II. TRADE AND DEVELOPMENT: RECENT TRENDS AND THE ROLE OF THE WTO

G. Conclusions

The very first World Trade Report, published in 2003, focused on trade and development. Exploring the economic link between these two areas, it examined how the Doha Round – which had been launched just two years earlier – could foster development.

This report has re-examined the topic a decade later by looking at four recent trends that affect the interplay between trade and development. Many developing countries, especially those in the G-20, have experienced unprecedented growth. International production sharing is being taken to a new level through global supply chains and increasingly involves trade and investments between developing countries. Increases in the prices of agricultural products and natural resources have been significant and are opening new growth opportunities for many developing countries. Macroeconomic shocks now have global repercussions requiring concerted action by countries.

The report has shown how integration into the global economy has gone hand-in-hand with the economic success of many developing countries. This would not have been possible if they had not undertaken trade opening that allowed them to take advantage of the opportunities provided by world markets. At the same time, the growing domestic markets in these developing countries provide an opportunity for those still lagging behind. The WTO has played an important role in this process by providing a trading environment with clearly defined rules while at the same time allowing developing countries to take advantage of flexibilities in implementing them since there are differences in the ability of members to implement obligations.

The report has shown how global value chains can facilitate the integration of developing countries into the world economy, by allowing countries to focus on specific tasks rather than all parts of a value chain. Global value chains (GVCs) have been expanding since the 1970s, but they have intensified in the recent past alongside our understanding of their impact on development. Data on value chain linkages are still scarce but the available information shows that they have changed the direction of trade, from trading between developed countries (North-North) to trade between developed and developing countries (North-South), and to trade between developing countries (South-South). The services sector is the glue that holds global value chains together. It constitutes a far more important component of trade (in value-added terms) than was previously believed and could provide ample potential for developing countries to participate in value chains, especially if they lag behind in the physical infrastructure required for trading in merchandise goods.

At the same time, significant numbers of low-income countries, particularly LDCs, have not been able to connect to GVCs in a significant manner. Even if initial GVC integration is achieved, the benefits are not automatic. Among other reasons, developing countries initially join GVCs performing low-skill tasks and value capture at these stages is low relative to activities which are typically the domain of lead firms in GVCs. Upgrading remains a challenge for many developing countries.

Although the tariffs applied by countries continue to fall, many obstacles remain that hinder participation by developing countries in global value chains. These obstacles include the lack of relevant skills, poor infrastructure, the high cost of meeting technical regulations and standards, and the elevated level of protection on products of interest to developing countries. The report stresses the importance of the Trade Facilitation Agreement concluded at the WTO’s Ministerial Conference in Bali at the end of 2013. Designed to streamline border procedures, increase transparency, and reduce transaction costs and unnecessary red tape, the Agreement, when implemented, would boost the efficiency of value chains.

Another trend identified in the report is the increase in the prices of primary commodities. In the 2003 World Trade Report, a section was dedicated to the decline in commodity prices and the report stressed the need for countries to move out of these sectors to ensure more sustainable development. This “need” is no longer evident although countries of course remain well advised to reduce risk through economic diversification. In the last decade, some economies have grown thanks to the increased revenue from exports of food and natural resources. The risk of significant price declines currently seems low given the strong demand for commodities in many large developing economies. Global value chains have been a factor in assisting the development of many countries and this includes supply chains for agricultural products. High food prices, however, pose a challenge to food security in net-food-importing countries. WTO agreements have mechanisms that help mitigate the problem and members are presently negotiating flexibilities like those provided by the Bali Decision on Public Stockholding for Food Security Purposes.
The dependence of developed and developing economies on one another was firmly illustrated by the 2008-09 crisis. A notable feature of the response to the crisis was the spirit of multilateral cooperation among members which worked to limit the number of trade-restrictive measures taken. The WTO’s rules-based system and its monitoring of members’ policy responses played a crucial role in keeping protectionist responses under control. Data show that countries which adopted more restrictive measures did not recover faster and that, instead, international cooperation worked relatively well to ensure that markets remained open and that capital flowed to the most affected economies. Nevertheless, the crisis struck when governments in many countries had sufficient fiscal capacity to respond aggressively with economic stimulus packages. Under different circumstances, the outcome may have been different.

In sum, the report has shown how trade and the WTO have contributed significantly to the unprecedented economic development that has taken place in the last decade and a half. Trade has allowed many developing countries to benefit from the opportunities created by emerging new markets, to integrate into the world market through global value chains at lower costs, and to reap the rewards from higher world commodity prices. The WTO has played a key role by providing certainty regarding the commitments of its members, thereby creating a predictable environment that allowed economic activity to flourish. It has also given flexibilities to developing countries to address their specific economic needs and has helped contain protectionism in the face of the greatest economic crisis in 70 years, thus helping to safeguard the economic gains made by developing countries in the past.

Nevertheless, a long road still lies ahead for many developing economies. Least-developed countries have per capita income which is just 4 per cent of the average income in developed economies. This year’s World Trade Report makes it clear that an open, non-discriminatory, rules-based multilateral trading system is a necessary tool to make trade work more effectively for development. The decisions reached at the Bali Ministerial Conference are important contributions of the WTO to sustaining the momentum of developing countries. But they are only a first step in updating the trading system. The WTO needs to continue to update and develop new rules to respond to recent trends, while continuing to allow for the flexibilities that are needed for countries to comply with such rules and disciplines.

Looking towards the future, trade and the multilateral trading system have central roles to play in addressing the development challenges of a post-2015 world. The four trends of the last 10 years and the history of development show that trade is one of the key enablers of development. Trade has played a central role in lifting millions of people out of poverty in recent years and helped to achieve many of the UN Millennium Development Goals (MDGs). The WTO and its rules should be seen as an integral part of the enabling environment for realizing any post-2015 development agenda.