World Trade Report 2014

Trade and development: recent trends and the role of the WTO
Main messages

• Trade and the WTO have contributed to the development successes of the past decade and a half.

• But there are still big development challenges ahead and both trade and the WTO have big contributions to make.
Four key trends

- Rise of developing countries
- Increased developing country participation in global value chains
- Higher commodity prices
- Increased synchronization of macroeconomic shocks
Rise of developing countries
Broad-based convergence

- In the last decades, faster GDP growth in developing countries has allowed convergence with developed countries.

- Growth has been broadly spread:
  - G-20 developing countries have shown double-digit growth
  - Natural resource exporters have benefited from higher commodity prices.
Role of trade

- GDP growth has moved hand in hand with integration in the world economy.
- Although this relationship does not show causation, we know trade increases growth through various channels.
Poverty

• There has been a dramatic reduction in poverty.

• Many countries have surpassed their MDG goals.

• But the share of population in extreme poverty has increased in a few countries.

• Developing economies remain much poorer than developed countries.
Role of WTO

• A predictable and transparent rule-based system promotes trade and investments.
  – Particularly clear for countries that have acceded to the WTO

• Trade barriers reduced: Tariffs have fallen and binding coverage increased.

<table>
<thead>
<tr>
<th>Table B.3: Average tariff rates, by country group (per cent)</th>
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<tbody>
<tr>
<td><strong>Most-favoured nation (MFN) rate (per cent)</strong></td>
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<td>Average 2009–11</td>
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<td>-----------------</td>
</tr>
<tr>
<td>World</td>
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<td>Developed</td>
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<td>G-20 developing</td>
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<td>Other developing</td>
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<td>LDCs</td>
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• Flexibilities allowed in WTO rules, specifically through preferential access for LDCs, have supported the good economic performance of the poorest.
Challenges

• Lessons from the recent rise of developing countries:
  – Growth can lead to improvement in human development indicators.
  – Trade is an important driver of growth.
  – But better environmental outcomes or a more equitable distribution of income do not automatically follow.

• Environmental and social risks need to be anticipated and mitigated.

• Per capita incomes in LDCs remain at only 4% of developed country levels.
Increased developing country participation in global value chains
Global Value Chains (GVCs)

• GVCs offer a useful mechanism for countries to use trade to develop.
• Initial GVC integration typically has large development benefits.
• There are also risks involved and benefits are not automatic.
• Challenge thereafter becomes to upgrade to higher value added tasks or products in GVCs.
The rise of GVCs and their growth benefits

- Many, though not all, developing countries have become increasingly involved in GVCs.
- South-South trade has grown through GVCs.
- GVC participation is associated with higher income and also higher economic growth.
Developing country participation in GVCs

- There is wide variation among developing countries:
  - In levels of participation
  - In type of participation
- Services have become more important through GVCs.
Role of the WTO

- Trade policies are crucial for GVCs (alongside various domestic policies).
- Countries with higher GVC participation:
  - reduced significantly their tariffs on intermediate goods; and
  - also made deeper commitments under the GATS.
Remaining challenges and the WTO

• Significant obstacles to GVC participation remain.
  → Important roles for trade facilitation, aid for trade and services commitments

• Tariff escalation can hold back upgrading.

• GVCs have spurred demand for deeper integration.

Figure C.25: Partner and donor country views on main barriers to firms entering value chains, 2013 (per cent)

Source: OECD/WTO Aid for Trade Questionnaire 2013.
Higher Commodity Prices
Higher commodity prices

- Natural resource and food prices roughly doubled since 2000.
  - Trade has increased also in volume terms.
  - In light of emerging markets’ strong demand, prices are expected to remain strong (but also volatile).
- This has opened export opportunities for many developing countries which grow these products.

Figure D.1: Real annual price indexes of selected economies, 2000-13
(2000 = 100; real 2005 US$)

Agriculture

- Richer developing countries were able to take advantage, but poorer countries lag behind.
- Agriculture is key sector in developing countries, employing more than half of population.
  - Incomes/Wages are much higher in GVC-integrated agriculture (Example: Tomato sector in Senegal)

Figure D.11: The share of developing countries' and LDCs' agricultural exports in world agricultural exports, percentages, 1961-2011

Source: WTO Secretariat calculations based on FAO data.
GVC integration and rising agricultural incomes

Figure D.8: Comparison of household income in Senegal, by employment status in the tomato export industry

Source: Maertens and Swinnen (2011).
Challenges and role of the WTO

• High prices are an important challenge for net food importers, many of which are LDCs.
  • Public stockholding for food security purposes
• In agriculture, tariffs and subsidies in destination countries continue to hinder developing country exports.
  • Making progress in this area hedges risk of commodity price softness in the future
• Non-tariff measures are likely to loom large.
  – Certification has become vital for export success, but can be hard to achieve for small producers.
  – WTO addresses issue through STDF.
Increased Synchronization of Macroeconomic Shocks
Globalization and synchronization of macroeconomic shocks

- Macroeconomic shocks emanating from one part of the world can be transmitted to other parts.
- Trade may have been part of the transmission mechanism, but it also dissipates the shocks.
Trade policy response to the crisis

- Trade restrictive measures were taken during the crisis, but:
  - Nowhere near the scale expected based on previous business cycle experiences.
  - Trade coverage was low.

- At the same time, countries were taking liberalizing trade and investment measures.
Why no Smoot-Hawley?

• A coordinated macroeconomic response to the crisis
• Global supply chains
• The existence of trade rules and the effectiveness of monitoring efforts by the WTO
  – Without this system of rules, much of the developmental gains of the past decades could have been lost.
• Continued vigilance is needed in case of another crisis.
Conclusions

• Enormous development gains have been achieved.
• But much more needs to be done:
  – Developing countries’ incomes still lag those of developed
  – Upgrading and greater participation in GVCs
  – Agricultural protection and subsidies
  – Strengthening the rules-based system
• Trade has a central role to play and WTO has much to contribute.
• Many of the elements needed are at hand in the Bali decisions and the DDA.
Thank you!

http://www.wto.org/english/res_e/publications_e/wtr14_e.htm

http://www.wto.org/french/res_f/publications_f/wtr14_f.htm

http://www.wto.org/spanish/res_s/publications_s/wtr14_s.htm