nets and the effective working of labour markets, but particularly critical to building virtuous growth and development circles is the creation of a strong link between investment and exports. A healthy production structure gives rise to strong domestic firms that expand through reinvesting their profits and acquire the capacity to expand their operations even further through exports which in turn boost profit opportunities and further drive their investments.

A broad body of empirical research has demonstrated that the kind of investment–export nexus compatible with sustainable growth and development does not emerge spontaneously from opening up, even in the case of commodity exporters and labour-intensive manufacturers where many developing countries have their greatest resource and cost advantages. This is, in part, because when it comes to building more inclusive and sustainable development paths, it is not just the volume of trade that matters but what goods and services are traded. Most countries have diversified their production and trading profiles as they successfully moved up the income ladder, thereby raising productivity (and wages), improving employment conditions and bolstering economic resilience to external shocks. However, the policy challenges also increase considerably as the production process becomes more scale- and knowledge-intensive, since the technological and organizational capabilities required to compete internationally are more costly to acquire and more difficult to master.

The critical lesson to take in to the post-2015 agenda is that trade policy cannot be a stand-alone component of the development agenda. Depending on circumstances, different combinations of fiscal, monetary and exchange-rate policies, along with industrial and technology policies, will be needed to ensure that trade is harnessed to inclusive and sustainable development. Developmental states, able and willing to experiment with policy choices, but also to cede a degree of national sovereignty in support of a stable and open trading system, will be key to establishing a balanced development agenda post 2015.

The Shifting Contours of the Trading System

Over the past few decades, against a policy backdrop of ongoing, and at times rapid, liberalization, the trading system has undergone important changes. Trade has generally grown faster than global output and supported a number of successful export-led growth performances.

As a share of global output, by 2008 trade was almost double the level of the late 1970s, in large part driven by the closer integration of developing countries who now account for around 50 per cent of the world merchandise trade; this figure continues to rise, notably through new South-South trade linkages. The composition of developing country trade has also shifted towards manufactured goods, including with a high technology component. Since the start of the millennium, many commodity exporters have also enjoyed improved trading conditions, including favourable movements in their terms of trade. However, this has been accompanied by heightened price volatility, in large part because of the way commodities have become an asset class for financial investors (financialization), distorting the growth process in many developing countries. In particular, faster growth in commodity exporters has not, to date, been accompanied by diversification away from traditional exports, and the beneficial impact on poverty reduction has yet to be registered in many countries, particularly LDCs.

While international trade has expanded with unprecedented speed, the global trading system has been through a significant transformation with an increasing number (over 300) of bilateral, regional or inter-regional trade agreements emerging against a backdrop of stalled multilateral negotiations. Free trade agreements (FTAs) have become more comprehensive as many of them include an investment treaty as well as commitments in the "WTO-Plus" and "WTO-X" areas.[1] Changes in trade preference systems including the GSP for LDCs and, in pursuance of MDG 8, target 8B have added to the complexity of the mix.

Tariffs have fallen as a result of multilateral, regional and unilateral initiatives, though tariff peaks and escalation facing developing countries' exports still remain an impediment in many instances. However, in recent years, non-tariff measures (NTMs) such as sanitary and phytosanitary measures and technical standards have become more prominent obstacles to trade flows. When NTMs are considered, for example, the average import barrier facing agricultural exports to developed economies from low-income countries rises from 5 percent to 27 percent. While most NTMs cannot be simply "eliminated" as they often emerge from real public concerns in the implementing country, international

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

cooperation in the areas of harmonization and mutual recognition, along with targeted financial and technical support for poorer countries, and the promotion of responsible and sustainable investment practices, can significantly reduce the trade-restrictive impact NTMs in post-2015.

New issues and actors have also complicated the workings of the international trading system. That system is confronting growing threats and insecurity linked to the interrelated crises in food, energy and water, and the cumulative challenge associated with rising global temperatures. In all these cases, any balanced solution will require massive investments (from the public and private sectors) in new infrastructure, new technologies and new institutions. It is essential that the rules of the trading system enhance the diffusion of goods, services and technologies to help address these threats, as well as supporting the spread of sustainable and socially equitable production methods among countries.

The expansion of international production networks has given a major boost to trade, particularly in intermediate goods, and some of the most successful developing economies have linked their development efforts to these networks. These economies have, as a result, become more significant players in the trading system. However, the growth of trade within these networks has not always been matched by comparable increases in value added (or wages). Moreover, the dominant position of large corporations, principally from advanced countries, in these networks poses new policy challenges, particularly for smaller economies engaged in low value assembly activities at the end of the value chains.

Gendering Trade

The nexus between trade and gender empowerment is complex. In many cases, women's asymmetric access to resources and opportunities tend to be related more to the nature of the labour market and availability of public services rather than international trade per se. International trade can either reinforce existing inequalities or create new opportunities for women to improve their socioeconomic standing.

Millions of women in developing countries work in sectors, such as agriculture, textiles and clothing, which are not only important for export performance but are also vulnerable to the impact of premature trade liberalization. Women also play a significant role in informal cross-border trade which can be a particularly precarious source of livelihoods. A good deal of empirical evidence shows that trade liberalization can generate a greater adjustment burden for women. Government initiatives promoting gender equality and women's empowerment in the trade field are thus critical in the post-2015 development framework.

Beyond 2015: Trade, Sustained Growth and Inclusive Development

A basic lesson to be drawn from successful development experiences is that sustained poverty reduction depends on a fast pace of growth and measured pace of economic openness. However, the connection between growth, trade and poverty reduction is not an automatic one, with productive investment a crucial intervening variable and inequalities (both vertical and horizontal) an instrumental factor in shaping outcomes.

The future global development agenda should look to build a more equitable global trading system beyond the ambitions of the Doha Round while also building on a more development-oriented Aid for Trade platform to provide additional resources to help strengthen productive sectors and diversify export profiles, particularly in LDCs, including through support for infrastructure development.

At the national level, trade policy should be designed to enhance the link between trade and economic performance by absorbing underutilized resources, promoting diversification into higher value added activities and opening up new investment opportunities, which can in turn support catch-up growth and help reduce poverty. Doing so will require reforms at the international level:

- The mechanisms for dealing with commodity price volatility are piecemeal at best, and in many cases impede the smooth functioning of the trading system. A more systemic approach is urgently needed, including through improved transparency, surveillance and regulation of financial actors operating in these markets.

- Despite the general acceptance of the benefits of free trade, commercial policies continue to favour products and markets in which more advanced countries have a dominant position and a competitive edge. The intensification of anti-dumping procedures and product standards against successful developing-country exporters being cases in point. A comprehensive agenda on non-tariff barriers will need to be part of any post-2015 framework.

- There is still an inconsistency between a rules-based multilateral trading system and an essentially unregulated international financial system. Other important drivers of development including investment, technology and aid are managed almost exclusively at the national level or through ad hoc coordination at the regional or international levels. Greater policy coherence across the multilateral system must be a third area of attention for the post-2015 agenda, the more so as environmental pressures are added to the coherence equation. A revived and strengthened ECOSOC could be one way of achieving the kind of coherence needed to ensure stability in our interdependent global economy.

- Stable long-term finance remains a key constraint on sustainable and inclusive growth in many developing countries, particularly the LDCs. A supportive international architecture post-2015 must ensure, above all, that these resources are available at appropriate cost and used to encourage and supplement national resource mobilization. Since the 2005 World Trade Organization Ministerial Meeting in Hong Kong, “Aid for Trade” has gained prominence in the international aid discourse. But despite the expectation of additional resources and an emphasis on capacity building, much of the Aid for Trade programme has been a repackaging of existing trade-related aid flows and managed in line with the particular concerns and interests of individual donor countries. Steering this programme from a development angle would bring tangible benefits to the scheme and to the impact of aid more generally.

- Gender and trade impact-assessment tools can provide useful information on sensitive sectors where trade liberalization should be expedited, delayed or avoided, with a view to protecting or promoting women's employment and women-owned enterprises. In these sectors, training and educational policies and other measures should be put in place to upgrade women's skills, tailor their market integration, and provide financing and technology to enable them to move to higher value-added sectors. Explicit references to gender equality in the trade agreements could also help to increase the political commitment of key stakeholders, and may increase the funding available for gender-related programmes of technical cooperation.

Finally the existing trade arrangements, at the multilateral and regional levels, in many areas do not allow sufficient policy space to developing countries to overcome their constraint by pursuing targeted trade, industrial and technology policies and thus increasing their export capacity in more dynamic sectors. Striking the right balance between global rules that are both effective but also fair will be key to a successful global partnership for development. One urgent area for discussion, in light of the growing influence of TNCs on the distribution of gains from trade, is global competition rules for sectors that are critical to diversification efforts in developing countries.

UN System Task Team on the Post-2015 UN Development Agenda

Membership

Department of Economic and Social Affairs (DESA), Co-Chair

United Nations Development Programme (UNDP), Co-Chair

Convention on Biological Diversity (CBD)

Department of Public Information (DPI)

Economic Commission for Africa (ECA)

Economic Commission for Europe (ECE)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic and Social Commission for Western Asia (ESCWA)

Executive Office of the Secretary-General (EOSG)

Food and Agricultural Organization of the United Nations (FAO)

Global Environment Facility (GEF)

International Atomic Energy Agency (IAEA)

International Civil Aviation Organization (ICAO)

International Fund for Agricultural Development (IFAD)

International Labour Organization (ILO)

International Maritime Organization (IMO)

International Monetary Fund (IMF)

International Organization for Migration (IOM)

International Telecommunication Union (ITU)

Joint United Nations Programme on HIV/AIDS (UNAIDS)

Non-Governmental Liaison Service (NGLS)

Office of the Deputy Secretary-General (ODSG)

Office of the High Commission for Human Rights (OHCHR)

Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS)

Office of the Special Advisor on Africa (OSAA)

Peace building Support Office (PBSO)

United Nations Children's Fund (UNICEF)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Convention to Combat Desertification (UNCCD)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

United Nations Entity for Gender Equality and Empowerment of Women (UN Women)

United Nations Environment Programme (UNEP)

United Nations Framework Convention on Climate Change (UNFCCC)

United Nations Fund for International Partnerships (UNFIP)

United Nations Global Compact Office

United Nations High Commissioner for Refugees (UNHCR)

United Nations Human Settlements Programme (UN-HABITAT)

United Nations Industrial Development Organization (UNIDO)

United Nations International Strategy for Disaster Reduction (UNISDR)

United Nations Institute for Training and Research (UNITAR)

United Nations Millennium Campaign

United Nations Office for Outer Space Affairs (UNOOSA)

United Nations Office for Project Services (UNOPS)

United Nations Office on Drugs and Crime (UNODC)

United Nations Population Fund (UNFPA)

United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA)

United Nations Research Institute for Social Development (UNRISD)

United Nations System Chief Executives Board for Coordination Secretariat (CEB)

United Nations University (UNU)

United Nations Volunteers (UNV)

United Nations World Tourism Organization (UNWTO)

Universal Postal Union (UPU)

World Bank

World Food Programme (WFP)

World Health Organization (WHO)

World Intellectual Property Organization (WIPO)

World Meteorological Organization (WMO)

World Trade Organization (WTO)