

## **Supporting Economic Diversification and Empowerment**

**Speech by Philippe Le Houérou**

**Aid for Trade Global Review, Opening Plenary**

**Wednesday, 3 July 2019, 9:00 AM to 10:30 AM**

Your Excellency Hun Sen, Prime Minister of Cambodia; Roberto Azevêdo, Director-General of the World Trade Organization; honorable guests; ladies and gentlemen:

Good morning. On behalf of the World Bank Group, it is an honor to be part of what has become one of the biggest achievements in global development—unlocking the potential of trade for developing countries.

As you all know, trade has been at the center of tremendous poverty reduction over the past few decades. Since 1990, more than one billion people have moved out of poverty due to economic growth, underpinned by better trade practices.

Spurred by our collective actions to promote trade as an engine of growth and development, applied tariffs globally have fallen by about 35 percent over the past 20 years. In parallel, behind-the-border reforms have helped attract investment and stimulate the development of global value chains.

With every percentage point increase in a country's trade openness, we have seen productivity increase nearly 1.25 percentage points.

Trade also promotes inclusion. Preliminary research carried out jointly by the World Bank Group and the WTO suggests that trade is linked to higher female labor participation. Firms that are more integrated in the world economy have higher shares of female employment. Trade has also brought more women into the formal economy, with greater job opportunities and higher wages for low-skilled women.

The ready-made garment sector in Bangladesh showcases how trade is transforming lives. Ninety percent of the sector's 4 million workers are women—a 100-fold increase in labor force participation by Bangladeshi women in just three decades. In addition, the sector's rapid growth and job prospects have had a sizeable effect on parents' decision to keep girls in school longer and have delayed marriage and childbirth.

The benefits of trade extend even to conflict reduction. We have evidence that fostering cooperation through trade and business is an absolute game-changer in helping countries escape war and poverty. It is not by chance that the most dramatic expansion of global trade in history—7-fold growth between 1970 and 2010—was also accompanied by a 94% drop in global conflict-related fatalities.

This also applies at the regional level. World Bank Group research in the Great Lakes area in Africa shows that border areas that trade more have significantly fewer conflict events. This has led political leaders, like President Paul Kagame of Rwanda, to become champions of the potentially transformational African Continental Free Trade Area.

Ladies and gentlemen: The benefits of global trade are measurable and meaningful. However, we must not ignore several longstanding and emerging challenges that pose a risk to the global trading system, especially for developing countries.

To begin with, we must not relent in our efforts to reduce tariffs, which remain stubbornly high in some regions. But, that will only take us so far. Behind-the-border reforms, such as removing trade-distorting subsidies and inefficient non-tariff measures, must also be advanced.

Improved trade facilitation and logistics is another challenge to the global trading system. To avoid bottlenecks, which are especially damaging for developing countries, we must ensure efficient and sustainable supply chains.

And, it goes without saying, that a stable and predictable trading system is essential for global trade to grow. To this end, we must act collectively to preserve and strengthen the rules-based trading system.

I would now like to touch on two newer challenges to global trade and steps we should take in response.

First, anti-money laundering and combatting the financing of terrorism regulations have increased the risks and costs for banks. This has reduced correspondent banking and trade finance, especially for developing countries. Since 2011, the number of correspondent banks has fallen by more than 19% and letters of credit have dropped by 13%.

Trade finance shortfalls are particularly acute for the poorest countries. As one importer in Tanzania said recently, “When you are in Africa, no one wants to work with you without a confirmed letter of credit.”

Banks, regulators, and international financial institutions must take coordinated and comprehensive actions to stem the decline in trade finance. Legal identifiers, when backed by block chain, are potentially revolutionary for trade finance. A single global standard for legal identifiers could really level the playing field for SME importers in developing countries.

The second new challenge is the growing pushback against trade in some developed countries. The speed of globalization has outpaced the ability of many communities to adapt. Some regions and communities are being shut out from the benefits of trade. And adjustment to trade openness can take much longer than expected.

While the pains of adjustment are often blamed on trade, recently, rapid technological advances have also played a larger role. Technology has brought economic concentration and exacerbated the gap between unskilled workers and those with human and financial capital. In several advanced countries as well as fast-growing developing economies, inequality is increasing, not decreasing.

The standard prescription to cope with the cost of adjustment is to support worker mobility for new and better jobs. We do this by teaching people, especially youth, the relevant skills for a world of changing technology and open markets. But this should be coupled with social protection systems and labor policies that protect people, not jobs.

Obviously, the policies have to be adapted to domestic economic and social conditions. We must make this our priority.

Ladies and gentlemen: To sum up: Trade has and can continue to be a driver of tremendous economic growth, peace, and prosperity. But we must not take the gains of trade for granted. We must confront head on the challenges associated with global trade. Greater inclusion is the key for making trade work for all, and helping us achieve our goal of ending extreme poverty and promoting shared prosperity.

Thank you.