Conclusions

Over the past 30 years, the world has witnessed a period of unprecedented income convergence, accompanied by a steep reduction in poverty, but inequality remains high. Between 1995 and 2023, global per capita income, adjusted for inflation, increased by approximately 65 per cent, while the per capita income of low- and middle-income economies increased by more than to 191 per cent. This notable economic growth helped reduce extreme poverty in low- and middle-income economies, which declined from 40.3 per cent in 1995 to 10.6 per cent in 2022. Nevertheless, a staggering 712 million people worldwide still live in extreme poverty, and inequality levels remain consistently high.

Given these figures, it is understandable that there is some disagreement about the effects of globalization on inclusiveness between and within economies. The debate has formed the basis for this year's *World Trade Report*. Unfortunately, two misleading assumptions still underlie much of this debate: that trade is detrimental to development and inclusiveness, and that WTO rules prevent governments from adopting ambitious development and inclusiveness policies.

The first misleading assumption is that, as trade only favours wealthy individuals and economies, it exacerbates inequality and proves detrimental to development and inclusiveness. This has led to calls to protect some domestic industries and jobs by limiting imports of certain goods and services. In fact, the reality is that trade has played a crucial role in reducing poverty and in enabling many low- and middle-income economies to catch up to high-income economies. Trade between low- and/or middle-income economies increased from 5 per cent in 1995 to 19 per cent of global merchandise trade in 2021. Trade cost reductions between 1995 and 2020 are estimated to have led to a 5.7 per cent increase in global real GDP over the period, with low-income economies growing by around 23 per cent. Trade has also supported the creation of millions of jobs, including better paid jobs.

However, it is true that, while many have benefited from international trade, some individuals, regions and economies have not benefited as much as others. A number of low- and middle-income economies have faced challenges either to participating in international trade or to leveraging trade to diversify their economies. As outlined in Chapter B, high trade costs, whether resulting from restrictive trade policies at home and abroad, inadequate infrastructure, geographical remoteness or institutional challenges, have rendered it difficult for some economies to participate to trade. Obstacles to structural transformation, such as inefficient labour and capital markets, restrictions to foreign direct investment, or limited capacity to absorb foreign technologies, have made it difficult for other economies to diversify and expand the sectors in which they have comparative advantages. Failure to spread the gains obtained through trade more widely within the economy prevents individuals and firms within that economy from leveraging trade, in turn.

Within any economy, the gains from trade may be unevenly shared out depending on different factors, including people's employment and consumption patterns. As discussed in Chapter C, some individuals may struggle to adapt to import competition because they lack the skills needed to participate in export-oriented industries, or they may

face mobility barriers that prevent them from relocating to more prosperous regions to benefit from new job opportunities. Some regions have struggled to adapt to new economic conditions following trade-opening. Some individuals may not benefit from price reductions associated with trade openness because of high transport costs and uncompetitive distribution sectors. Nevertheless, the impact of trade on development and inclusiveness has been sufficiently diverse across economies to suggest that obstacles are due more to a lack of sound trade policies and adequate domestic complementary policies accompanying the process of globalization than to the process itself.

In fact, it is not through less trade that more economic convergence and inclusiveness can be achieved. As the world grapples with increasing geopolitical tensions, the digital revolution and a greater push for sustainability, achieving more sustained inclusiveness and poverty reduction may require, among other things, a sizeable middle class. A robust middle class supports the overall development process by driving domestic consumption, fostering entrepreneurial activities, and contributing to social stability. Many developing economies are unlikely to be large enough to have a sufficiently large middle class to experience sustained economic growth without access to large, lucrative export markets, and indeed, for economies that face high trade costs, limited trade participation is precisely the problem. Meanwhile, for economies that do trade but do not manage to diversify and move up the value chain, less trade is not a solution either. Inward-looking policies that promote import substitution through domestic production are fiscally costly and may discourage innovation and increase the risk of trade retaliation from other economies, ultimately hindering long-term economic growth and inclusiveness.

Protectionism does not protect the overall economy, and it does not support overall inclusiveness. While trade-restrictive measures may protect some sectors and jobs from import competition, they do this at a high cost for the rest of the economy, which, consequently, will suffer from higher prices, lower incentives for innovation, and reduced competitiveness in exporting industries. Trade-restrictive measures can also lead to retaliatory measures from other economies, and these may threaten jobs supported by trade. In addition, strategies to relocate or reshore certain manufacturing industries may not, in reality, bring back many jobs, because the automation and digitalization of production processes are increasingly essential if firms are to remain competitive in international markets.

The second misleading assumption about globalization and inclusiveness is that WTO rules prevent governments from adopting ambitious policies that could promote development and inclusiveness. In fact, the overall objective of the WTO is to help its members to use trade as a means to raise living standards, create jobs and improve people's lives. In this context, the WTO already contributes to economic convergence and inclusiveness by promoting an open, rules-based and predictable multilateral trading system. Because economic reform is a condition of WTO membership, the WTO also contributes to improving governance. WTO members that implemented reforms and made deeper commitments during their WTO accession negotiations have grown, on average, 1.5 percentage points faster than they would have without those reforms and commitments.

Nothing in the WTO agreements restricts the use of non-discriminatory policies for development or inclusiveness. Many distortions that lead to unequal effects from trade-opening are often rooted in structural domestic factors that are best addressed through domestic complementary policies, such as labour, education or taxation policies. Trade-related instruments that some governments may choose to use for inclusiveness purposes, such as tariffs, subsidies and export restrictions, are subject to WTO disciplines to avoid potential negative spillovers onto other economies and potential retaliatory measures that would undermine overall inclusiveness. In addition, WTO agreements offer various flexibilities, including special and differential treatment (S&DT) provisions, which are only available to developing economies or least-developed countries (LDCs). A number of trade-related technical and capacity-building initiatives at the WTO, including the Aid for Trade initiative, also contribute to making trade more inclusive.

Nevertheless, although trade is part of the solution for a more resilient and inclusive global economy, trade alone may not be enough. A more inclusive global economy requires policies that reduce the barriers and obstacles that currently prevent marginalized individuals, firms, regions and economies from participating fully in and benefitting from global markets. Besides trade policies, to increase the market access of marginalized groups and economies, complementary policies are essential to enable individuals and firms to move to where the gains from trade are, and to share the gains from trade more evenly. Such complementarity policies may cover various aspects of the economy, including financial, labour, energy and housing markets. Many are relevant

for both economic growth and inclusiveness, as they address market distortions (e.g., competition), increase capacity to engage in international trade (e.g., via education) and mitigate the risks and disruption associated with trade openness (e.g., by providing economic safety nets). It is important to note that trade and domestic policies can reinforce each other. While trade policy effectiveness depends on well-designed complementary policies, open trade policies can also enhance the effectiveness of many of these complementary policies through economies of scale, improved efficiency and competition, enhanced economic growth and risk diversification.

The WTO already fosters inclusiveness across and within economies, but it can do even more. In a world increasingly fragmented by geopolitical tensions, maintaining an open and predictable multilateral trading system is essential to prevent the regression of progress achieved in economic convergence, and to support even greater development and inclusiveness. Economic fragmentation – unwinding trading relationships and turning to unilateral policies – would make the prospect of a a more inclusive world more remote. To prevent this, Chapter D argues that the WTO could do more. First, it could play a more proactive role in facilitating the implementation of existing WTO agreements, such as the Trade Facilitation Agreement, which would unlock significant potential gains for developing economies. Second, it could improve predictability by means of an effective and fully functioning dispute settlement mechanism, given that binding commitments significantly reduce trade policy uncertainty, which in turn increases investments and fosters growth. Third, the WTO could enhance its efforts to address evolving trade challenges, particularly trade in digital, green and services sectors, to seize opportunities for convergence and inclusiveness through digital and environmental transformation.

Strengthening the WTO's deliberative and monitoring functions is important to ensure more inclusive trade. Uncoordinated unilateral approaches to address the digital economy and the low-carbon transition can, depending on their design and implementation, create potential distortions and trade tensions. Solutions could also include improving data collection, research and information exchange on the negative spillovers across economies of unilateral policies and on the uneven effects of trade policy, and enhancing the participation of vulnerable groups in trade policy decision-making processes.

Enhancing coherence between the WTO and other international organizations could magnify their respective positive impacts on inclusiveness across and within economies. Greater international cooperation is necessary to tackle emerging challenges in areas crucial to the future of trade for inclusiveness, such as services, digital and green trade. Many international organizations focus on complementary policies that could enable trade to support development and inclusiveness, such as investment, education, competition and taxation. Greater collaboration across international organizations could be helpful in the implementation of WTO commitments, by addressing infrastructure and skill gaps and facilitating the adjustment to trade openness. In turn, the open and predictable trading environment maintained by a reinforced multilateral trading system could help to amplify the positive impact of other international organizations on inclusiveness.

This year's *World Trade Report* has reviewed the key role that international trade and trade policy plays in supporting growth and inclusiveness. Although some groups, regions and economies have not yet managed to integrate successfully into the global economy, trade is an essential element of the solution to move the global economy toward more equality and inclusivity. However, to achieve these aims, more coherent and mutually supportive national and international policies, and more global cooperation, are required.