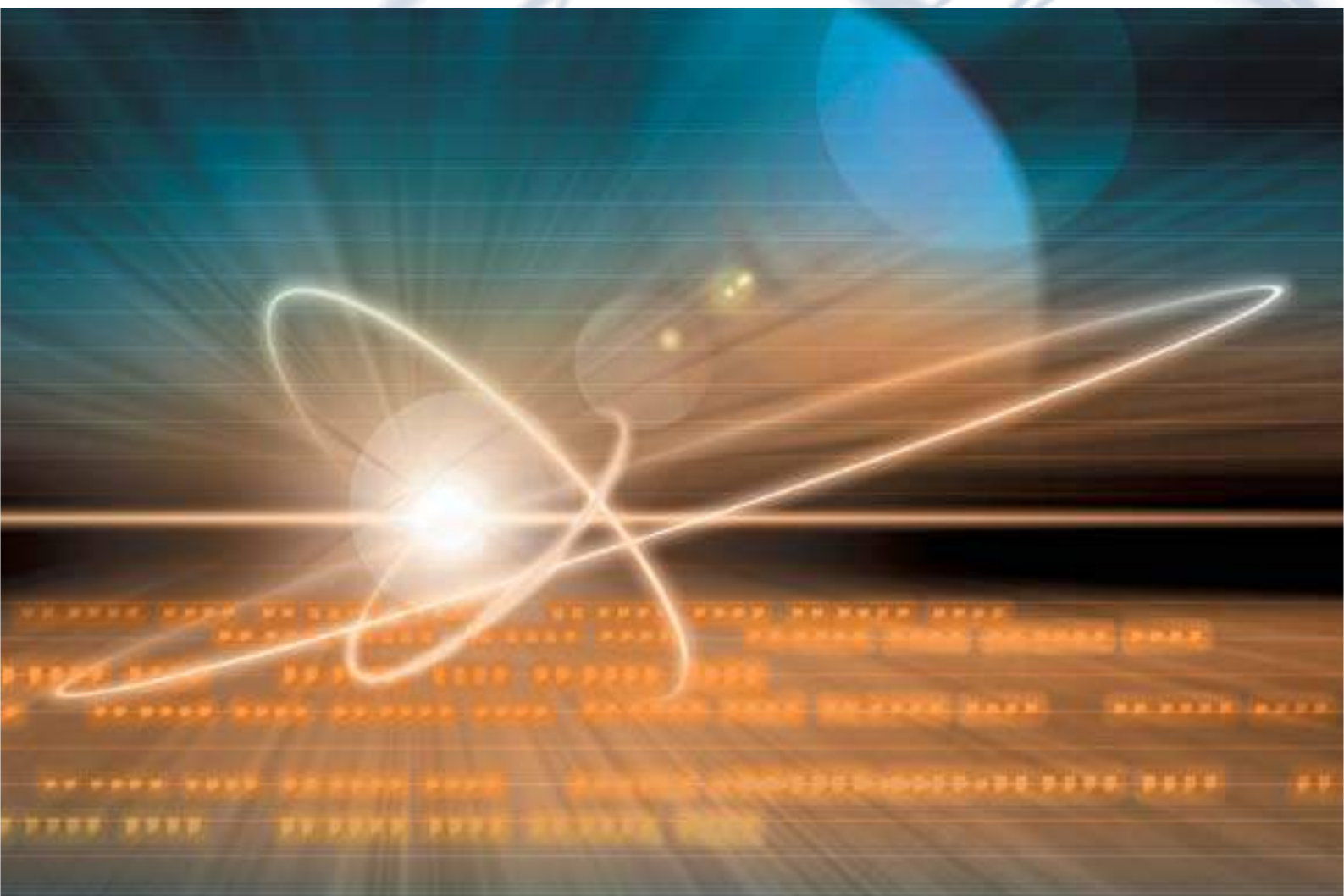


**GLOBALIZATION
FOR DEVELOPMENT:**
the international
trade perspective



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**GLOBALIZATION FOR DEVELOPMENT:
THE INTERNATIONAL TRADE PERSPECTIVE**



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This publication provides analyses on some of the emerging trade and development opportunities and challenges for all countries, and developing countries in particular, in the context of rapid globalization. It builds on the Report of the Secretary-General of UNCTAD to UNCTAD XII entitled *Globalization for development: Opportunities and challenges (TD/415)*.

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COMMON ABBREVIATIONS

ACP	African, Caribbean and Pacific Group of States
AfT	Aid for trade
AGOA	African growth and Opportunity Act of USA
ANZCERTA	Australia-New Zealand Closer economic Relations Trade Agreement
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CARICOM	Caribbean Common Market and Economy
COMESA	Common Market for Eastern and Southern Africa
EBA	Everything-but-arms initiative of the EU
ECDC	Economic cooperation among developing countries
EHFSRs	Environmental, health and food-safety requirements
EU	European Union
FDI	Foreign direct investment
GATS	General Agreement on Trade in Services (WTO)
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GDG	Green house gas
GSP	Generalized system of preferences
GSTP	Global System of Trade Preferences among Developing Countries
ICT	Information and communication technology
LDCs	Least Developed Countries
LNG	Liquefied natural gas
MDGs	Millennium Development Goals
MERCOSUR	Southern Common Market
MTS	Multilateral trading system
NAFTA	North American Free Trade Area
NAMA	Non agricultural market access
NTBs	Non-tariff barriers
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PVS	Private voluntary standards
RTAs	Regional trade agreements
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SDT	Special and differential treatment
SMEs	Small and medium scale enterprises
TDI	Trade and Development Index
TNCs	Transnational corporations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

SUMMARY

A. TRADE-DRIVEN GLOBALIZATION AND QUALITATIVE INTEGRATION

Globalization is increasing the integration of national markets and the interdependence of countries worldwide for a wide range of goods, services, and commodities. In the past 30 years, international trade flows have expanded dramatically and, generally, at a rate faster than global output, with a doubling of the value of trade in a 10-year period since the mid-1990s. In 2006, the dollar value of world merchandise exports reached US\$11.98 trillion (as compared to about US\$5.17 trillion in 1995), and that of commercial services exports rose to US\$2.71 trillion, thus raising total world trade to over US\$14 trillion.

Several factors have played an important role in the recent expansion of trade, the growing integration of economies, and the increasing contribution of trade to development. These include the liberalization of tariffs and other barriers to trade; foreign direct investment through trade and investment negotiations and agreements; autonomous unilateral structural reforms; technological innovations in transport and communications; international solidarity through supportive measures (like trade preferences); and the strategic use of policies, experimentation and innovation. Trade-driven globalization is also manifested in the changing geography of the world economy today. Its key features include the emergence of a dynamic South as an additional (to the North) motor for world trade and new investment, and an expansion in South-South trade in goods, services and commodities.

Assuring development gains from international trade in the context of trade-driven globalization necessitates improving the *quantitative benchmarks* of integration in international trade through increased trade performance, increasing shares in world trade and in GDP. More importantly, a major improvement in the *qualitative benchmarks* of integration – such as increased competitiveness and enhanced productive capacity, adequate and modern infrastructure (physical and social), trade facilitation, human resource development, diversification, higher value addition of production and exports, employment generation, a sound financial and investment climate, competition culture, technological advances, and more environmentally sustainable and climate-friendly production, consumption and trade patterns – will also be required.

Accelerated economic growth and increased returns from trade should be channelized into achieving human and social development including food security, energy security, rural development, universal access to essential services, gender equity, and poverty reduction. All of these noble objectives are embodied in internationally agreed development goals, including in the Millennium Development Goals (MDGs) and the Monterey Consensus on Financing for Development. Reducing inequalities and democratizing the trade and development gains within and across countries should become the essential attributes of the globalizing world.

B. NEW OPPORTUNITIES, REALITIES AND PERSISTENT CHALLENGES

Trade-driven globalization has reached unprecedented pace, scope, and scale. It has spawned new opportunities and realities as well as persistent challenges to the acceleration of economic growth, development, and poverty reduction.

Some developing countries are beginning to realize the prospects of a more beneficial integration – both quantitative and qualitative – into the global economy and the international trading system. For many others, an increased quantitative integration has not had positive results. Often, their

liberalization has not translated into qualitative gains with widespread and structural developmental impact. Still others have seen only partial gains. In the LDCs especially, the promised and expected gains of trade-driven globalization are still missing or insufficient. There is concern that the costs of trade driven globalization maybe economically, socially, politically, and environmentally unsustainable, resulting in increasing inequalities and the loss of social cohesion within and across countries. For such countries, it has meant not just incurring costs – including from adjustment to trade liberalization, intensified competition, and reduced policy space – but also increased vulnerability to external shocks.

In addition, disappointment with the lack of sufficient development dividends and increasing hardships on account of adjustment in many developing countries are calling into question the ‘raison d’être’ of trade liberalization and globalization. Even developed countries – thus far the drivers and main beneficiaries of trade driven globalization – now have anxieties about job displacement, wage stagnation, rising inequalities, and adjustment costs arising from freer trade. This is particularly so as more and more developing countries are becoming competitive in different sectors, and posing a challenge to the domestic manufacturing and services industries as well as the labour force of developed countries. This has begun to arouse protectionist sentiments, and even threaten a backlash against their trade with and investment relations with developing countries.

Thus a prime concern today for most policymakers everywhere is how to maximize the development benefits of globalization and trade, to minimize their economic, social, human and environmental costs, and to make these the over-arching objectives of trade-driven globalization. It is imperative that both the reality and the perceptions about the costs and benefits of trade driven globalization be managed in such a way as to maximize development benefits with equity and inclusiveness, and minimize costs. The failure to do so has the potential of posing a setback to the attainment of internationally agreed development goals, including the MDGs.

In this regard, countries are called upon to judiciously calibrate the following: the tension between national policy space and international obligations and commitments; the balance between national and global governance; the coherence among different policy areas and levels; and the differing yet complementary roles of the state, the market, and the corporate sector in the process of development. There is increasing acknowledgement that, despite an apparent irreversibility and spontaneity, it is possible to manage the globalization process towards better development outcomes.

Efforts to create and sustain an enabling environment to benefit from globalization will have to be pursued in the context of an increasingly differentiated trade and development landscape. There is need to capture the ‘common development denominators’ across developing countries. These include the structural characteristics and policy issues of common concern and applicability to developing countries, irrespective of their size or weight in the world economy and international trade. These are reflected in the qualitative benchmarks of beneficial participation and integration of developing countries in international trade and economy.

It will also be necessary to focus on the specific trade and development concerns of countries in special need, such as LDCs, landlocked countries, and small and vulnerable economies. For these countries, the challenges of marginalization, structural inadequacy, and productive capacity constraints are manifold. Moreover, despite their recent rapid growth and a successful increase in their global exports, many developing countries are still hugely challenged in having to deal with the backlog of underdevelopment, poverty and infrastructure deficit in a sustained manner. The predicament of middle income developing countries – exposed to global markets and financial flows even as they strive to climb the trade and development ladder and further reduce poverty and inequality – will also need attention. Already countries with economies in transition are providing examples of trade and development endeavour that require different approaches and policy responses.

National, regional, and international trade and development strategies need to take these specificities as well as the baseline scenarios of such countries into account whilst adopting an integrated and holistic approach based on common development denominators.

Another reality that needs to be taken into account is the shifting comparative advantage and competitiveness paradigm in international trade. Natural resource endowments – particularly oil and gas as well as minerals and metals – have once again become important in trade competitiveness, both directly and indirectly. They have enabled many developing countries to reap trade gains.

At the same time, the mobility of global enterprises to most cost/quality competitive destinations indicates the continued, if not increased, salience of labour costs in global production and trade, especially in the labour-and-skills intensive sectors. The capacity for technological innovation, development, and adaptation is another key determinant, giving a dynamic competitive edge to countries and enterprises across different sectors. Meanwhile, capital has become increasingly footloose, with even developing countries participating in the global movement of capital and its contribution to trade. Some of the most competitive and successful countries in trade and development are those that are able to make the best use of their assets in terms of their human and natural resource endowments, and bring into effect synergies between technology and capital in a dynamic way.

Servicing global markets with global products means that scale matters in most sectors. In order to be part of ‘global sourcing’, developing countries have to either upscale on their own or participate in global production and distribution networks in a significant way. In other sectors such as pharmaceuticals, chemicals, high tech and specialized industries – where the skills element is critical – developing countries need to be active, and work in alliance with global enterprises. Most often, it is a combination of both scale and skills, as in the case of China, that makes for overwhelming trade competitiveness. It is also clear that a combination of low cost labour and high tech and knowledge-related advantages are powerful determinants of international trade competitiveness. Thus, the ability of developing countries to increase their beneficial participation in international trade – including in area of value addition – depends on their being able to leverage these advantages.

C. UNCTAD’S CONTRIBUTION

UNCTAD’s work contributes to making trade and globalization work for successful development. There is need to continuously monitor, assess, review and benchmark the problems, trends, and prospects in international trade and/or the formulation of trade policy. There is a need to address systemic issues that affect the enabling environment at the national, regional and international levels. There is need to elaborate and promote policy and institutional toolkits to positively harness globalization. There is a need to improve global governance and institutional coherence. There is need to foster solidarity initiatives for development-positive, pro-poor, and high quality integration of developing countries in the international trading system. With over 44 years of experience in trade and development, UNCTAD’s contribution as part of the United Nations system work on development becomes increasingly relevant in the advent and progression of globalization.

INTRODUCTION

Trade driven globalization has generated new opportunities and realities which are affecting development prospects everywhere. It has also brought into sharper focus the persistent challenges that still need to be effectively addressed to foster and sustain the acceleration of economic growth, development, and poverty reduction. This publication examines the key features of these new opportunities, realities and persistent challenges. It profiles key trade and development issues that will have to be addressed in the years ahead in order to promote beneficial and inclusive globalization. It also discusses the national, regional and international actions needed to create an enabling environment for development. It underscores that benefiting from globalization hinges on the effective integration of developing countries into the world economy and the international trading system, both in quantitative and qualitative terms. This requires enhanced and strengthened governance, coherence and solidarity at all levels – national, regional and global.

Chapter 1 of this report discusses the systemic evolution of the international trading system. It outlines some of the new opportunities arising from international trade and some of the persistent challenges that come in the way of assuring development gains from such trade. It argues that national, regional, and international trade and development strategies need to take the specificities of developing countries into account, as well as adopt an holistic approach based on common development denominators. It addresses some of the key elements of the multilateral trading system as well as some of the challenges regarding WTO accession, non-tariff barriers, and the proliferation of regional trade agreements. It presents key elements of a development package to be delivered by the current Doha Round. This chapter also points to some policy measures which could be undertaken to allow developing countries to participate more fully and beneficially in international trade.

Chapter 2 discusses the increased dynamism in international trade and the growing role of developing countries. The key factors fostering international trade and the participation of developing countries are highlighted. These include the vibrant performance of some dynamic economies, and the trade in new and dynamic sectors of world trade. The connection between trade and development is complex and needs continuous assessment. The latter can be provided through such tools as UNCTAD's Trade and Development Index.

Chapter 3 examines South-South trade and the emergence of a group of dynamically growing, trading, and investing developing countries. It proposes support for further development of this new geography of international trade as it brings development gains for both developing and developed countries as well as the international trading system.

Chapter 4 discusses the commodity boom that has taken place since 2002, and its evolving problematic. It presents the future prospects of this sector and the impact of commodity demand on commodity exporting countries, particularly low-income commodity-dependent developing countries which rely on one (or a few) export commodities. How to harness this commodity boom for the purposes of development, as well as how the commodity agenda can be re-launched globally are discussed.

Chapter 5 argues that developing countries can reap significant gains by expanding and diversifying their economies through increasing the development of, and trade in, services. The services sectors hold a huge potential for economic growth, development and poverty reduction. This chapter also examines the challenges of developing the services economy and trade at the national, regional and multilateral levels.

Chapter 6 discusses the increasing opportunities for labour integration and mobility for skills trade in the context of trade and investment-led globalization. It identifies how such labour movements could be realized through unilateral, bilateral and multilateral schemes. The chapter further examines

some of the costs and benefits of labour integration and skills trade including brain circulation and the potential ways such integration can bring gains for all.

Chapter 7 discusses the effects of high fuel prices upon the economies of both oil-importing and oil-exporting developing countries, as well as the issue of energy security. It also examines the national and international strategies needed to address the challenges and opportunities which arise.

Chapter 8 analyzes important developmental issues arising at the interface of trade and environment. These include the implications of climate change response on trade and development and how trade can contribute to a more climate friendly production and economic growth paths; biodiversity and biofuels opportunities; environmental measures affecting developing country trade; and trade negotiations on environmental goods and services.

Chapter 9 argues that domestic and cross-border anti-competitive practices impair the process of development in developing countries more significantly than previously thought. It suggests national and international measures that could help address anti-competitive practices of enterprises, especially in the context of mergers involving global enterprises, and to ensure fair competition for developing countries in globalized and liberalized markets.

Chapter 10 discusses the aid for trade initiative as an essential complement to trade liberalization in the international trading system. Such assistance is needed to mitigate the costs of trade liberalization, whether multilateral, bilateral or unilateral; help build competitive supply capacities; and support developing countries implement trade agreements and meet adjustment costs.

Chapter XI discusses the contribution of UNCTAD to harnessing trade-driven globalization for inclusive development and poverty eradication.

A conclusion is provided that to the effect that globalization have generated opportunities for developing countries that can be seized and challenges that should be addressed to maximize development gains and minimize the attendant costs. The international trading landscape is also being changed by globalization. National, regional and international policies and measures that respond to these changing conditions will be instrumental in ensuring that developing countries integrated both quantitatively and qualitatively into the international trading system and use trade to more fully achievement development and internationally agreed development goals including the MDGs. In this direction, UNCTAD has a catalytic contribution to make.

CHAPTER I

SYSTEMIC EVOLUTION OF THE INTERNATIONAL TRADING SYSTEM

The international trading system today incorporates a much broader range of economic issues, rules, disciplines, and commitments than did the pre-1994 regime of the General Agreement on Tariffs and Trade (GATT). Due to the expanded scope of World Trade Organization (WTO) agreements, topics such as services and trade-related aspects of intellectual property rights – whose international dimensions were previously handled through sector- or subject-specific agreements and arrangements – have now been brought within the scope of multilateral trade policy. As a result, not only goods but also the cross-border movements of services, and the protection of intellectual property are now included in the overall agenda of national, regional and international trade policy. Moreover, what were once considered non-trade issues (such as labour practices, environmental standards, and even human rights) are now being linked to market access conditions, particularly as part of the formation of a plethora of regional trade agreements (RTAs) and preferential trade agreements. Governments, enterprises and civil society are thus called upon to be more comprehensively and cooperatively involved in trade policy formulation and implementation as part of holistic development strategies and policies.

The development processes in developing countries are being comprehensively affected by the rules of the trading system, in addition to the trade policies of their major partners. Developing countries need to strategically manage and balance many more variables in the trade and development policy matrix than ever before. Added to this is the challenge of calibrating and using national policy space *vis-à-vis* the growing panoply of international commitments and disciplines.

1.1. The evolving multilateral trading system

Since 1995, the international trading system has undergone a number of major changes. In the pre-Uruguay Round environment, the multilateral trading system was focused mainly on border measures in trade in goods. It recognized the structural and economic challenges faced by developing countries, and provided them with some special and differential treatment.¹ This took the form principally of non-reciprocity in trade concessions, such as preferential market access, the most important of which were the generalized system of preferences (GSP) negotiated in UNCTAD and the Lomé Convention granted by the EU to African, Caribbean, and Pacific countries.² It also comprised the dispensation from trade rules constraining domestic policy action. In essence, these related to the flexibility to use import controls to protect infant industries and to deal with balance of payment problems, since contracting parties to the GATT were not obliged to become signatories to all or any of the issue-specific agreements or disciplines on trade-related domestic (behind the border) policies. These included the plurilateral approach adopted in the Tokyo Round codes which allowed many developing countries to opt out from trade disciplines.

The pre-Uruguay Round GATT multilateral trade system was also accompanied by a series of international commodity agreements for coffee, sugar, rubber and tin, concluded under the aegis of the UN through UNCTAD, as well as for dairy and bovine meat, concluded within the GATT. Essentially,

¹ The trade-related structural challenges were notably those of industrializing within an already established pattern of international specialization dominated by already industrialized countries and of managing economies where the balance of payments position (in particular the capacity to import capital goods and to service external debt) was heavily dependent on the price of primary commodities.

² Preferences excluded most non-tropical agricultural exports or subjected them to quotas. Tariff escalation was widespread and steep, and market access for manufactured products was subject to administrative restrictions such as rules of origin. Trade in textiles and clothing was regulated by a system of quotas under the Multi-Fibre Arrangement (MFA).

these agreements were multilateral undertakings on prices and supplies between the main exporting and importing countries.

The post-Uruguay Round trading environment differs in several ways. The vast majority of developing countries, as well as countries with economies in transition, have now joined the World Trade Organization (WTO). Established in 1995 as a result of the Uruguay Round of multilateral trade negotiations under the GATT, the WTO has brought about a profound transformation in the world trading system. As compared to the GATT 1947, the scope of the trading system was extended to agriculture, textiles and clothing, services, trade-related investment measures, and trade-related aspects of intellectual property rights. As tariffs were lowered and as trade disciplines were extended to development policies and measures previously falling exclusively within the domestic jurisdiction, the national policy space for developing countries contracted. On the other hand, the rule of law represented by the strengthened rules in the WTO worked to their advantage in several areas. In particular, the strengthened, quasi judicial and automatic dispute settlement system that underpins the compliance of WTO members to negotiated disciplines and commitments, has provided effective trade justice avenues to them. Some developing countries are making effective use of the dispute settlement mechanism all though fuller utilization and benefit is constrained by factors like the lack of capacity of developing countries to ensure the enforcement of decisions.³

1.2. The multilateral trading system and the WTO

Global trade relations and the bulk of world trade are now governed largely by the WTO agreements forming the multilateral trading system (MTS). Since the WTO agreements were based on the principle of a single undertaking, all members of the WTO are obliged to be party to all the agreements which cover a wider set of border as well as domestic policy issues than the GATT. These have reduced the extent of domestic policy space previously available to developing countries.

Although developing countries still receive some form of special and differential treatment (SDT), these are mostly on the basis of temporary exemptions from some provisions of the new agreements and longer implementation periods (that have mostly expired). As a result of a stricter application of the reciprocity principle, developing countries are now generally expected to have national trade regimes as open as those of developed countries. Thus, the new underlying logic in the trading system's approach to trade and development is equality in trade opportunities for developed and developing countries alike (despite inequalities in capacity), rather than providing more meaningful responses to the specific structural problems of developing countries.

LDCs have been granted a substantively greater degree of special and differential treatment under WTO agreements. However, unilateral trade liberalization and domestic market deregulation (undertaken since the 1980s as a condition for access to multilateral finance) have left many of them with some of the most open national trade regimes.⁴

There is no doubt that the freer trade enabled by the GATT/WTO system in the last six decades has contributed to expanding world trade, made for a buoyant global economy, as well as advanced trade-driven globalization. The extensive scope of WTO agreements in particular has had implications for the ability of developing countries to pursue proactive development strategies as well

³ The WTO **World Trade Report 2007** provides a comprehensive overview of the 60 years of multilateralism in trade through the GATT/WTO, and highlights key lessons learnt.

⁴ The external deficit and debt crisis of the 1980s was accompanied by a range of new lending instruments by the IMF and the World Bank, including the Structural Adjustment Facility/Enhanced Structural Adjustment Facility at the Fund and structural adjustment lending at the Bank. As a condition for access to such funds, African countries had to accept IMF and World Bank structural adjustment programmes which included, among other things, unilateral trade liberalization, privatization and the dismantling of commodity marketing boards in a large number of commodity dependent countries.

as to explore and experiment with various policy options. The broad coverage, scope, and depth of WTO agreements have increased the impact of the trading system disciplines to various governmental policies as well as measures taken for development purposes.

WTO Agreements in areas such as agricultural and industrial subsidies, services, trade-related investment measures, and trade-related aspects of intellectual property rights have had a major impact on development efforts. Some industrial policy tools – which were used extensively and successfully by developed countries in their industrialization and catch-up processes – were foreclosed indefinitely as viable policy options for developing countries. This has highlighted the need and importance of adequate and balanced policy space and flexibility in remaining trade policy measures. In this regard, SDT provisions and the less-than-full reciprocity principle constitute enabling tools for the progressive and sustained, integration of developing countries into the world economy.

1.3. Continuing challenges of WTO accession

The universality of WTO membership is essential for the legitimacy of the trading system. The process of WTO accession continues to represent important challenges for 29 developing countries and countries with economies in transition in the accession process. Experience has shown that acceding developing countries continue to be subjected to requests for relatively deep liberalization and stringent reform commitments. These include WTO-plus commitments which could go beyond the level of concessions and commitments undertaken by existing WTO Members of a similar level of development; or WTO-minus rights whereby concessions enjoyed by WTO members are not granted to the acceding country. For example, access to SDT provisions is not automatic – it is often subjected to negotiations on a case-by-case basis.

It is crucial to ensure fair and equitable terms of accession to developing countries. These terms should be commensurate with the trade, financial, and development needs of each acceding country. They should also be given increased support in all stages of the accession negotiations. Moreover, the specific needs of newly acceded countries should also be addressed in the Doha negotiations, given the extensive and deep commitment undertaken during the accession process. If the terms and conditions are in keeping with each country's stage of development during accession to the WTO, economic policy and institutional reform will be stimulated and trading capacity enhanced. It has also been observed that WTO accession is a catalyst for developing countries to get their trade and economic reforms as well as institution building act together in a relatively short time.

1.4. Trade Preferences

Trade preferences constitute a key SDT pillar of the international trading system. Several initiatives by developed countries – and to a lesser extent by developing countries – have been developed to provide the latter improved market access for their exports and have brought important benefits (see Table 1). Such preferences for LDCs are a commitment of the international community, reiterated in MDG 8. As a result many developing countries, especially LDCs are dependent on preferential access including duty free, quota free access into major developed country markets. Such access enables them to secure more FDI for productive capacity-building and makes their exports more competitive than otherwise. Preference have served as a stimulus to trade and development in many beneficiary countries and for sectors affected. They continue to provide important competitive advantages to many small and vulnerable economies and represent for a number of them a most significant trade policy instrument for development.

However with continuous unilateral, regional and multilateral liberalisation and lowering of tariffs, preference margins are being continuously eroded rendering trade preferences an international trade and development solidarity measure with diminishing returns. The challenge for preference dependent developing countries and the international community is to cushion the adjustment shocks

of preference erosion and to fashion SDT and solidarity measures going beyond tariff preferences. Thus it would be useful to look at easing market entry of these countries through help in the standards and conformity related infrastructure for example, including through aid for trade. Also, existing preference need to be improved especially as regards their product coverage and predictability as well as realistic rules of origin requirements and simplified administration procedures.

Table 1: Utilization of Trade Preferences
In million dollars

Reporter	Partners	1995					
		Total imports	Dutiable imports	Covered by pref. scheme	Receiving pref. Treatment	Coverage rate (%)	Utilization rate (%)
Canada	Beneficiary Developing	17'389	6'357	3'716	2'334	58	63
	Beneficiary LDCs	185	41	6	4	15	64
EU	Beneficiary Developing	242'673	160'836	117'899	65'327	73	55
	Beneficiary LDCs	8'626	4'545	4'335	1'136	95	26
Japan	Beneficiary Developing	170'732	95'589	41'251	16'857	43	41
	Beneficiary LDCs	1'313	914	243	231	27	95
USA	Beneficiary Developing	102'925	68'003	26'676	16'639	39	62
	Beneficiary LDCs	1'916	1'580	95	53	6	56
	AGOA						
	AGOA excl. Minerals						
		2000					
Canada	Beneficiary Developing	30'909	8'452	4'808	3'090	57	64
	Beneficiary LDCs	180	76	10	7	13	72
EU	Beneficiary Developing	272'052	134'843	78'680	36'072	58	46
	Beneficiary LDCs	11'220	5'748	5'582	1'529	97	27
Japan	Beneficiary Developing	213'512	109'627	85'793	13'198	78	15
	Beneficiary LDCs	1'101	799	553	218	69	40
USA	Beneficiary Developing	143'757	83'242	19'464	11'102	23	57
	Beneficiary LDCs	7'992	7'369	3'601	3'250	49	90
	AGOA						
	AGOA excl. Minerals						
		2005					
Canada	Beneficiary Developing	49'149	13'830	8'929	5'033	65	56
	Beneficiary LDCs	884	163	128	123	79	96
EU	Beneficiary Developing	557'451	226'950	100'959	74'285	44	74
	Beneficiary LDCs	20'020	9'622	9'350	6'326	97	68
Japan	Beneficiary Developing	242'271	114'008	29'911	17'758	26	59
	Beneficiary LDCs	3'498	3'102	186	173	6	93
USA	Beneficiary Developing	255'998	159'341	26'047	20'124	16	77
	Beneficiary LDCs	19'233	18'154	12'430	6'371	68	51
	AGOA	49'786	42'902	41'546	34'031	97	82
	AGOA excl. Minerals	9'543	3'458	2'102	1'938	61	92

Source: UNCTAD calculations based on UNCTAD GSP database

Notes: For Canada data is 2004 instead of 2005.

EU data for 2005 includes imports under the ACP scheme and the Euro-Mediterranean FTA.

Coverage rate = Imports covered by preferential scheme / Dutiable imports

Utilization rate = Imports received preferences/ Imports covered by preferential scheme

The EU's 'Everything but Arms' initiative for LDCs, and the United States' African Growth and Opportunities Act (AGOA) provides increased trading opportunities for some of the poorest developing countries. Other developing countries (such as the ACP States) benefit from non-reciprocal trade preferences (like those provided under the Cotonou Partnership Agreement). However, such trading regimes are time-bound and will expire. The Cotonou Partnership Agreement's trade component expired in December 2007. New WTO-compatible trading arrangements have been negotiated in the form of interim economic partnership agreements that are being implemented for some ACP States from 1 January 2008. Other developed countries – such as Japan, Australia, Canada, Norway and the United States – have instituted a generalized system of preferences (GSP) for developing countries and LDCs which have been enhanced.

The two major importers – the EU and the United States – recently revised their GSP programmes. The EU's GSP scheme was revised in January 2006, and is valid until December 2008. While the revised scheme is simpler and has wider product coverage than the previous one, it also includes some stringent rules for the 'GSP Plus' benefits which some vulnerable countries are entitled to. At present, 15 countries are beneficiaries of the 'GSP Plus' benefits. Also, the graduation criteria are tighter in the current scheme as compared to the previous one. Except in the case of textiles and clothing, which are reviewed annually, graduation will be assessed at the end of 2008. Under the revised scheme, 80 per cent of Chinese exports will be graduated.

In December 2006, the United States' GSP programme was extended for a further two years, until 31 December 2008. The criteria set for GSP graduation was tightened in the current GSP programme by adding a new statute. Previously, GSP products became subject to graduation if their exports exceed the competitive need limit (CNL), but such products could have a CNL waiver under certain conditions. In the current GSP scheme, the President can revoke any existing CNL waiver that has been in effect for at least five years if it meets certain conditions. Under the new criteria, some products from Brazil, Cote d'Ivoire, India, Philippines, Thailand and Venezuela have been graduated.

Table 1 shows the coverage rates and the utilization rates of trade preferences.⁵ Between 1995 and 2005, developing countries' utilization rates of the GSP scheme have improved. Thus imports from developing countries into developed countries under GSP schemes increased. However, the coverage rates deteriorated. Thus the universe of goods from developing countries that can benefit from preferences has declined. For LDCs conversely, the coverage rates made notable improvement, while the utilization rates showed mixed results. Table 1 shows that the coverage rates for developing-country beneficiaries decreased from 73 to 44 per cent for the EU, 43 to 26 per cent for Japan, and 39 to 16 per cent for the United States. The declines are due to the increase in dutiable imports along with the rise in total imports from developing countries, while imports covered by the GSP schemes declined. For Canada, the coverage rate in 2005 increased by 7 per cent as imports covered by its GSP increased along with the rise in the dutiable imports from developing countries. In contrast, the coverage rates for LDC products have made substantial improvement. The rates increased from 15 to 79 per cent for Canada, from 95 to 97 per cent for the EU, and from 6 to 68 per cent for the United States. For Japan, the rates decreased from 27 to 6 per cent.⁶

The preference utilization rates for developing-country beneficiaries increased from 41 to 59 per cent for Japan and from 62 to 77 per cent for the United States, while they decreased from 63 to 56 per cent for Canada. For the EU, although the figures indicate substantial increase, it should be noted

⁵ Coverage rate is defined as percentage of imports that are covered by preferential scheme (i.e. imports on which preferences apply) over dutiable imports (total imports on which duties are applied). Utilization rate is defined as percentage of imports that receives preferential treatment (imports entering a country on preferential rate) over imports that are covered by preferential scheme (total imports that can benefit from preferences). These rates indicate effectiveness of preferences.

⁶ But it should be noted that the initiative which enhanced duty-and quota-free market access for LDC products has been effective since 1 April 2007. See WTO, "Committee on Trade and Development - Generalized System of Preferences - Notification by Japan - Addendum", WT/COMTD/N/2/Add.14, 12 April 2007.

that the 2005 figure includes the imports which received preferences under the ACP scheme and the Euro-Mediterranean Free Trade Area. Disaggregated data is not available, and it is not possible to assess the utilization of the EU GSP scheme for 2005. For LDCs, the utilization rates increased from 64 to 96 per cent for Canada, while they declined from 95 to 93 per cent for Japan, and 56 to 51 per cent for the United States. For the EU, the rates increased from 26 to 68 per cent, but the 2005 figure includes the imports received under the ACP preference, and the LDC utilization rate cannot be assessed.

The experiences with trade preferences granted to exports indicates that these are meaningful only when they are utilized by the beneficiary countries. The utilization rate is affected adversely by restrictive rules of origin and other non-tariff barriers, which prevent these preferences from being fully exploited. Hence, the deficiencies in preferential regimes and market entry barriers need to be addressed and removed in order to ensure genuine market access opportunities. In addition, supply capacity constraints severely limit the capacity of many developing countries to exploit duty-free and other preferential opportunities. Thus, the development of competitive production capacities is a key aspect in enabling developing countries to take fuller advantage of market access opportunities.

1.5. Growing importance of non-tariff barriers and standards

A notable trend in the international trading system is that, with the decline in tariffs as a result of eight rounds of multilateral trade negotiations, the relative importance of non-tariff barriers (NTBs) has risen, both as instruments of protection and for regulating trade. For instance, during 1994-2004, besides traditionally applied NTBs such as anti-dumping and countervailing measures, government-mandated technical measures (such as testing and certification requirements) increased seven times worldwide. The nature of the most applied NTBs has also changed.

In many developed countries, regulatory policy now focuses on the protection of the environment, public health and safety, and often includes higher standards for the domestic market than existing international standards. While these regulations do not contravene WTO rules, they entail greater compliance costs than would otherwise be the case, especially for those developing countries that are mainly standard-takers and not standard-makers. The challenge to them can be gauged by the fact that, even for developed countries, standards have become a major concern in each others' markets. This is all too evident in the market access barrier reports brought out by the USA, EU and Japan, and in the context of transatlantic regulatory harmonization being considered between the USA and EU.

The increased use of requirements concerning the technical specification of products places additional costs and burdens on companies in developing countries in accessing markets. The products of export interest to developing countries most often affected by NTBs include food and beverages, fisheries products, electrical equipment and electronics, pharmaceuticals and chemicals, as well as textiles among others. In general, costs arise from the translation of foreign regulations, the hiring of technical experts to explain foreign regulations, and the adjustment of production facilities to comply with the new stringent, frequently changing requirements and shifting goal posts.

Overall it is estimated that presently due to measures relating to Sanitary and Phytosanitary Measures, and Technical Barriers to Trade (SPS/TBT), potential export earnings of developing countries are being decreased by at least 10 per cent. Additional costs are also incurred when legal and regulatory frameworks need to be improved to support both the participation of national firms in international markets and enhance their competitiveness. Accordingly, classifying, quantifying and assessing the development impact of NTBs will be very important in assuring that market access granted to developing countries is not obviated by these newer non-tariff protectionist measures.⁷

⁷ Current knowledge of NTBs, both empirical and conceptual, is rather limited and hampered by the lack of common methodologies and the inadequate quality of available data and updated information. UNCTAD has

Meeting international standards for quality, safety, health, environment and consumer interests is increasingly becoming a precondition for competing in international markets (see Box 1). The modernization of standards systems in developing countries, including institutions and infrastructure for certification, is essential for operating in the current global trade environment. Lack of such trade related infrastructure has also become a major factor constraining many exporters, particularly in the LDCs, from benefiting fully from preferential access initiatives. Thus assistance involving the provision of hardware like testing equipment, financial support for institution building, and technical assistance for raising capacity to comply with regulations and standards should be strengthened. Moreover, the participation of developing countries in international standard setting activities should be facilitated. The promotion of mutual recognition agreements (MRAs) between developed and developing countries, as well as among developing countries, will also help in reconciling frictions and disputes caused by different regulations between trading partners, and lead to large cost savings for exporting firms worldwide. Greater reliance on internationally evolved standards in which developing countries have participated rather than on unilaterally determined measures and standards is called for. This would ensure greater systemic transparency and equity as well as discipline the abuse of standards that are prepared, adopted or applied with a view to or with the effect of creating unnecessary obstacles to international trade.

Box 1. Proliferation of product standards

The number of standards with which products must comply (in their design, size, weight, traceability, safety, energy and environmental performance, inter-operability, material and even process of production) to be traded internationally is quite large. The International Organization for Standardization (ISO) has published around 14,900 international standards. In addition to the public expenditures required to provide national laboratories and skilled technicians for testing and certification, a significant portion of meeting the cost of standards has also to be borne by firms in developing countries. The incremental production costs for firms in developing nations in conforming to standards imposed by major importing countries are estimated by the World Bank to be fixed costs of approximately US\$425,000 per firm, or about 4.7 per cent of value added on average, and variable production costs of between 0.06 and 0.13 per cent for every 1 per cent increase in investment to meet compliance requirements. (See, Keith E. Maskus, Tsunehiro Otsuki and John S. Wilson (2005). "The Cost of Compliance with Product Standards for Firms in Developing Countries: An Econometric Study", *World Bank Policy Research Working Paper* 3590, May).

1.6. Mainstreaming development into the multilateral trading system

Against this background, the Doha Round of multilateral trade negotiations (launched in November 2001) offers a unique opportunity to mainstream development into the MTS. The completion of the Round is also imperative in realizing Goal 8 of the Millennium Development Goals of 'an open, equitable, rule-based, predictable and non-discriminatory' multilateral trading system.

The system stands at a crossroads. Following the Sixth WTO Ministerial Conference held in Hong Kong, China in December 2005, the Doha Round has entered its most crucial phase. There is urgent need to find solutions on key issues: agricultural market access, domestic support in agriculture, and industrial tariffs as well as services. Agriculture remains central to the negotiations. A genuine structural adjustment in agricultural policy is important to enable an ambitious, balanced and development-focused outcome.

It remains imperative that a substantial development content that reflects the needs and interests of developing countries – including real commercial opportunities for them – be firmly included on a contractual basis in the final outcome of the Doha Round. The timeline for concluding the Doha Round has been overtaken several times. There is risk that the Round will continue indefinitely. In the event that the Round is successfully concluded, any negotiated outcome will be implemented over the period leading to 2015 and will define trading conditions for the coming

initiated work to address this lacuna. See for example its report on *Methodologies, classifications, quantification and development impacts of non-tariff barriers* (TD/B/COM.1/EM.27/2).

decades. Thus, it is the shared responsibility of all members to support and contribute to upholding the credibility of the MTS at this juncture, and to ensure that the Round leads to development-friendly results.

1.7. Proliferation of regional trade agreements

At the same time, RTAs have proliferated worldwide to become a defining feature of today's international trade landscape. The WTO website on RTAs⁸ notes that "some 380 RTAs have been notified to the GATT/WTO up to July 2007. Of these, 300 RTAs were notified under Article XXIV of the GATT 1947 or GATT 1994; 22 under the Enabling Clause; and 58 under Article V of the GATS. At that same date, 205 agreements were in force. If we take into account RTAs which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive at a figure of close to 400 RTAs which are scheduled to be implemented by 2010. Of these RTAs, free trade agreements (FTAs) and partial scope agreements account for over 90%, while customs unions account for less than 10 %." Currently, the trade between RTA partners accounts for almost 50 per cent of global merchandise trade. This trend towards RTAs will continue on a North-North, North-South and South-South basis, thereby affecting the trading patterns and prospects of developing countries.

The vast majority of RTAs are South-South agreements. These constitute important instruments for trade creation, investment, and regional development. South-South RTAs and cooperation face the daunting challenges of deepening and expanding integration measures (including services and cooperative mechanisms) as well as the rationalization of their membership so that they could serve as effective development instruments. Challenges arise for developing countries to design policies and approaches that would maximize gains from both multilateral and regional integration processes. It is important that both processes are mutually supportive and complementary in terms of their scope, pace and sequencing of policies and measures committed to.

North-North and North-South RTAs represent a particularly significant systemic challenge to the MTS. They could divert attention and commitment away from multilateral trade negotiations, and have a stronger negative impact on the MFN principle enshrined in the MTS. They also pose important adjustment challenges for developing countries as these agreements tend to impose deep trade liberalization between major trading nations and weaker trading nations.

Box 2. WTO Transparency Mechanism on RTAs

The mechanism provides for (a) early announcement of impending RTAs by requiring WTO Members negotiating an RTA or Members parties to a newly signed RTA to endeavour to inform the WTO of the future RTA; (b) early notification of the RTA to the WTO which, as a rule, should occur no later than directly following the RTA parties' ratification of the RTA or any party's decision on application of the relevant parts of the RTA, and before the application of preferential treatment between the parties; (c) the notified RTA shall be considered by Members, as a rule in a single formal meeting with any additional exchange of information to take place in written form, and such review shall be normally concluded in a period not exceeding one year after the date of notification; and (d) subsequent notification and reporting by parties to the RTA to WTO members is required when changes are made to the RTA, and at the end of the RTA implementation period when the liberalization commitments in the RTA are realized as originally notified. The information provided on RTAs to the WTO will be posted on the WTO website and will be periodically provided to Members with a synopsis of the communications received. The mechanism will be implemented on a provisional basis for all RTAs. The WTO Committee on Regional Trade Agreements will implement the mechanism for RTAs falling under Article XXIV of GATT 1994 and Article V of GATS, and the Committee on Trade and Development will implement the mechanism for RTAs falling under the Enabling Clause. WTO Members will review, and if necessary modify, the decision on the transparency mechanism in light of the experience gained from its provisional operation, and replace it by a permanent mechanism.

⁸ http://www.wto.org/english/tratop_e/region_e/region_e.htm

Doha negotiations on WTO rules on RTAs aim to clarify and improve existing rules to effectively discipline the proliferation RTAs, as well as take a better account of the developmental aspects of RTAs. A Transparency Mechanism on RTAs was adopted by WTO members on 14 December 2006 as an interim measures will help to enhance transparency as well as compatibility of RTAs with the WTO as well as assess their systemic effects (see Box 2).

1.8. Trade adjustment issues

Multilateral and regional trade negotiations and the resultant trade agreements engender changes in policies, legislations and strategies to comply with, adapt to and take advantage of the new trading dispensation. Such trade liberalization is expected to generate trade and welfare gains in the long run, at least in the absence of externalities. However, there are often short- to medium-term adjustment implications of trade reforms. This is because, as economies open up, imports use existing channels while new exports often come from different sectors that have to gear up production and find new markets. As this transition takes place, the structural unemployment that occurs is, perhaps, the major social cost of adjusting to trade reforms.⁹

Countries as advanced as the United States recognize that, unlike job losses that are the consequence of technological change or competition, any form of trade liberalization that affects domestic industries and employment is a policy choice. Thus, the State has an obligation to ensure that the costs are not borne by the most vulnerable workers alone. This can be witnessed for example from the proposed United States' Trade and Globalization Adjustment Assistance Act of 2007 to assist workers, communities, firms, and farmers affected by trade liberalization with any country.

Developing countries need adjustment assistance that goes beyond implementation support to see them through the liberalization process at least as much as – and most certainly more than – developed countries. A key role can be played here by both the donor community and international financial institutions to provide adjustment support, including through the aid for trade initiative. This is particularly so where the affected countries are already heavily in debt.

1.9. Trade and Gender

Empirical evidence on trade, trade liberalization and gender is scant. The available limited research establishes that trade has gender-related effects. This is not surprising given that women, like men, participate in various levels of production and trade whether locally or internationally. More interestingly, available empirical evidence suggests a direct link between exports and female employment, especially in the manufacturing sector with dynamic growth potential and a large concentration of women. For example, increased exports were associated with increased female employment in such countries as Mauritius, Tunisia, Sri Lanka, Bangladesh, Malaysia, and the East Asian 'Tigers. In labour-rich developing countries, the expansion of exports are related to a substantial increase in female employment and an increase in women's share in employment. Moreover, researchers found that industrialization in the newly industrialized economies of Taiwan Province of China, Hong Kong China, South Korea, and Singapore is as much female-led as it is export-led. Conversely, in countries with low level of trade integration and dominance of commodities, the impact of trade on women in the labour market appears less positive. This is witnessed for example in several countries in sub-Saharan Africa.¹⁰

⁹ UNCTAD's **Developing Countries in International Trade Report 2005** (UNCTAD/DITC/TAB/2005/1) looked into the experience of a number of developing countries that have undergone important trade reforms as well as the possible magnitude of further adjustments under the current WTO negotiations. It drew upon a number of country studies, and CGE modelling of various proposals in the current WTO negotiations, supplemented by a review of a number of other studies of the adjustment process.

¹⁰ UNCTAD commissioned two studies on gender and trade namely *Mainstreaming gender into trade and development strategies in Africa*, and *Mainstreaming gender into trade and development strategies: The case of*

The level of women participation and remuneration with trade liberalization and growth however cannot be easily verified with empirical evidence. This association between trade and women empowerment can be positive but it cannot be assumed to be either automatic or generalized. Establishing the details of this association requires in-depth analysis and research on the impact of trade and globalization on gender in generally and in specific countries (see Box 3). Studying the linkages between trade performance and gender empowerment is important. It will help to enhance awareness of the extent of association between trade and women. This can also help identify policies and actions that can be designed and implemented to strengthen women participation in trade and in turn acts as a further stimulus to trade growth. This can provide useful ideas about best practices at the national level and development cooperation at the international level to strengthen the participation of women in trade and promote pro-poor growth and development. Women empowerment in trade can be a powerful engine of dynamic trade expansion for the whole economy.

Box 3. Women participation in trade in India

The UNCTAD-DFID-Government of India project on Strategies and Preparedness for Trade and Globalization and UNDP commissioned a study on the *Impact of Trade and Globalisation on Gender in India*. It provides a comprehensive overview of trade and gender issues in India, following economic reform of recent years. It maps and assesses the relationship between trade and gender in India at the sectoral levels with relatively high women labour and at different states (on the basis of the concentration of the sectors where women workers are mainly engaged), to draw up nation-wide implications. Women's employment in India following reform and liberalization has increased to the extent of about 5-10 per cent. Women employment and wages have increased in export oriented sectors with dynamic export growth such as handicrafts, wearing apparel, fisheries and IT. Conversely, women seem to have borne the major brunt of fall in employment in case of decline of exports, such as in tea and coffee production which are dominated by plantation production. There is a definite increase in demand for casual workers to cope with export-related trade growth, which led to a rise in the informal sector workers, a high percentage of them being women. Casual labour while providing employment can be easily hired or laid off depending on demand fluctuations. Thus employment is precarious. They are also subjected to poor wages and conditions of work. Income for both male and female workers has improved wherever trade and globalisation has positively affected the labour market, such as in horticulture, dairying and textiles and clothing, and IT. Years of education and skill have positive effects on the workers' earning capability. However benefits reaped by the male workers tend to be higher than that of females in terms of gain in income. Female workers earn less than male workers irrespective of the industry, region or location. Equally important, trade and globalization has a positive impact over women's decision making power and their consequent economic empowerment. The positive effect of trade expansion on women's employment and wages has positively affected intra-household dynamics, for instance in increasing spouse's cooperation in the household work. So wherever female employment opportunities have improved, women became increasingly empowered. On the basis of such findings, the study concludes overall that there are positive gains across a wide spectrum of sectors for women's employment and empowerment with trade and globalization. However, the situation is yet to achieve a notable improvement in the real empowerment for women, equitable distribution of household responsibilities, equal pay for work of equal value and gender balance across occupations. The process of feminization with export-oriented manufacturing industries has not been large enough to counteract other forces which contribute to the downward pressure on women's work participation rates. There is thus a need to consciously work in India and within the global economy towards exploiting fully the potential of women labour power in the service of trade and development.

1.10. Fostering an enabling environment: A fairer and more open trading system

The underlying logic in the trading system's approach to trade liberalization and development is the equality of trade opportunities for developed and developing countries alike. However, because of the existing and often widening inequality in capacities, this makes for an unequal approach to development. There is need for coherence in policy to ensure stability, predictability, security, and fairness in the rules governing trade with a view to achieving a more open, equitable and development oriented trading system. Attendant support mechanisms should be provided for effective flexibilities

East Africa. The reports seek to identify elements for a mutually supportive, win-win (high growth, low gender inequality) scenario in the context of trade liberalization in Africa.

which respond to the specific structural problems of developing countries and accompanying market access opportunities.

The Doha Round provides an opportunity to correct some of the imbalances in the multilateral trading system. It is also an opportunity to install a development dimension into the MTS system of rights and obligations to ensure that trade liberalization is pursued not as an end in itself but as a means to development and poverty reduction as well as the attainment of internationally agreed development goals.

All countries and all stakeholders have a shared interest in the success of the Doha Round and the realization of its core development agenda. This was in fact mandated by the Doha Declaration, when it stressed the imperative for the Round to ensure that the needs and interests of developing countries are placed at the heart of the Round and its final outcome. This has been further emphasized by the UN Millennium Summit and the 2005 World Summit. Six key elements of a development package must be delivered to ensure greater coherence in, and the credibility of the MTS.

First, the Doha Round must result in significantly enhanced and additional real market access and entry for the exports of manufactures, commodities, and services of developing countries in the major markets of developed countries to enable the growth and prosperity of the former. This implies tariff elimination, the removal of tariff escalation and peaks, providing access in the services sectors offered by developing countries (especially modes 4 and 1), and addressing NTBs. The provision of duty-free and quota-free treatment to all LDCs for their products on a lasting basis (as agreed at the Sixth WTO Ministerial Conference and which remains to be implemented fully) is a prerequisite. In this respect of strengthening gains from trade flowing to LDCs, UNCTAD had proposed a Trade Marshall Plan for LDCs. Its critical aspects, which are interrelated and constitute a comprehensive package of measures, relate to: (a) secure, predictable and stable market access for LDCs through binding duty-free, quota-free treatment in the WTO on all their products; (b) accompanying actions to discipline non-tariff barriers and market entry barriers facing LDCs, especially in the area of SPS/TBT measures, and help them build effective standards-related capacity and infrastructure to comply with such requirements; a targeted package in services to operationalize LDC priority areas in supply-side capacity building and technology transfer, as well as commercially meaningful expansion of market access in the temporary movement of persons supply services (GATS Mode 4) at all skill levels and in sectors of key interest to LDCs; and an aid for trade fund to building LDCs' export supply capacity.¹¹ Paying priority attention to LDCs in services liberalization, including in terms of services sectors and modes of interests to them and greater flexibility in liberalization commitment is important. Further, WTO Members should ensure the implementation of the modalities for the special treatment for (LDCs) in services that was adopted in September 2003.

Meaningful liberalization is expected to generate substantial welfare gains. One estimates points out that global welfare would increase by over US\$260 billion annually as a result of eliminating all trade barriers. About US\$50 billion of this would come from agricultural liberalization, and a further US\$80 billion from liberalization of manufactures. The rest of about US\$130 billion would arise from liberalizing services trade.¹² Developing countries would capture some of these gains.

Second, the Doha Round should improve the rules that address and remove existing asymmetries as well as enhance the fairness and equity of the MTS. Reducing and removing trade distorting agricultural subsidies substantially is indispensable for levelling the playing field for fair competition in agricultural trade. An appropriate pacing and sequencing of market opening as well as

¹¹ See Lakshmi Puri, "Towards a new Trade "Marshall Plan" for Least Developed Countries" (UNCTAD/DITC/TAB/POV2005/1).

¹² Dee and Hanslow (2000): Multilateral liberalisation of services trade, Productivity Commission Staff Research Paper, Ausinfo, Canberra.

institutional and regulatory reform are also important, particularly in the services sector. These should be accompanied by flanking policies as well as support for building domestic supply capacity.

Also important is infusing a development-orientation into both existing and new WTO disciplines in order to provide the flexibility and predictability that developing countries need in order to promote trade and development. For instance, the flexibilities recognized under the TRIPS Agreement for access to essential medicines can be operationalized and implemented. Given the importance of access to technology for development and poverty reduction, the objectives and principles of the TRIPS Agreement regarding the transfer and dissemination of technology can also be operationalized in a manner conducive to social and economic welfare. Likewise, in negotiations regarding rules on fisheries subsidies, there is need to integrate the concerns of small and vulnerable coastal States for appropriate SDT in any disciplines, particularly in respect of access fees and development assistance, fiscal incentives to domestication, fisheries development, and artisan fisheries.

Third, the development dimension signifies an adequate and sufficient degree of policy autonomy for economic governance that would allow countries to effectively manage and regulate their domestic economic policy in the light of national development and public policy objectives, within the multilateral framework of rights and obligations under the WTO. This translates into such measures as SDT and less than full reciprocity; the preservation of tariff revenue; the promotion of domestic nascent industries as well as pre-empting de-industrialization; the preservation of long standing trade preferences; safeguarding food security, livelihood security, and rural development; providing for the use of policies and measures to foster commodity production, diversification and competitiveness; universal access to essential and infrastructure services; as well as access to essential drugs. Implementation-related issues, and the concerns of small and vulnerable economies and LDCs, also need to be addressed.

Policy flexibility should be available to developing countries that need it in specific areas so as to reduce the cost of implementation and adjustment, to ensure the sustainability of the adjustment process on the economic, social, environmental, and political fronts, and to deploy proactive measures with a view to building competitive supply capacity and productivity for exports. Some degree of flexibility has already been introduced in existing agreements and in the ongoing Doha negotiations. However, what is more important in the long run is mainstreaming the development dimension into the architecture of the WTO and making it fully operational.

Fourth, development solidarity is required from the international community to developing countries for undertaking adjustments and meeting implementation costs, as well as building trade-related infrastructure and supply capacity in order to take full advantage of increased market access and new trading opportunities. With trade liberalization and reform, developing countries face important implementation and adjustment costs, along with the need to create and strengthen supporting institutional and infrastructural capacities. Such solidarity would be in keeping with MDG Goal 8 on global partnership for development.

In this context, the Aid for Trade initiative is an essential complement to trade liberalization in the trading system. It can play an important role – along with improved market access, balanced rules of trade liberalization, and sound domestic policies – in helping developing countries realize the potential gains from trade and mitigate its potential costs.

Fifth, it is important to ensure coherence and a positive interface between RTAs and the MTS. Given the rise of regionalism, a robust progress in and a development-oriented conclusion of the Doha Round is the best guarantee against the erosion of the MTS. Specifically, the WTO rules on RTAs – under negotiation in the Doha negotiations – need clarification and improvement so as to improve compliance and better take into account the developmental aspects of RTAs.

Sixth, it is necessary to regularly monitor and assess protectionist threats to the goal of an open, equitable, rule-based, predictable and non-discriminatory multilateral trading system. Such assessment could help to highlight such tendencies and lead to measures and actions which can curtail protectionist threats against freer and fairer trading relations.

CHAPTER II

THE IMPACT OF INCREASED INTERNATIONAL TRADE DYNAMISM

2.1. The growth and current dynamism of international trade

The last decade, as well as the prognosis for the future, is marked by the increased dynamism and impact of trade on development and the world economy. The sheer size, scale and growth of trade and its (potential) impact on development are the main features of globalization. World exports of goods and services doubled between 1995 and 2006 to reach over US\$14 trillion in 2006. Since 1995, world merchandise trade has been growing at an annual average rate of 7.5 per cent. Since 2000, it has accelerated further to an average of 13 per cent. In the period 2000-2006, developing countries average export growth was about 15.9 per cent, while that of developed countries and countries with economies in transition was 11 per cent and 21.3 per cent respectively.¹³

Table 2 shows the evolution of trade in goods exports over the 1995-2006 period. World merchandise trade value has increased by 130 per cent while that of developing countries by 190 per cent. As a consequence, an upward trend in the participation of developing countries in total trade is observed. The share in world trade of developing countries which was 28.1 per cent in 1995 reached 35.5 per cent in 2006 (according to the data source used) The share of trade among developing countries has also increased significantly. In 2006, this share is almost equal to 16 per cent of world trade. It was about 11 per cent ten years ago.

Reporter Name	Partner Name	1995		2000		2006		Growth Rate of Values 1995 - 2006 (%)
		Value (\$ billions)	Share in WLD to WLD (%)	Value (\$ billions)	Share in WLD to WLD (%)	Value (\$ billions)	Share in WLD to WLD (%)	
World	World	5,037.5	100.0	6,316.1	100.0	11,565.8	100.0	129.6
Developing economies	World	1,417.4	28.1	2,061.7	32.6	4,110.8	35.5	190.0
Developing economies	Developing economies	570.2	11.3	786.6	12.5	1,824.2	15.8	219.9

Source: UNCTAD's South-South Trade Information System

A major contributing factor has been the spectacular growth in the share of international merchandise and services trade of several dynamic developing countries (see Box 4). This growth has resulted in new and enhanced opportunities for trade and development. Another related feature has been the dynamic rise in trade between the countries of the South. Their share in merchandise global exports jumped from around 20 per cent in 1970 to an all-time record of around 36 per cent in 2006.

¹³ UNCTAD GlobStat data.

Box 4. The performance of dynamic developing countries

During the last two decades, the shares of the dynamically growing economies in international merchandise and services trade have grown considerably. Seven countries in particular have contributed immensely to this trend: Brazil, India, China, Mexico, the Russian Federation, South Africa, and South Korea. The share of merchandise exports of these countries in global exports increased from 10.6 per cent in 1995 to 17.2 per cent in 2005. The total merchandise export of the 7 countries stood at US\$1.76 trillion, while their aggregate exports in services reached US\$232 billion respectively in 2005. The merchandise export of these 7 countries grew at an annual average rate of 11.6 per cent over the period of 1995-2005, while that of the developed economies grew by 5 per cent. During this period, service sector exports for the 7 countries increased by 10 per cent while, in comparison, the developed countries registered an annual average growth of 6.2 per cent. The intra-merchandise trade of the 7 countries has increased from US\$83 billion in 1995 to US\$513 billion in 2006. This robust trade performance has contributed to the high economic growth rate of these countries – with the annual real GDP growth of 5.7 per cent – in comparison to the rest of world. Apart from the 7 countries, several other countries also demonstrated high GDP (6% and above) and trade growth rates: these include, among developing countries, Argentina, Egypt, Indonesia, Malaysia, the Philippines, Peru, Thailand, Venezuela and Vietnam, and, among countries with economies in transition, Azerbaijan, Belarus, Croatia, Kazakhstan and Ukraine.

2.2. Developing countries in international trade

The overall trade performance of developing countries is very telling. During 1995 to 2005, the share of developing countries in world trade saw a three-fold increase, reaching an impressive US\$3.7 trillion. It accounted for 36 per cent of total merchandise exports – an all-time record. The trade to GDP ratio increased for almost all groups of countries, indicating a greater openness on the one hand, and trade dependence on the other (see Table 3). The importance of export earnings as a source for development finance also increased

Table 3. Trade to GDP ratios

Economy	1995	2000	2005
World	43.3	50.3	56.4
Developed economies	38.3	44.5	49.4
Developing economies	61.7	69.9	78.0
Least developed countries (LDCs)	46.7	53.1	63.8

Source: UNCTAD Handbook of Statistics

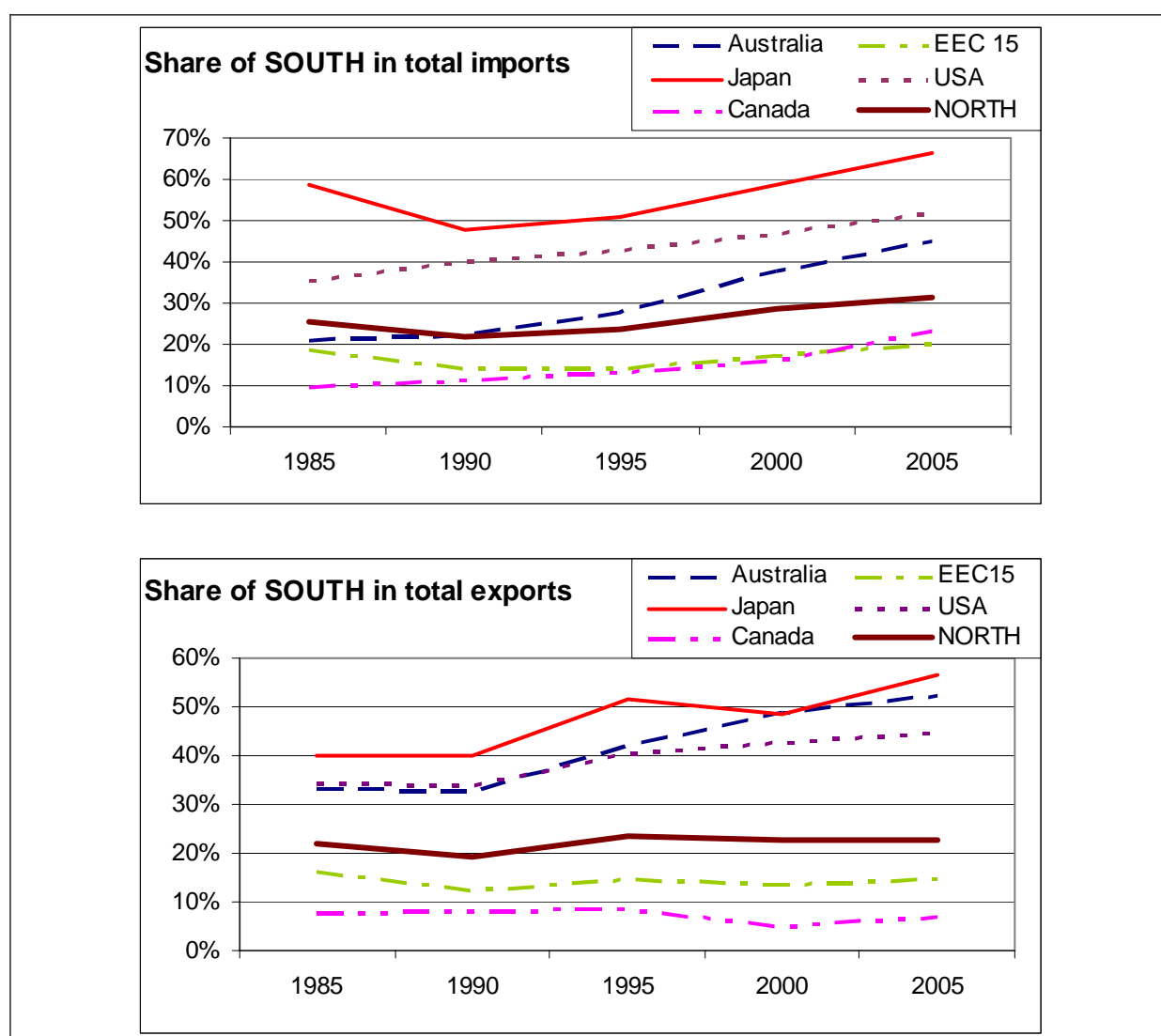
Developing countries have also significantly increased their presence in developed economies since the mid 1980s (see charts 1 and 2 below). Led largely by the developing Asia, particularly China, exports from the South in 2005 accounted for 32 per cent of total imports by developed economies, as compared to 25 per cent in 1985. As regards exports from developed countries to the South, it remained at around 23 per cent during the same period, suggesting that the South is capturing a greater market both in the North and in the South. Among developed countries, Japan reveals the strongest trade linkage with the South. More than 60 per cent of Japan's imports are from the South, and more than a half of its exports are destined to the South. The United States' imports from the South accounted for 52 per cent in 2005, having steadily increased from 35 per cent in 1985. As for the EEC-15, the share of the South in its import slightly fell between 1985 and 1995, reflecting a reduction in imports from Africa. It then increased to 20 per cent in the period between 1995 and 2005, which is about the same level as that of 1985, owing primarily to a substantial increase in imports from China.

The aggregate trade performance of developing countries has been impressive. However, it has been neither a continuous process nor uniformly spread across developing regions. The newly industrialized economies and China together account for almost the entire rise in the share of world exports of developing countries taken as a group. China's trade growth continued to outstrip other major traders. China's merchandise exports grew by 27 per cent. In the second half of 2006, its merchandise exports started to exceed those of the United States, but for the whole year US exports

still exceeded those of China. The four regions with the highest share of fuels and other mining products in their merchandise exports (the Middle East, Africa, the Commonwealth of Independent States, and South and Central America) recorded the strongest annual export growth in 2006.

Except for a few industrializing economies in Asia and some dynamic developing countries, the exports of other developing countries still concentrate on a limited range of natural resource-based products (energy and raw materials) and/or manufactured products (such as textile and clothing) with low value-addition. These have made for small (and often diminishing) returns. These developing countries have also suffered from worsening terms-of-trade, highly volatile world prices, as well as actually experienced a decline in their share in world trade. For example, the export share of the 50 LDCs – the majority of which are in sub-Saharan Africa and are commodity dependent – fell from 2.5 per cent in 1960 to about 0.5 per cent in 1995, and have since hovered around this level, rising slightly to 0.8 per cent in 2006.

Chart 1. Developing countries' trade with developed countries



Source: WITS

On the import side, the developed countries remain the major market. Nevertheless, the share of developing countries in world merchandise imports has also been increasing, rising to 32.1 per cent in 2006, up from 28.6 per cent in 1995. The strong growth in developing country import demand in the

last decade has been dominated by rapidly growing/developing Asia. This is particularly true of China which, in 2006, absorbed about 6.5 per cent of world imports, up from 2.5 per cent in 1995. Thus, while the exports of developing countries have increased, so too have their imports from all sources. This proves that their increased exports have led to increased income growth which has led to increased demand and import growth, thus spreading the benefits of trade-driven globalization.

2.3. New and dynamic sectors of world trade

It is also clear that increased participation in dynamic and new sectors of world trade is critical to successful export performance and to development in general. The dynamic sectors of world trade are those that have grown five times in value since 1995, and now constitute at least US\$10 billion in value. New sectors are also growing rapidly (double the rate of the world average), and include niche and specialty goods and services for which the returns are very high.

Dynamic and new sectors are driven by a sustained rise in demand, shifts in consumer preferences, and technological and skill-related developments. These sectors include beverages; marine products; energy-based products (such as biofuels); minerals and metals in commodities; manufactures such as electronics and electrical products; automotive parts; textiles and clothing items; renewable energy equipment; and services (including IT-enabled services, computer and information services, construction, travel and transport, telecom, audiovisual, financial and professional services, and commercial services). As a group, these dynamic sectors grew on an average of 12 per cent annually over the last decade. Many of them are based on new technologies with high value addition.¹⁴

The increasing participation of developing countries in world trade in these sectors is a positive trend. Over the last ten years, the share of developing countries in the top 25 new and dynamic products rose to 35 per cent in 2005. Even in niche products such as organic and environmental goods and services, their contribution is rising. Such participation in new and dynamic sectors enables developing countries to increase export earnings, augment value-addition and diversification, as well as improve both the terms of trade and build technological capacity.

Sectoral reviews of new and dynamic sectors have been carried out by UNCTAD for the purpose of strengthening developing countries participation through identifying policy pre-requisites for successful productive capacity-building, competitiveness and better market access. Such reviews have covered South-South trade in new and dynamic sectors, energy, electronics, fish and fishery products, steel and related specialty products, IT-enabled outsourcing of services, renewable energy products, including bio-fuels, and textiles and clothing. Particular attention is given in these sectoral reviews to the needs of LDCs and African countries. These specific sectoral reviews indicate that the ability of developing countries to participate and benefit from new and dynamic sectors depends on productive capacity, competitiveness, and market access and entry conditions. Also, participation in global production, value and distribution chains through trade and investment links is important to enable developing countries to take advantage of opportunities in this regard.

Of special note among the dynamically growing sectors of world trade are creative industries and the creative economy. Since 2000, creative industries globally have grown at an annual dynamic rate of over 7 per cent, to reach an estimated global market value of US\$1.3 trillion in 2005. These industries – with strong cultural and creative components – include a number of sub-sectors from traditional art and crafts, the visual and performing arts and music, to the more technological and services-oriented fields such as publishing, audiovisuals, design, and the news media.¹⁵

¹⁴ For analyses of such sectors, see for example UNCTAD's report on *Strengthening participation of developing countries in dynamic and new sectors of world trade: Trends, issues and policies* (TD/B/COM.1/EM.26/2).

¹⁵ Further ideas are provided in the chair's summary of the "Pre-conference event: Outcome of the Secretary-General's high-level panel on the creative economy and industries for development, Geneva, 14–15 January 2008" (TD/423).

Recent growth in trade in creative industries has been particularly high in OECD countries as well as in a number of leading developing countries. Between 1996 and 2005, world trade in the creative industries nearly doubled to stand at US\$208 billion in 2005. A notable feature of these trends has been the sharp rise in the share of developing countries in world exports in this category, increasing from 24 per cent in 1996 to 40 per cent in 2005. The increase was accounted for mainly by exports from Asian developing countries, which arose from 22 per cent of world trade in 1996 to 37 per cent in 2005. There is much potential also for LDCs to benefit from production and trade in creative industries as also for Latin American, Caribbean and African countries. LDCs could benefit from production and trade in their traditional and distinctive arts and crafts as well as music.

2.4. Analyzing trade and development performance: The TDI

Regarding overall trade performance, interesting findings emerge from the systematic examination of the interaction between structural/institutional context, trade policies/processes and the trade and development performance provided by UNCTAD's Trade and Development Index (TDI) 2007.¹⁶ The TDI provides both a quantitative indication and an analytical framework to identify how well trade and development are integrated in an individual country, based not only on its trade and development performance, but also on key factors affecting this joint performance. In addition, the TDI also offers a useful new tool for comparative studies among countries/regions regarding their trade and development performance. TDI national scores are a composite quantitative indication describing the interaction between development and trade performance.

TDI scores have improved (from 2005 to 2007) in all the regions, with the exception of a marginal decline for North America. All the seven emerging economies have shown a 'climbing up' in TDI scores. The major exporters of energy as well as commodity dependent countries have also shown positive improvements in TDI since 2005. Nominally, TDI scores have risen the most in sub-Saharan Africa, the Middle East and North Africa. However, this improvement still leaves huge gaps in development levels between developing countries, transition economies and developed countries. It is also interesting to note that several developing countries with a formerly centrally managed economy or a strong governmental planning role (such as China, Malaysia and Viet Nam) have witnessed the most exceptional economic and trade performance in recent years. This is so despite the fact of their not having bilateral trade or investment agreements, or any significant 'guidance' by the Bretton Woods institutions. Their experience with trade-led globalization could provide important development lessons for other countries.

The TDI-2007 incorporates a number of refinements following suggestions from governments and the academic community. Thus three new components have been added to the structural and institutional context dimension, namely: domestic finance resources, international finance resources, and macroeconomic stability in addition to six components contained in the TDI-2005 (i.e. human capital, physical infrastructure, financial environment, economic structure, institutional quality and environmental sustainability). Further more, two new components, trade performance and economic and social well-being have been added to the newly defined 'trade and development performance' dimension (in lieu of dimension "level of development" in the TDI-2005). In addition, a number of new indicators have been added, including: gross domestic savings, total external debt service and short-term debt, regulatory quality and control of corruption, the inflation and current account balance, female to male income share and female labour force participation in total labour force, and the adult literacy ratio as an education indicator. The third TDI dimension – 'trade policies and processes' remained the same as in the TDI-2005. As a result, the new TDI incorporates 3 dimensions, 13 components and 34 specific indicators (the TDI-2005 comprised 3 dimensions, 11 components and 29 indicators). UNCTAD's TDI is an example of policymaking tools available to UNCTAD member

¹⁶ UNCTAD, **Developing Countries in International Trade 2007: Trade and Development Index** (UNCTAD/DITC/TAB/2007/2).

States for identifying existing strengths and weaknesses of their institutional and policy environment, and development strategies including in achieving the MDGs by 2015.

2.5. Fostering an enabling environment: Easing market access, market entry and releasing the competitive productive capacities of developing countries

One size or one set of rules does not fit all. This fact must be taken into account in global rule-making while trying to ensure optimum trade and development outcomes. Trade rules affect a much greater array of domestic policies and regulations than ever before, thus placing an additional strain on policymaking and institution building, especially in developing countries. Successful development outcomes from trade are mediated by policies and institutions that direct the surplus earned through trade towards activities that promote economic growth, thereby initiating a cumulative trade/growth/development spiral. The transition to greater reliance on formal institutions is not easy. The design, targeting, sequencing and pace of the transition require care for the transition to be successfully accomplished.

Developed countries and institutions could make their contribution through aid for diversification, institutional and technical support, and through the provision of better market access and entry for the exports from developing countries. For their part, successful trade policymaking in developing countries will depend upon cooperative and collegial approach among all national level stakeholders with an interest in trade-related matters. Governments need to place more emphasis on mainstreaming trade into development and, for this purpose, extensively and continuously consult with all stakeholders in the public, private, and civil society, including academia. In turn, these stakeholders have an interest in participating and contributing actively to trade policy formulation and decision making so that they can use trade as an engine of development. UNCTAD's TDI can serve as an innovative diagnostic and policymaking tool for assessing the overall interactions and interdependence among various factors in the trade and development process.

Identifying the ways and means of strengthening the trade integration of developing countries that are marginalized from the dynamism in international trade and development gains has to be an important plank of coherent national and international efforts. Central to this approach must be a focus on improving market access, market entry and competitiveness of developing countries.¹⁷ Promoting trade agreements and negotiations at the multilateral, regional, and bilateral levels to build up market access and entry as well as enabling conditions for the continued expansion of the trade of developing countries will be important in this regard. Addressing non-tariff barriers in major markets has to be central in providing genuine market access and entry for the export of goods and services from developing countries. Augmenting the competitive productive capacities of developing countries and enhancing their participation in value-chains with higher returns (such as in new and dynamic sectors of world trade), deserves a more focused, in-depth and sustained attention that is both coherent and also coordinates international support measures with national development priorities. It is necessary to adopt specific strategies for selecting sectors with existing and potential comparative advantage in a developing country. Then actions can be undertaken to build supply capacity and competitiveness through appropriate enabling and supportive policies as well as private sectors initiatives.

Public-private partnerships in trade and investment can promote international trade with a focus on promoting development as well as meeting global and national development priorities. In order to strengthen the participation of developing countries in new and dynamic sectors, public-private partnerships will be needed. A trend-setting example in this regard is the UNCTAD-Philips initiative on the electronic/electrical sector in southern Africa (see Box 5). As the Philips initiative shows, moves to set up trade-related industries and FDI in sub-Saharan Africa could set an example of

¹⁷ For more details, see for example UNCTAD report on *Market access, market entry and competitiveness* (TD/B/COM.1/83).

the corporate world undertaking responsibility for development and of creating stakes for developing countries in trade-driven liberalization and globalization.

Public-private partnerships serve a variety of purposes relating to FDI and the transfer of technology, and productive capacity-building. Global enterprises can take up these challenges *vis-à-vis* weak and vulnerable enterprises that have been prevented from participating in the new, dynamic and high-return segments of international trade. This is particularly true of commodity-dependent countries, small and vulnerable economies and LDCs.

Box 5. Lighting up SADC

UNCTAD and Royal Philips Electronics Corporation are engaged in a project with a view to establishing energy saving light-bulb industry in the Southern African (SADC) region. The project seeks to strengthen cooperation among SADC Members by creating competitive supply capacities in energy saving light-bulb products; promoting trade among SADC countries; promoting energy saving in the SADC region to meet the challenge of rising energy costs; and improving environmental sustainability by reducing green gas emissions. The project is an example of UNCTAD's innovative approaches to promoting public-private cooperation and partnerships geared towards the development of new and competitive productive capacities in African countries, which strengthens their participation in new and dynamic sector of international trade. This in turn contributes to their industrialisation whilst also serving the purpose of promoting energy security.

Systematic monitoring and the research and analysis of international trade flows, trends and patterns will be essential for providing updated information and data for trade policy formulation, trade negotiations and business operations. All these will also be necessary for the exploitation of new trading opportunities in promoting trade, economic growth and development.

CHAPTER III

THE DYNAMIC SOUTH AND SOUTH-SOUTH TRADE AND ECONOMIC COOPERATION

3.1. Dynamic South and South-South trade dynamism

North-South trade remains important, with the North providing the main markets for developing countries as whole. In parallel, South-South trade has emerged from the peripheries of world trade to becoming more and more central, both in terms of quantity and quality.

As more and more developing countries especially large, populous and dynamic ones grow economically, accelerate the pace of their development and diversify their productive base, they provide bigger and higher value markets for the South's commodities, manufactures and services. In turn, they draw upon South's rich natural resource base and cost/quality competitive goods and services to power their economic growth, meet their food and energy security and build infrastructure. This emergence of South-South economic interdependence is already setting new modes of trading and investing. If such trade and cooperation is conducted in mutually beneficially manner, it has the potential to be highly development "transmitting".

Integral to this major change has been the rise of a group of dynamically growing, trading and investing developing countries that are spawning global enterprises involved in production, trade, and investment in both developed and developing countries. These active developing countries are climbing up the value chain in international trade to produce and sell higher value-added products. Moreover, countries like Brazil, China, India and South Africa are combining the two key ingredients of global competitiveness in trade – low-cost labour and a growing high-tech knowledge base – and are thus spurring the competitiveness of the South. This has lent a major impetus to South-South trade and the promise of new trade and economic complementarities. Moreover, the dynamic South helps raise the buying and selling power of the South as a whole, providing an engine of global growth. As new drivers of trade integration, the dynamic South is contributing to the maximization of advantages from trade, investment, and technology, as well as technical and financial flows into other countries of the South and the North.

There has been a marked shift in the composition of the exports of developing countries taken as a group, with manufactures now accounting for about 70 per cent of their exports. The manufacturing sectors also represent a large part of South-South trade, rising from 35 per cent in 1995 to 42 per cent in 2005. The most traded goods in 2005 included high-end manufacturing goods, such as electrical machinery and equipment (22 per cent), computers, other machinery and mechanical appliances (11 per cent). These also formed the most dynamically growing sectors in world trade. Fuel is the second-most traded sector (21 per cent), followed by base metals and products (7 per cent), and textiles and articles (6 per cent). The share of fuels' share in total South-South trade increased from 13 to 21 per cent between 1995 and 2005, reflecting the rise in oil prices.

South-South merchandise trade has expanded dynamically, increasing from US\$577 billion in 1995 to US\$1.7 trillion in 2005 – a threefold increase in 10 years.¹⁸ This has resulted in the concomitant increase in the South-South share of world merchandise exports, rising up to 15 per cent in 2005, up from 11 per cent in 1995. South-South trade performance in recent years has indeed been impressive. In 2005, 46 per cent of the total merchandise export of developing countries went to each other, as compared to 40 per cent in 1995. Developing countries are increasingly trading with each other. With such current growth rates it is likely that, by the end of the decade, over one half of the trade of developing countries will be with each other.

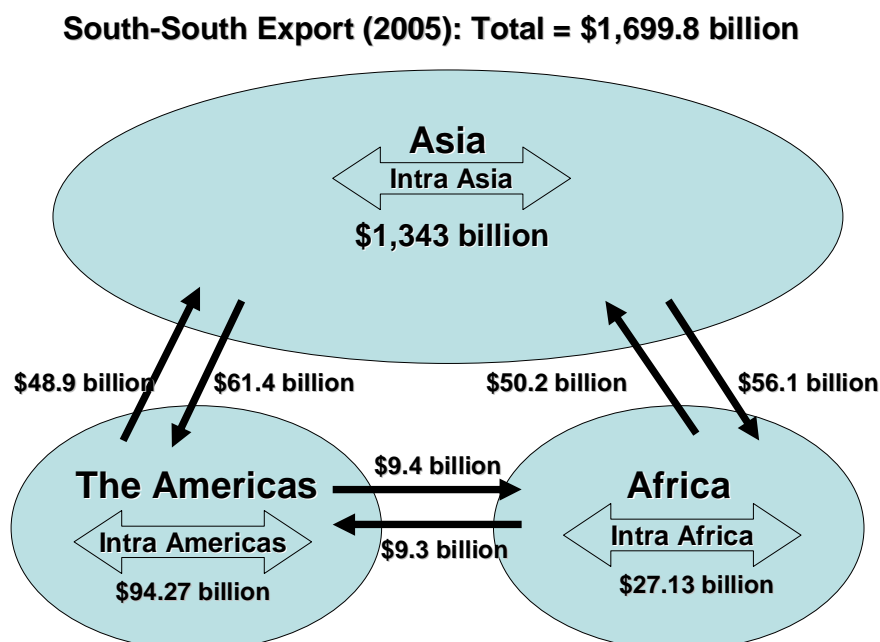
¹⁸ Trade data sourced from UNCTAD's new South-South Trade Information System.

A few developing countries dominate South-South trade, however. Those with the highest value of exports to the South in 2005 include China, Hong Kong China, the Republic of Korea, Singapore and Saudi Arabia. The share of South-South exports in the total exports of these countries was generally higher than the South's average (36 per cent). The majority of developing countries have yet to be more fully integrated into South-South trade and to benefit from its recent dynamism.

3.2. Growth of intraregional and interregional trade

Intraregional developing country trade is the mainstay of South-South trade, having grown impressively between 1995 and 2005. However, there is a preponderant dominance by intra-developing Asia trade which accounts currently for over 80 per cent of such trade (see Chart 2). The Asian region has experienced increasing intraregional flows of intermediate goods, as well as interregional supply of final goods and natural resources. RTAs among developing countries and other informal trade networks have emerged to provide the enabling framework for the liberalization, facilitation, and conduct of intraregional trade, investment and technological exchanges.

Chart 2. Intra and Interregional Trade among Developing Countries



Interregional South-South trade has experienced significant growth in recent years largely as a result of rapidly developing Asia's demand for energy and industrial raw materials, and its exports of manufactures to other developing regions. The importance of the South as an export destination is growing in all developing regions with general South-South trade dynamism.

South-South trade has become a particularly dynamic element of the world commodity trade due higher growth rates in developing countries where the per capita consumption of commodities has been increasing rapidly. South-South trade in commodities, especially energy and minerals, constitutes a new window of opportunity to be seized and exploited in the coming decade. Table 4 shows developments over the period 2000 to 2006, indicating that the developing countries have a rising share in each others commodity trade. Commodities account for between 25 to 74 per cent of total exports of different developing countries. More strikingly the share of developing countries imports of commodities from other developing countries in total merchandise trade increased from 60 to 70 per cent during the same 6-year period. There is every reason to believe that the share of South-South trade will continue to grow rapidly. This South-South commodity trade dynamism has led to increases

in commodity prices and improvements in terms of trade for producers. Such increases should be put to good use in supporting development and poverty reduction. Important measures of success will include the extent to which value addition accrues to the country, revenues are channelled towards investment in social and physical infrastructure, employment is generated, and market access and entry enhanced and facilitated.

Table 4. South-South commodity trade

Region	Share of commodity in exports to developing countries, %				Share of commodity in imports from developing countries, %			
	2000	2004	2005	2006	2000	2004	2005	2006
Developing economies: Africa	74	73	75	74	49	43	42	43
Developing economies: America (Latin America and Caribbean)	54	54	57	60	38	31	30	30
Developing economies: Asia	25	23	24	25	30	29	30	33
Developing economies	31	28	30	31	32	30	31	34

Sources: UNCTAD Handbook of Statistics 2006-07 (2000, 2004 and 2005 figures) and GlobStat database (2006 provisional figures)

Note: Primary commodities, including fuels = SITC 0 + 1 + 2 + 3 + 4 + 68 (Revision 3)

Region	Share of commodity exports to developing countries in total commodity exports, %				Share of commodity imports from developing countries in total commodity imports, %			
	2000	2004	2005	2006	2000	2004	2005	2006
Developing economies: Africa	29	30	30	29	54	57	57	64
Developing economies: America (Latin America and Caribbean)	29	30	34	36	54	54	54	59
Developing economies: Asia	46	49	47	49	62	63	64	72
Developing economies	39	41	41	42	60	61	62	70

Sources: UNCTAD Handbook of Statistics 2006-07 (2000, 2004 and 2005 figures) and GlobStat database (2006 provisional figures)

Note: Primary commodities, including fuels = SITC 0 + 1 + 2 + 3 + 4 + 68 (Revision 3)

Thus, there is thus tremendous potential that can be unleashed through deliberate cooperative initiatives serving as the hub for trade, investment and general economic cooperation among developing countries. These include the IBSA (India-Brazil-South Africa) initiative, NAASP (New Asian African Strategic Partnership) and, most importantly, the Global System of Trade Preferences among Developing Countries (GSTP). The South Summit also provides an overarching framework within which strategic guidance, direction, and support can be provided at the highest political level to promoting the South's development and South-South trade. Moreover, trade between developing countries and countries with economies in transition can be developed and strengthened (see Box 6).

Box 6. China-Africa Trade and Investment – A New Partnership in South-South Trade Development

Merchandise trade between China and Africa has grown on average by 30 per cent over the past 5 years to reach a value of US\$55.5 billion in 2006. China's exports to Africa amounted to US\$26.7 billion in 2006, while imports were US\$28.8 billion. China's export of services to Africa has also been developing rapidly. In 2006, Chinese corporations achieved a turnover of US\$9.5 billion on construction services exports to Africa. Since 2000, Chinese corporations have built over 6,000 kilometers of road and eight large to mid-sized electricity stations in Africa. At the same time, China's investments in Africa have been increasing. In 2006, direct investments from China in Africa totaled US\$370 million and went into textiles (Guinea), wood (Gabon), and manufacturing (TV sets in South Africa). By the end of 2006, China had invested US\$6.3 billion in Africa, covering agriculture, communications, energy and manufacturing. Such investment is contributing to building productive capacity in Africa, and enhancing its trading potential. There are a number of complementarities in China-Africa trade. With a population of 800 million, Africa offers a market of great potential – gradually emerging as a result of the past 11 consecutive years of economic growth – for Chinese exports. China has commodities, technologies and advanced management methods adaptable to the economic development of African countries. The cost-competitive exports of Chinese consumer goods have made many previously unaffordable goods accessible to the poorer sections of the African population. In addition, Africa benefits from China's increasing investment that brings necessary capital support for their development. Thus, the prospects for China-Africa cooperation in many fields such as infrastructure, agriculture, telecommunications, energy and manufacturing are very bright.

As regards trade in services, despite the paucity of directional trade data in services, UNCTAD estimates (based on a recent study by OECD)¹⁹ indicate that trade (exports and imports) in intraregional services accounts for the vast majority of South-South services trade of developing countries. Data shows that intraregional services trade accounts for 57, 71 and 94 per cent of South-South services trade for Africa, Latin America and the Caribbean, as well as Asia and Oceania, respectively. Intraregional services trade is particularly significant in Asia and Oceania since as much as half of its total services trade is directed to the region. This figure remains below 20 per cent in other developing country regions. For developing countries, much of regional trade reflects trade in commercial services, such as freight transportation, tourism, construction, and business services. However, the scope of traded services, and correspondingly the magnitude of services trade flows, is expanding rapidly as countries progressively privatize and liberalize those services.

The emergence of a dynamic South has led to a substantial increase in producer demand for resources (including commodities), the fostering of new markets, and a rise in the consumer demand for a variety of competitively priced goods. The expansion of South-South trade has also given a new impetus to regional and interregional trade as well as to economic integration schemes. This is facilitated by – and is contributing to – positive diversification in the export-import basket, better terms of trade, competition, as well as new and additional markets and sources of supply for developing countries. However, many challenges remain and need to be addressed. These include the likelihood of the fallacy of composition in certain sectors (i.e. that increases in the export of these sectors by many countries may flood the market, and thus drive down price for all countries), the lack of diversification and value addition among commodity producers (especially African countries), physical infrastructure and trade facilitation (logistic) bottlenecks, limited complementarities between many countries, as well as the marginalization and crowding out of LDCs and small and vulnerable economies (especially in textiles and clothing, electronics and other products) in the face of more competitive suppliers.

3.3. Trade between developing countries and countries with economies in transition

The recent period of 2000-2006 witnessed a surge of merchandise trade between developing countries and countries with economies in transition. Exports from developing countries to the latter increased by more than 382 per cent in 2000-2006, from US\$ 14.1 billion to US\$ 68 billion.²⁰ The growth of their imports from countries with economies in transition was also impressive. During the same period, such import increased by 123 per cent, from US\$ 31.1 billion to US\$ 69.4 billion.

In terms of export product structure, the most dynamic exports from developing countries were: animal and animal products (2,263 per cent growth), various vehicles (965 per cent), base metals and products (946 per cent), aircraft, ships and boats (754 per cent) and other manufactured articles (519 per cent). On the other hand, the most dynamic products of developing countries' imports from countries with economies in transition were: fuels (453 per cent growth), vegetable products (311 per cent), ores and minerals (284 per cent) and miscellaneous manufactured articles (267 per cent). Analysis of these trade flows, which, to a large extent, are only now emerging, suggests that a strong pattern of complementarity is gradually evolving in trade between these two groups of countries.

3.4. Fostering an enabling environment: Development-transmitting South and South-South trade

There is a new window of opportunity for developing countries and the international community to support the emergence of the dynamic South in the wider effort to assist developing countries in maximizing development benefits from trade and investment driven globalization. The

¹⁹ Nora Dihel, Felix Eschenbach and Ben Shepherd, "South-South Services Trade", *OECD Trade Policy Working Paper No. 39*, OECD Trade Directorate (17 October 2006).

²⁰ All data is from UNCTAD South-South Trade Information System (SSTIS).

tendency to resort to neo-protectionism measures – especially in industrialized countries – against rising merchandise/services exports or investments from South (or into the South) should be arrested, even ruled out. This should be done through awareness and confidence building measures, and policy deliberations (a coherent and coordinated development dialogue) with all the concerned stakeholders. UNCTAD, as in the past, can play a constructive mediating role in such dialogue.

The emerging South is also rapidly building trade and economic relations with other developing countries, including LDCs. What is important to emphasize is that unlike in the 1960-1970s, the dynamic South-South cooperation is driven today by economic factors and, in fact by the globalization itself. These positive and encouraging trends should be strengthened, widened and deepened so that developing countries still at the periphery of South-South cooperation can be mainstreamed and become beneficiaries of the new trade geography, in addition to their efforts to integrate into the international trading system.

A simulation exercise shows that the removal of South-South barriers has the potential to generate gains 40 per cent larger than those obtained with the opening up of all Northern markets to all developing countries.²¹ The results imply that giving greater emphasis to removing barriers between as well as within continents could prove a successful Southern survival strategy. Moreover, with South-South trade liberalization, interregional exports within developing regions increase dramatically. Compared with North-South liberalization, South-South liberalization is accompanied by a larger overall impact in manufacturing sectors relative to agricultural products sectors. This is mostly the consequence of the removal of initially relatively higher tariff rates imposed on South-South trade in manufactures. Ultimately, South-South liberalization should add to multilateral liberalization and stimulate global trade generally.

There is also a need to support the new dynamism in South-South trade to ensure that it sustains its role as a major motor of world economic growth, especially against the latest developments and predictions regarding economic slowdown and even potential recession in the leading developed economies from 2008 to 2010. Such support will also require effective and coherent policies for regional development, coordinated at sub-regional, regional, and interregional levels.²² The dynamic South and South-South trade dynamism equally demands institutional and regulatory changes, adaptation and innovation, both in respect of South-South and North-South cooperation. In particular, South-South trade liberalization needs to be consolidated and pursued further, including through more rapid and complete implementation and rationalization of South-South RTAs. Investments in R&D and technological cooperation at the regional level will be required as well to build the scientific and technological basis for future South-South trade and economic relations, including raising levels of technological complementarity among developing countries.

The impact of a dynamic and rising South is already prominent in the international trading system in the form of the proactive participation and the decisive role of developing countries and their groupings in WTO trade negotiations in all areas. The Doha negotiations marked a departure point not only because they formally placed development at the heart of the work programme, but also because developing countries have been effectively pursuing a positive agenda whilst also trying to secure their policy flexibility related to larger development concerns. This positive agenda of developing countries addresses issues in both market access and systemic multilateral rules with a view to ensure that in the outcome of the Doha Round, development dividends will be meaningful and operational. Developing country issue based coalitions such as G-20, G-33, NAMA-XI, G-90, G-

²¹ Fugazza M and D. Vanzetti (forthcoming). A South-South survival strategy: the potential for trade among developing countries. *The World Economy*.

²² See UNCTAD's **Trade and Development Report 2007** (UNCTAD/TDR/2007) for an assessment of key policies for strengthening South-South trade and economic integration processes.

110,²³ have been playing a key role. It is also significant that the Quad which used to be composed of developed countries alone has been complemented by the G-4 involving USA and EU and developing countries like India and Brazil. This is a sign of the times and an indication that the MTS and the global trade governance it represents is and should be increasingly adapting to the new realities in the geography of international trade. More needs to be done, however, to reflect the expansion of WTO members to 152, the majority of which are developing countries, and to respond effectively to their varying trade and development conditions and specific needs.

In North-South RTAs and free trade agreements too, there is a shift by leading trading nations like EU and US to enter into such agreements with countries not only geographical contiguous to them but also with regional and subregional groupings of developing countries further a field. Examples include the EU-Mercosur or EU-ASEAN free trade agreement negotiations. Moreover, countries like China, Japan, India and the Republic of Korea which previously shun RTAs and relied on multilateral trade liberalization are engaging other regional and extra-regional partners. There is now a new generation of North-South RTAs emerging, many of which are replacing unilateral preferences in favour of developing countries with reciprocal concessions among countries at substantially different levels of development. This is a new phenomenon which requires careful analyses to ensure that these agreements provide real, effective and additional market access for developing country exports, and promote broader development partnerships. At the same time calibrating developing countries' participation in these RTAs to sequence and pace liberalization in a manner consistent with their trade, development and financial capacities will determine the pro-development outcome of such arrangements.

An enabling environment for development of the South and South-South trade can include, among other things: opportunities for greater FDI flows to and from the South; facilitating R&D and technological cooperation and transfer to the South in key areas of transformational production and development including in pro-poor technologies; increasing universal access to essential services; and promoting energy efficient, eco-friendly technologies and renewable energy sources. Trade agreements should spur industrialization, help improve agricultural productivity and food security as well as help build competitive services sectors and new export capacity. Aid to trade and development should be made available to cushion partly the adjustment costs for developing countries arising from trade liberalization and reforms on account of RTAs and WTO agreements. Deeper productive capacity and infrastructure building should be a key objective and outcome of RTAs to enable developing countries to take advantage of trade liberalization opportunities.

Trade, investment and development cooperation policies of the developed countries are critical for continued dynamism of 'development multiplying' South's engines of regional and global trade as well as for 'development transmitting' stimulus of South-South trade, investment and technology transfer. To some extent, adaptations in this direction are already happening in that the developed countries are entering into RTAs with South-South groupings. Arrangements such as the EU-ACP economic partnership agreements should be so tailored as to enhance both a market access package and a substantial capacity developing package which will have an impact sub-regionally and

²³ The G20 is a group of developing countries' members of the WTO with major agricultural export interests. The Group was formed immediately prior to the 5th WTO Ministerial Conference in September 2003. Members of the G20 include: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela and Zimbabwe. The G-33 is an alliance of some 40 developing countries' members of the WTO with the majority of the world's small vulnerable resource-poor farmers. The NAMA-11 comprise WTO developing country members with existing and potential industrial production and development capacities: Argentina, Brazil, Egypt, India, Indonesia, Namibia, Philippines, South Africa, Tunisia, and Venezuela. The G90 groups together the African, Caribbean and Pacific (ACP) Group of States, the member States of the African Union, and the Least-Developed Countries (LDCs). The G110 is a coalition of 110 developing countries members of the WTO that was formed at the 6th WTO Ministerial Conference in December 2006.

regionally. At the same time, as stipulated in the Cotonou Agreement, ACP countries should be provided concrete special and differential treatment.

Preferential trade schemes, both unilateral and “free trade” concessions provided by the North to the South as part of RTAs, could include South-South cumulation provisions in the rules of origin. This would stimulate South-South investment and trade and ensure that the dynamic South’s globalisation drive is harnessed to boost the rest of the South’s trade. In addition, participation of some developing countries in Northern enterprises led global production and distribution chains is also generating South-South trade. This form of intra-firm triangular cooperation (North–South–South), however, needs to be further encouraged especially in terms of increased value chain participation by developing countries. Some duty free, quota free schemes have been notified or announced by developing countries for LDCs as a measure of development solidarity. These countries include China, India, Morocco, Pakistan, Sri Lanka and Turkey.²⁴

As regards other trade related institutions and policies of global economic governance, it is evident from the G-8’s and OECD’s outreach programmes directed at dialogue with some big emerging economies, that developing country voice and perspective is essential if global economic governance is to be credible, inclusive and effective. With regard to the international monetary and financial systems too, need for institutional adaptation to reflect the growing trade and development role and impact of developing countries is being recognized. There is a move albeit not as much and as fast as it should be, to increase the voice and participation of developing countries in multilateral financial institutions – the World Bank and the IMF and their decision making process. Global macro-economic policy management, including addressing global trade and current account imbalances in a coherent way along with multilateral surveillance and disciplining of monetary and financial markets is imperative and must involve developing countries.

It is important that the dynamic trade performance by some developing countries should not be mistaken for their having overcome their inherent and persistent trade and development constraints and challenges. It must be realized that most still deserve development support and special and differential treatment in terms of both trade and aid policies. Recent studies by the World Bank highlights how big development challenge even dynamic low-income trade and economic performers like China and India face in catching up with developed countries even when their per capita income is measured in PPP (purchasing power parity) terms. Similarly, UNCTAD’s Trade and Development Index shows that the emerging developing countries are still quite low in the rankings on account of widespread poverty, infrastructure deficits, weak financial intermediation facilities, and structural and institutional shortcomings.

They, like in the North, but probably even more face the daunting task of ensuring more equitable and widely distributed trade and development gains for all their regions and populations including the urban and rural poor and women. The inequality gap within developing countries, often accentuated by trade driven globalization needs to be bridged. Reliance on a trickle down of economic growth will not be adequate to address such inequalities - proactive policies need to be followed by developing countries to spread the benefits of trade growth more inclusively.

The emergence of changes in South-South trade call for new and well adapted South-South institutions, strategies, policies and measures at all levels. Development strategies of the South should and are increasingly factoring in economic cooperation with other countries of the South especially as regards trade, investment, technology transfer and social development programmes. Awareness raising about successful development models, projects and best practices and their replication would be an important area of South-South cooperation. Institutions for sharing such experiences and models at

²⁴ See WTO, “Market Access for Products and Services of Export Interest to Least-Developed Countries” (WT/COMTD/LDC/W/41, 16 October 2007, p.44-48).

regional and interregional levels would be required and would involve government, private sector and civil society participation.

A new look needs to be given to initiatives such as the South Bank both as regional and inter-regional concepts. Initiatives such as the Global Network of Export Import Banks and Development Financial Institutions (GNEXID) promoted under UNCTAD auspices could play a significant role in supporting South-South trade and development finance. Regional and inter-regional monetary unions and arrangements are also ideas whose time may have come for operationalization. The Bank of the South (Banco del Sur) launched in December 2007 by several Latin American countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay, and Venezuela) is a concrete step towards promoting financial and monetary cooperation among these countries in support of their mutual trade, investment and development. Developing and implementing regional standards on TBT and SPS can be effective in South-South trade promotion. The South Fund for Development and Humanitarian Assistance, launched at the Second South Summit could useful support and sustain the South-South dynamism.

This is a seminal period for the evolution of South-South trade and investment models in sectors ranging from minerals, metals and fuels, manufacturing and services. There is some expectation that as developing country enterprises operate and deal with other developing countries, there will be greater mutual understanding of development imperatives and conditions. Similarly, there is indication that South-South trade and investment cooperation, export credits and project implementation especially in infrastructure, need to be moulded so as to be 'development transmitting' models. This would involve public-private partnerships that help build permanent capacity, physical and social infrastructure, transfer technology, create jobs, contribute to value addition, and build competitive productive structures and institutions. The flying-geese model that worked in the Asian regional context needs to be adapted to inter-regional Asian, African and Latin American contexts, while respecting their traditions and individual development paths. A "one-size-fits-all" approach will not work here as it has not worked on a global scale.

Considerable expansion in inter-regional South-South trade especially since 2000, with a number of developing countries among top five global trading partners, represents an exciting new phenomenon of international trade. The major change in South-South economic and trade interaction is in terms of the reality that the new dynamism is market driven with enterprises of the South and the North linking up Southern economies and markets through intra- and inter-firm and intra- and inter-industry networks and transactions. Increasing complementarities and capacities of developing country enterprises have played an important part. However, policy driven South-South trade liberalization still remains rather limited, inconclusive and needs to be advanced, while trade promotion and facilitation combined with deeper economic integration and institutional cooperation should play a more critical role in expanding South-South trade and investment both regionally and inter-regionally.

Although South-South RTAs have been active in driving regional economic integration for over several decades, their implementation in terms of coverage and commercial benefits requires a lot better performance. Many of them have hub and spoke formations with some key developing countries propelling such integration in accordance with their perceived interests. These have given rise to increasing regional division of labour in general, greater complementarities and new value chain creation. However, new institutional mechanisms for tapping and encouraging the entrepreneurial, capital, technological and labour related resources of the South for the benefit of the whole South need to be evolved. Regional trade liberalization needs to be deepened and complemented by a provision of finance and capital for building the required physical, air, rail, road and maritime transport infrastructure and trade related institutions such as those for standards, testing and conformity assessment, and mutual recognition of qualifications, technical regulations and standards. Special and differential provisions for less developed participants of South-South RTAs are also required as expression of economic wisdom and development solidarity. Such new generation arrangements should enable developing countries to leverage their existent and dynamically progressing comparative advantage *vis-à-vis* each other and in their relationships with the North, including in

possible triangular cooperation arrangements, which should be clearly defined and not confined only to ODA-type projects, but also based on economically viable commercial and investment endeavours. In this regard, the private sectors both from South and North should play a leading role supported by government facilitating policies.

In this regard, comprehensive and progressive inter-regional South-South trade liberalization is being attempted through the third round of negotiations under the Global System of Trade Preferences among Developing Countries (GSTP) that were launched at UNCTAD XI. As a first step, modalities for tariff liberalization on applied rates with special consideration for LDCs and requisite rules are being finalized towards adoption at UNCTAD XII. It will be expected that this will lead to further negotiations to cover NTBs and services in subsequent rounds. The GSTP has the potential to become a true catalyst for a deeper and more inclusive South-South trade liberalization, particularly by giving impetus to inter-regional South-South trade and investment and to economic cooperation among developing countries (ECDC) generally.

Trade between developing countries and countries with economies in transition is emerging strongly. New initiatives in terms of trade agreements, institutions, and trade promotion activities can be developed and implemented to build up such trade further to the mutual benefit of developing countries and countries with economies in transition.

Finally, the emerging big Southern performers are themselves benefiting increasingly from trade and economic expansion. The challenge is also to ensure that these economic gains are more equitably distributed inside their societies, while their policies aim at providing universal access to the benefits of impressive economic growth, especially in case of poor segments of their populations. The emerging South's ever increasing population and enterprises with progressively augmented purchasing power and rising demand for resources has already become a major impetus to regional and inter-regional trade and economic development, as well as a substantial driver of global trade and economic growth in recent years. Other countries of the South also benefit from larger and fast growing markets which they can access and get better terms of trade and returns for their exports. It enables them to diversify away from their dependence on Northern markets for their exports and imports as well as for FDI and technologies. For North too, this is a win-win scenario as rapid and increased economic growth and trade capacity in dynamic developing countries and markets enables the North to increase their exports, particularly of high value-added goods and services, while putting off pressure, to some extent, on their imports from emerging economies. Furthermore, both developing country and developed country consumers benefit from cost quality competitive imports from the dynamic developing countries. In this regard therefore it would be counter-productive to view the rise of new dynamic engines of the South in international trade and investment as anything but a positive-sum phenomenon for all. The fact that more and more developing countries are increasing their stakes in freer and more open international trade should be welcomed and encouraged.

CHAPTER IV RE-LAUNCHING THE COMMODITY AGENDA

4.1. Opportunities offered by the recent commodity boom

Since 2002, there has been a ‘commodity boom.’ International commodity prices showed a strong upward trend after their sharp fall in 1995-1997 to 2002. UNCTAD’s commodity price index (including fuels) in current US dollar terms has risen 96 per cent since 2002. The rise in prices has been driven by the boom in the prices of metals and minerals which have increased by 191 per cent, and those of crude oil which have risen by 140 per cent. Price increases for agricultural raw materials and tropical beverages taken as groups averaged between 58 per cent and 45 per cent, respectively.

The relative importance of factors behind the price increases differs from commodity to commodity. However there are some common factors. These include the strong growth in import demand of developing countries, owing to the rapid pace of industrialization, especially in China (see Box 7), India and other emerging developing countries; the increased production of biofuels which mainly affects the markets for food products by pushing up the price of land and adding to effective demand for some products that are used both for food and for biofuel (for instance, sugar cane and maize); as well as emerging supply constraints in some commodity markets.

A sustained increase in the demand for commodities by emerging countries – which appears likely – will continue to provide additional opportunities for increased commodity exports by developing countries. Although the Asian import demand has centred on industrial raw materials (minerals and mining products and agricultural raw materials), the rising consumer purchasing power in the developing Asia region has also boosted the demand for some agro-food commodities (such as coffee, tea and cocoa) which had been facing stagnant or falling demand in the traditional OECD markets. This additional source of demand has contributed to a general recovery of commodity prices and improved prospects for commodity producing countries. Sustained growth in the United States and economic recovery in Japan and Europe have also been contributing factors.

Box 7. Chinese demand for commodities

Rapidly expanding Chinese demand has been a particularly important factor for many commodities. China remains the principal consumer of a wide range of metals (steel, copper, aluminium, zinc and lead) and of several other commodities (cotton and rubber). Chinese iron ore imports increased by 85 per cent between 2003 and 2005, accounting for almost 40 per cent of world imports in the latter year. Chinese iron ore imports increased by 32 per cent in 2005, constituting the sixth consecutive year of double-digit growth.

As regards minerals and metals, world supply has not been able to catch up with strong demand growth since investments in new production capacity have been low over a long period due to a prolonged period of low prices. The long lead times in mining investment have made it harder for mining companies to meet the growth in demand. Inventories of metals have been drawn down, and have remained at extremely low levels for the past few years. Also, while supply-and-demand fundamentals determine the direction of the price trend, speculators seeking higher returns than those offered by financial assets have enhanced the tightness of the metals markets. From 2002, copper, nickel and zinc prices increased by 136, 118 and 74 per cent, respectively. This trend continued in the first half of 2006, with zinc and copper prices rising by 70 per cent on their 2005 level, and nickel by 45 per cent.

Oil prices continued to rise in 2006 and reached US\$78 per barrel in July of that year and US\$100 in 2007. As in the case of metals, Chinese demand growth (Chinese imports in 2005 were about two and a half times those in 2003), as well as speculation were significant factors. Worries about potential disruptions to supply (arising from events in several oil producing countries, including Bolivia, the Islamic Republic of Iran, Iraq, Nigeria, and Venezuela) also played a role, and reinforced speculative sentiments.

The rise in oil prices has also an impact on other commodity markets. In some cases – for instance, natural fibres, rubber, and sugar – the price increases resulted partly from the substitution effects engendered by the jump in international oil prices. Rising hydrocarbon prices made some synthetic materials less competitive. This strengthened the position of natural materials such as cotton and rubber, resulting in an increase both in demand and prices. In the case of sugar, higher oil prices have led to an increased demand for ethanol (made from sugar cane) and, consequently, to higher international sugar prices.

4.2. Looming challenges for commodities

The recent increases in commodity prices notwithstanding, these have not been enough (in some cases) to offset the consequences of severe price declines suffered in the past. For instance, in the case of coffee, the rise in international prices has not been sufficient to make up for the fall in prices following the 1997 crisis. Expressed in current US dollar terms, non-fuel commodity prices are still lower than what they were in the early 1980s. In real terms, by the end of 2005, commodity prices were about 30 per cent lower than the average for the period 1975-1985.

The prospects for individual commodity markets vary. For instance, the prices of rubber and (to some extent) cotton are influenced by developments in the oil market owing to substitution effects between natural and synthetic products. However, the main reason for the increase in the price of natural rubber lies in the rapidly growing demand for rubber products – particularly tires, and mainly highly quality tires of natural rubber used in high growth areas such as heavy trucks and aircraft. Meteorological conditions and trade policies have influenced supply conditions for other cash crops. Global economic conditions also affect different markets in different ways from the demand side. For instance, the rapid pace of industrialization and income growth in China (and elsewhere in Asia) has had a much stronger impact on the prices of industrial raw materials (particularly metals) as compared to food prices. This difference is likely to persist in the short-to-medium term. However, food imports by China are likely to increase in the longer term, raising the likelihood of future price increases for agricultural commodities.

The international market for a wide range of commodities tend to be characterized by alternating short periods (a few years) of higher prices – like the current period since 2002 – and longer periods of lower prices, with high volatility within these cycles. Commodities fall into three categories: petroleum and other energy resources, minerals and metals, and agricultural commodities (which can be further sub-divided into foodstuff and agricultural raw materials). Aside from petroleum – in itself a special case – a distinction should be made between minerals and metals (some of which have enjoyed sharp price increases in recent years, especially since 2002) on the one hand, and agricultural commodities (especially tropical products) on the other. With increasing globalization, countries dependent on the export of these different categories of commodities experience the impact of the commodity problematic in different degrees, thus requiring responses tailored to their specific circumstances in order to maximize development gains from them.

4.3. Commodity, poverty reduction and development

A majority of developing countries are dependent on the commodity sector as their largest source of revenue and employment, and a major source of external finance (foreign exchange) for development. Some 83 developing and least-developed countries derive more than 30 per cent of their export earnings from the export of primary commodities. A single commodity accounts for more than 40 per cent of export earnings for 42 of these countries: 15 rely on agricultural, fishery, and forestry products; 9 on mineral and metals; and 18 on petroleum. While price trends and behaviour are of major importance to all categories of commodity producing countries, the situation of low-income countries dependent on the export of traditional agricultural commodities provides a unique challenge for reducing poverty and assuring development gains from international trade.

Since the early 1980s, the prices of those commodities on which many LDCs and other more vulnerable developing countries are the most dependent (mainly agro-commodities) have shown a long-term declining trend, both in nominal and real terms. Besides the problem of prices, the marketing and processing of these commodities (i.e. value addition) is largely skewed against the developing countries that produce them. Also, despite the current respite in the downward trajectory of most commodity prices, low-income commodity-dependent developing countries continue to face difficulties in retaining international market shares. Thus, it is vital that issues relating to commodities be urgently and adequately addressed at the international level.

Both sets of problems (commodity prices and value addition) are related to the workings of the international trading system. Persistent supply/demand imbalances on world commodity markets have been mainly due to (in varying degrees across commodities) trade-distorting domestic support and export subsidies in certain industrialized countries. These not only displace the exporters of developing countries on world markets but also reduce world prices (e.g. cotton). They also pressure low-income commodity-producing countries to increase export volumes even in the face of declining world prices so as to expand (or maintain) the level of foreign exchange earnings, and thereby sustain debt servicing and import capacity.

Typically, low-income commodity-dependent developing countries rely on one – or a few – export commodities. With their populations dependent on these commodities for their livelihood, these countries are highly vulnerable to trade shocks, and face an unpredictable existence at both the micro and macro levels. For example, declining and volatile commodity prices adversely affect the incomes of farmers, agricultural wages, rural employment, the prospects for rural development, and poverty reduction immediately. Price volatility creates uncertainty on investment returns, and reduces both the willingness and capacity of farmers and entrepreneurs to invest. As a consequence, commodity producers in these developing countries are at a disadvantage when attempting to adapt to increasingly harsh international competition and changes in the international market place. At the same time, in the mining sector (oil and gas, metals and minerals), the predicament of small miners – of which there are over 30 million in developing countries – needs to be addressed.

At the macro level, declining and volatile commodity prices often have a direct and negative impact on macroeconomic stability, fiscal balance, and balance of payment. A collapse in commodity prices usually has an immediate adverse economic multiplier effect. As farmers and workers have less to spend, local businesses contract or shut down. The Government also faces a reduction in revenues and taxes. These induce or aggravate fiscal deficits which require correction by a reduction in spending. A fall in Government spending leads to more job losses. It also results in the reduced ability of the Government to provide basic services such as health and education and to invest in infrastructure such as roads, ports, water supply and electricity. Reduced foreign exchange earnings put further pressure on foreign exchange reserves, limiting import capacity, reducing external creditworthiness, and making debt servicing less sustainable. Hence, the importance of reducing and managing the volatility of commodity prices to arrest this negative spiral and turn it into a positive one.

4.4. Fostering an enabling environment: Commodity-based development strategy

Over the medium to long term, the prospects for continued growth in world demand for most commodities appear good. Commodity prices can be expected to remain relatively high. The main underlying reasons are the expected rapid economic growth and import demand of developing countries, particularly in Asia, juxtaposed against weak commodity supply capacities, and the increased diversion of the supply of some commodities (e.g. sugar and maize) to the production of biofuels. However, it is unlikely that the growing imports of primary commodities into Asia alone will lead to a reversal of the long-term decline in real commodity prices.

Nonetheless, the prospect of better prices for a considerable period of time – maybe as much as ten years – may mean that commodity-dependent developing countries will potentially generate

sufficient finances to invest in their development and poverty reduction. However, any success in planning their development based on commodity production and trade will depend both upon the existence of an enabling international environment and the ability to build capacity, as well as undertake (alone or jointly) necessary institutional changes.

Governments of developing countries experiencing windfall revenues from commodity price booms need to deal first with the problem of translating higher prices into higher revenues, investment into local infrastructure, jobs and poverty reduction through appropriate revenue sharing, and taxation-related policy and agreement *vis-à-vis* domestic and foreign investors. They also have to pursue their core policies of targeting local infrastructure and productive capacity, diversification and value addition, job creating industries and poverty reduction schemes.

Harnessing the present boom in commodity prices from changing market conditions for the purposes of development is an urgent matter for both developing countries as well as the international community. The challenges include: (i) the adaptation – in real terms – of international trade rules within which most international commodity trade takes place between countries that have historically been at the periphery of world trade, and have not been part of the rule-making process; (ii) the mobilization of financial resources to support this trade, including from financial institutions which are traditionally focused on financing trade within the North; and (iii) the suitability of legal regimes governing investment *vis-à-vis* the new flows of investment capital between developing countries.

All these challenges call for enhancing coherence at all levels in order to ensure that institutional change facilitates and supports the shift in commodity trade patterns, and eventually makes for sustainable economic development and poverty reduction. The degree of success with which the world can meet these challenges depends crucially on the progress made in enhancing the enabling environment at all levels so as to strengthen productive capacity, trade and investment. Only then will commodity-dependent developing countries be able to exploit the window of opportunity provided by the new market environment.

To support a viable commodity-based development strategy, there is a need to address several issues at the international level. Firstly, there is the need to address some of the causes and mitigate the adverse consequences of long periods of commodity price declines and sharp price fluctuations – the key causes of oversupply and market failure. Secondly, there is the need to facilitate and ensure an equitable distribution of the gains from trade in commodities (including the rents from natural resource products), encourage value addition and competitiveness within commodity value chains, and improve market access for commodity-based products. Thirdly, there is need to improve: (i) the access of commodity-dependent countries to international finance for the purposes of development and to commodity exchanges;²⁵ (ii) investment in the upgrading of traditional commodity sectors; and (iii) investment in the diversification of traditional commodities into non-traditional ones (and into local livelihood products). And fourthly, there is a need to address the proliferation of new generations of product presentations, technical processes, and sanitary and phytosanitary standards (including private standards) for market access (notably for food products), especially in OECD markets.²⁶

All these elements – which are part of a holistic strategy for development from a commodity base – require substantial investment in infrastructure and supply-side capacity-building. In this context, the Aid for Trade initiative – along with UNCTAD's involvement – could play a critical role in supporting improvements in the competitiveness of traditional commodity sectors, the vertical and

²⁵ For details on commodity exchanges see UNCTAD, *The development role of commodity exchanges* (TD/B/COM.1/EM.33/2).

²⁶ For an analysis of selected areas of commodity policy that pose challenges for the international community, and where UNCTAD is in a position to make a contribution to the policy debate and to implementation, such as (i) the income effects of commodity market instability, (ii) standards and market requirements for commodities, and (iii) energy, see UNCTAD, *Commodities and development* (TD/B/COM.1/82).

horizontal diversification in commodity-dependent countries, and the mitigation of the short-term impact of commodity ‘shocks’ at the national level. The latter could include the financing of safety net programmes for small and resource-poor producers seriously affected by commodity ‘shocks’.

A holistic approach would require reinventing and putting into place institutions that can more effectively carry out some of the useful functions that previous marketing boards had performed. The problems of institutional vacuums, missing markets and access to financing are all too evident in most commodity-dependent countries, particularly in Africa and other LDCs. Commodity financing should be a priority for small producers marginalized by globalization, and for the mechanization and up scaling of agricultural production and trade. Small producers need assistance in order to reinforce and upgrade their productive capacity, competitiveness and be integrated into international supply chains. They also need other inputs such as better infrastructure, timely information, as well as financial and other support necessary to gain access to national, regional, and international markets. They need help to organize themselves and to bargain better with global supply and distribution networks.²⁷

A roadmap for a comprehensive approach to commodities was provided by the outcome of the first UNCTAD XII pre-event: the Brasilia Conference on the Global Initiative on Commodities, which was jointly organized by the ACP secretariat, Common Fund for Commodities (CFC), UNDP and UNCTAD, and hosted by the Government of Brazil (Brasilia, 7-11 May 2007) (see Box 8).

Box 8. The Global Initiative on Commodities

The outcome document of the Conference identifies areas specific to commodity production and trade where the international community, of which UNCTAD forms part, has a role to play in solidarity with commodity-dependent developing countries. Such areas include (i) dealing with the negative effects of the instability of commodity prices and export earnings; (ii) improving the capacity of commodity producers and processors to meet standards; (iii) exploiting opportunities offered by new and dynamic sectors; (iv) improving access to market information for commodity producers; (v) strengthening the capacity of the financial institutions of developing countries to provide credit to small producers; (vi) supporting the establishment of effectively functioning commodity exchanges in developing countries; (vii) encouraging the development of South-South trade financial institutions and mechanisms; and (viii) designing and setting up a mechanism to deal with the loss of revenues faced by African cotton producers as a result of the decline in cotton prices. Also, the International Task Force on Commodities (launched at UNCTAD XI) should be made operational and be given sufficient resources. Financial assistance needs to be provided to commodity-dependent developing countries in order to build and upgrade physical infrastructure such as roads, ports, storage facilities and irrigation, and to eliminate supply bottlenecks. The Aid for Trade initiative should: a) assess the needs of commodity-dependent developing countries, and support their diversification efforts, including by supporting the introduction of appropriate technology; b) set up effective SPS and TBT related infrastructure for meeting standards and other market requirements, and achieving sustainable production and processing systems; c) meet the adjustment costs of trade reform and preference erosion as well as for capacity development and trade related technical assistance. MDG consistent debt sustainability frameworks for commodity-dependent countries require that export earnings shortfalls be taken into account when designing debt relief measures.

The outcome also identifies a range of actions to be taken by the Governments of commodity-dependent developing countries. These actions, which could in many cases be made more productive through the support by UNCTAD, include i) taking steps to improve infrastructure; ii) providing an enabling environment, including access to land and support services; iii) strengthening producers' associations, and taking other actions to make possible the entry of producers into the world supply chain on equitable terms; iv) creating effectively functioning domestic and regional commodities markets; v) creating regulatory environments enabling national stakeholders to use modern finance and risk management instruments; vi) minimizing the negative effects of large revenue inflows from mineral exports on domestic inflation and relative prices; vii) ensuring a balance between attracting FDI in natural resource exploitation and maximizing revenues through

²⁷ For a discussion of the problem of exclusion from global markets and policy options and models for integrating small agricultural producers in supply chains in a sustainable manner, see for example UNCTAD's report on *Enabling small commodity producers and processors in developing countries to reach global market* (TD/B/COM.1/EM.32/2).

taxation and regulatory policies; and viii) strengthening the linkages between the mineral sector and the local/regional economy with a view to fostering diversification.

In addition, civil society initiatives to convert the efforts of the Global Initiative on Commodities into a popular campaign should be encouraged, especially those aimed at improving the sustainability of commodity trade and improving governance in commodity value chains. International commodity bodies should be strengthened in their role of providing expertise and assistance to specific commodity sectors in commodity-dependent developing countries. Recognizing the important role played by global enterprises in all aspects of commodity production and trade, these enterprises need to increase their contribution to sustainable development, good working conditions, remunerative employment and poverty reduction.

CHAPTER V

SERVICES – THE NEW TRADE AND DEVELOPMENT FRONTIER?

5.1. The increasing importance of the services economy

Services contribute to economic growth and development through the creation of a competitive economy, by providing new jobs, by enhancing access to essential services, and by stimulating trade. Service sectors such as business and finance, telecommunications, construction, environment, distribution, healthcare, education, and cultural services provide the backbone of an integrated and effective economy, nationally, regionally and globally. An improved services economy contributes to improved performance in merchandise trade since the increased sophistication and availability of producer services enhances international competitiveness in the export of primary and manufactured goods. The informal services sector is also an important aspect of the services economy in developing countries.

With globalization, the potential for developing countries to expand and diversify their economies through the increased development and trade in services is immense. Moreover, increased services trade can generate significant development gains – i.e. far more than can be realized through the narrow focus on increasing the exports of primary commodities and manufactures alone. Thus, services hold a huge potential as an engine for realizing development gains in developing countries.

Globally, the services economy continues to expand, with its contribution to GDP, employment and trade increasing significantly, including in many developing countries. Between 1980 and 2006, the share of services in GDP has grown from 60 to 73 per cent in developed countries, and from 41 to 51 per cent in developing countries.²⁸ Services today account for over 70 per cent of employment in developed countries, and around 35 per cent in developing countries. World trade in services has nearly tripled to reach US\$2.4 trillion, while the FDI inward stock has quadrupled to nearly \$10 trillion in the wake of the globalized production of goods and services. Particularly significant sectors and modes for services exports include the temporary movement of natural persons supplying services (Mode 4 of GATS) and outsourcing (Mode 1), but also in Mode 3 (commercial presence), and sectors such as health, tourism, construction and business services. Regarding tourism, the “Trade and development implications of tourism services for developing countries” was discussed at an UNCTAD XII pre-event from 19–20 November 2007 in Geneva. The event identified best practices that developing countries are increasingly pursuing in promoting tourism with the aim of ensuring that benefits from the sector translate into long-term economic, social and environmental gains.²⁹

The overall performance of the trade in services in developing countries has been exceptional. Since 1990, the export of services from developing countries has grown at an average annual rate of 8 per cent, compared to 6 per cent from developed countries. Thus, the share of developing countries in world export of services has climbed from 19 to 24 per cent. Travel (including tourism) and transport continue to represent the major proportion of the services exports of developing countries while business services (including ICT, financial and insurance services) now account for about one-third of all services.³⁰ At present, services trade of developing countries is dominated by a small number amongst them. Developing countries in Asia account for 75 per cent of the services trade of all developing countries. While Africa/Latin America and the Caribbean accounted for 10 and 15 per

²⁸ Unless otherwise noted, the services data presented here is from the UNCTAD Handbook of Statistics 2007 which available online at: www.unctad.org/statistics.

²⁹ See “Pre-conference event: Meeting on trade and development implications of tourism services for developing countries – Summary of discussions” (TD/427).

³⁰ See also UNCTAD, *Trade and Development Aspects of Insurance Services and Regulatory Frameworks* (UNCTAD/DITC/TNCD/2005/17), and UNCTAD, *Trade and Development Aspects of Insurance Services and Regulatory Frameworks* (UNCTAD/DITC/TNCD/2007/4).

cent, respectively. Over half of developing country services exports originate in only 6 countries, and the top 15 developing country services exporters account for 80 per cent of all developing country services exports. An increasing number of countries are successful in exporting services such as tourism, transport, construction, audiovisual, computer and information services, business and professional services, particularly through Modes 1 and Mode 4. South-South trade is also expanding, within which regional trade agreements play an important role (see Box 9).

Box 9. Services in RTAs

Services trade and development in RTAs can potentially generate tangible development gains for countries that are members of the RTAs and for the region(s) in question. This is notably due to the fact that RTAs in services are not solely based on economic objectives but include strategic objectives (e.g. development, stability, security, geopolitics, attracting FDI). Many of these RTAs are universal in scope and embrace a progressive approach towards liberalization even though they may exclude sensitive sectors. Such RTAs are both South-South and North-South in character. South-South RTAs are enabling member countries to test services liberalization; achieve economies of scale; pursue cooperative efforts between countries with similar regulations (such as in common efforts to develop supply capacities); and develop initiatives to harness services trade and resulting benefits. Some RTAs have adopted a framework for the liberalization of services (e.g. ASEAN, Andean Group, MERCOSUR, and NAFTA), while others have committed to achieving substantial liberalization and are developing or finalizing a services agreement (e.g. SADC and COMESA). With regard to the kind of commitments entered into, several RTAs go beyond GATS commitments: some go further than the offers submitted in GATS negotiations; in others the depth of commitments across sectors is comparable with (or goes beyond) commitments envisaged in plurilateral requests. However, it is also notable that RTAs preserve limitations and sensitivities, e.g. in respect of audio-visual services in the EC; maritime and certain professional services in the United States; and cross-border trade in financial services in many countries.³¹

North-South RTAs in services may lead to deeper liberalization, which can be particularly challenging for developing countries where regulatory frameworks have yet to be developed (especially when the negative list approach to liberalization is used). It is important for countries to recognize that development-enhancing liberalization in services requires the recognition of the role of regulation, including its sectoral specificities. UNCTAD is assisting developing countries in their regional integration efforts, including negotiating and designing agreements and developing adequate regulatory frameworks. Regional RTAs (particularly North-South) could promote development by enhancing collaboration on services, with a particular focus on facilitating regulation, institution building, and developing the competitive services sectors in developing countries. Cooperative mechanisms are required to achieve this. These can include mutual recognition agreements, or policies related to competition, social security, double taxation, or the development of regional markets.

In the context of labour mobility, RTAs can provide a promising avenue for the temporary movement of service-related persons and workers at all skill levels. The treatment of labour mobility under RTAs varies across regions. It ranges from full labour mobility (EU, EFTA, COMESA and ANZCERTA), to Agreements providing market access for certain groups such as university graduates, professionals, highly skilled persons, or workers from selected occupations (CARICOM, NAFTA, Europe Agreements, Canada-Chile, US-Singapore, Japan-Singapore), to Agreements which use the GATS model with some additional elements such as common regulations for work and labour conditions (AFTA, MERCOSUR, Euro-Med Association agreements, New Zealand-Singapore, EU-Mexico, US-Jordan). Other Agreements (APEC, SAARC) have provided no market access but have facilitated entry (e.g. facilitated travel, business travel, and visa waivers for certain categories of persons). Finally, there have been agreements that contain no effective provision for labour mobility or services. Many RTAs are yet to achieve their full potential through increased Mode 4 commitments facilitating labour mobility. Most RTAs still focus on facilitating the movement of higher-skilled workers, and do not go very much beyond the GATS Mode 4 commitments or unilateral programmes to attract skilled workers. Moreover, most RTAs stipulate that the provisions covering labour mobility do not override the general migration laws of any country and its right to use residence requirements and related permits and visas.

³¹ UNCTAD, *Note on Trade in Services and Development Implications* (TD/B/COM.1/85).

5.2. FDI inflows and off-shoring services

FDI inflows to developing countries are increasingly targeting the services sector. The services sector attracted only 32 per cent of FDI inflows to developing countries in 1990 compared to 50 per cent in 2005. Accumulated FDI inward stocks in their services sector have also climbed during this period by some 800 per cent from US\$150 billion to US\$1.3 trillion. FDI inward stock in the services sector of developing countries is now nearly twice the value of FDI inward stock in their manufacturing sector and accounts for 22 per cent of total world FDI inward stock in the services sector.³² Developing countries themselves have become a major source of these investments. Total FDI outflows from developing countries to the world's services sector rose from only US\$2 billion in 1990 to nearly US\$38 billion in 2005 and most of these outflows were destined for other developing countries.³³

Off-shored services are a small component of the world outsourcing market for a wide range of services, including IT and IT-enabled business services, as well as pharmaceutical and R&D services. Current estimates indicate that the magnitude of the global off-shoring market exceeds US\$50 billion. With developing countries capturing a sizable and growing share of the market, the potential of their benefiting from the trend of off-shoring services appears to be large. The recent growth in the global market for off-shoring services increasingly offers new export opportunities to developing countries, as well as significant cost-savings benefits to countries importing these services. Key benefits for exporting countries include increased export earnings, job creation, higher wages, and the upgrading of skills. FDI in off-shoring can create further positive spillovers in terms of raising the competitiveness of human resources and improving the ICT infrastructure.

Development gains from increased services trade include enhanced inward FDI flows and the transfer of technologies to the services sectors of developing countries, including producer services. Improving the availability, capacity and competitiveness of domestic producer services is a critical requirement for enhancing their export performance in primary and manufactured goods. At the same time, improved market opening commitments by trading partners (particularly developed countries) in the trade in cross-border services (GATS Mode 1), as well as in the movement of natural persons supplying services (GATS Mode 4) would unlock new opportunities for developing country services exports in areas where many have an established competitive advantage, including in IT-enabled services, business, construction and health-care services.

However, the potential of the development of the services sector and trade in services is yet to be fully realized by many developing countries especially in sub-Saharan Africa and in small and vulnerable economies including small island developing States and LDCs. LDCs, for instance, continue to be marginalized from the international flows of services, with their share in world service exports being only about 0.5 per cent. Also, most services in the informal sector are not tradable, thus reducing their propensity to benefit from trade-led globalization. Positively integrating these countries into the services economy and trade, and assuring that they derive development gains, remains a major challenge for development.

5.3. Fostering an enabling environment: Meaningful and pro-development commitments in services liberalization and building competitive services productive capacities

The WTO Doha Round of negotiations regarding services are a major forum for creating an enabling and progressive liberalization of trade in services as well as delivering global governance objectives through the formulation of possible disciplines, including in the area of domestic regulation.

³² UNCTAD, 2004, World Investment Report.

³³ UNCTAD, 2007, World Investment Report.

The negotiation on services offers an important avenue to liberalizing trade in services in a development-friendly manner and from the perspective of developing countries. Such liberalization can create new opportunities for the development and trade in the services sector to be seized by developing countries. Quality integration in the services economy necessitates securing favourable terms and conditions for the participation of developing countries in world trade in general, and in the multilateral trading system in particular.

Despite the continuing growth of the services sector, and the fact that services negotiations were already mandated as the built-in agenda of negotiations in the GATS, current negotiating dynamics do not offer services the same prominence as NAMA and agriculture. In general, developing countries have been asked to make binding commitments on services at the actual level of openness or beyond. This raises important questions about the flexibility available to developing countries in ensuring the appropriate pacing and sequencing of liberalization, and about the development flexibilities and the positive-list approach of the GATS. For developing countries, any movement in services depends upon pro-development aspects in – and in balance with – other areas of negotiations, notably agriculture and NAMA.

A pro-development solution in services negotiations would require 'meaningful' commitments in the sectors and modes of export interest to developing countries. However, clear progress on market access issues is still outstanding. Currently, there are 70 offers and 30 revised offers. However, most of them are not effectively meeting the Mode 4-related market access expectations of developing and least developed countries. Also, the effective operationalization of the modalities for the special treatment for LDCs remains outstanding. Combining GATS commitments with flexibility to review – and roll back – commitments in the light of development impacts may offer a safety-valve, making it easier for Members to offer commitments in the first place. The use of an emergency safeguard mechanism could also be of value.

In the domestic regulation area of GATS negotiations, the main development challenge lies in striking a balance between preserving the right to regulate and achieving clear and specific international disciplines to underpin any market access commitments, including for Mode 4. Despite much efforts, many important issues remain outstanding, with Members disagreeing on the overall direction and level of ambition any future disciplines should achieve. A pro-development approach would include a strengthened section on development, combined with an effective development angle for each and every discipline, rule and obligation. Members may also wish to borrow from the approach used in the Trade Facilitation negotiations, where the extent and the timing of entering into commitments shall be related to the implementation capacities of developing and least developed country Members, and where least developed country Members will only be required to undertake commitments consistent with their individual development, financial and trade needs and their administrative and institutional capabilities.

In other areas of rule-making, progress remains notably absent. Regarding the development of disciplines regarding the trade distorting effects of subsidies, the respective mandate in the GATS requires that negotiations shall recognize the role of subsidies in relation to the development programmes of developing countries. Hence any disciplines would require equilibrium between granting developing countries the respective flexibility, and the means to address the potentially restrictive effects of the trade distorting subsidies of developed countries on their exports. Finally, an emergency safeguard mechanism for services remains an important development issue.

The impact of Modes 4 and 1 on development should not be underestimated. Even a relatively modest but meaningful liberalization in Mode 4 could bring welfare benefits that would strengthen the development component of the Doha round.³⁴ In fact, the gains from Mode 4 alone are estimated to

³⁴ See UNCTAD Note on *Increasing the Participation of Developing Countries Through Liberalization of Market Access in GATS Mode 4 for Movement of Natural Persons Supplying Services* (TD/B/COM.1/EM.22/2).

outweigh the combined expected gains from the liberalization of agriculture and NAMA. For example, it has been estimated that an increase in developed countries' quotas on the inward movements of both skilled and unskilled temporary workers equivalent to 3 per cent of their workforces would generate an estimated increase in world welfare of over \$US150 billion annually,³⁵ as compared to projected gains in agriculture of about \$50 billion and in manufactures of about \$80 billion.³⁶ In Mode 1, developing countries can gain not only from business process outsourcing but also by capturing export opportunities in IT-enabled services, and by moving up the value chain to knowledge process outsourcing (KPO). The KPO market is projected to reach US\$17 billion by 2010.³⁷

However, the realization of gains by developing countries in both Modes 1 and 4 are currently hampered by growing protectionist sentiments in the markets of destination. Thus, there is need for coherence in the policy and commitments made at the international level vis-à-vis practice at the national level. There is also the need for coherence between national/federal/regional legislation and policies in destination markets for developing country exports. This will ensure that the commitments made are adhered to, that restrictions are rolled back, and access liberalized even further.

Many developing countries are apprehensive of government procurement in the services sector (especially in the GATS context). However, it has been indicated as an area that could provide development and export opportunities for some developing countries if undertaken on a unilateral/bilateral basis, and with a development outcome in mind.

International solidarity – particularly through the provision of finance but also in terms of technological support and investment – is important not just in order to build competitiveness in the services sector but also to move towards the development of pro-poor services, including through the provision of universal access to essential services.³⁸ International solidarity initiatives to create an enabling environment in the services sector can be of two kinds. The first is in the context of infrastructure building, both physical and social. This is an essential complement to services liberalization. Governments have a key role to play in this context. While private sector participation and financing in infrastructure building is important, it is clear that the private sector alone cannot provide for necessary infrastructural needs that tend to be capital intensive. Thus, there is a need to also explore the use of private-public partnership as and the essential role that multilateral financial institutions (MFIs) and donor finance can play in terms of international public funding.

The second initiative is the use of the 'Aid for Trade' (AfT) initiative, particularly for LDCs, as a tool to build competitiveness in the services sector, thereby facilitating productivity in the whole economy. The AfT initiative could be used for building national services strategies, including strategies for development, sectoral assessment, and regulatory frameworks. The use of AfT would help beneficiaries identify and build on the services sectors of export potential (e.g. the tourism sector for small and vulnerable economies), move up the services value chain, and diversify both within the services sector and across other sectors, including manufacturing and agriculture.

The enormous potential contribution of the services economy for – and its actual contribution to – trade and development means that any inadequacy in the services supply capacities and

³⁵ L Alan Winters, *The Economic Implications of Liberalising Mode 4 Trade* (8 April 2002).

³⁶ Dee and Hanslow (2000): *Multilateral liberalisation of services trade*, Productivity Commission Staff Research Paper, Ausinfo, Canberra.

³⁷ The KPO market includes services as complex and varied as pharmaceuticals, biotechnology, data search, integration and management services, financial services, research and analytics, technology research, computer-aided simulation and engineering design, and professional services (e.g. business research and legal services). The estimated value of the KPO market was provided in RNCOS, "KPO - The New Outsourcing Avenue for Indian BPO Market" (1 October 2005).

³⁸ See UNCTAD Note on *Universal Access to Services* (TD/B/COM.1/EM.30/2).

competitiveness of developing countries will result in their marginalization from the modern economy and global trade. The latter is a problematic facing most developing countries, especially LDCs. Particularly noteworthy is the challenge of exploiting the potential of the expanding service economy and trade in services i.e., moving from the informal to the formal, and from low to high value-added sectors; overcoming over-reliance on one particular sector (e.g. tourism); and diversifying into other sectors that are less vulnerable to external shocks. However, these all still remain as challenges since development gains are not automatic. Reaping such gains requires sound and coherent national developmental policies and strategies, regulations and institutions, the fostering of enabling conditions, and minimizing detrimental effects. Appropriate content, the pacing and sequencing of reform and liberalization, as well as coherence with other economic sectors is important.

While a few developing countries have set inspiring examples of development and trade in the services sector, other countries (particularly LDCs) are being increasingly marginalized. In this regard, the ‘development benchmarking’ of policies governing the services sector is important. Such benchmarking should assess whether or not these policies can deliver increased capacity, up-scaling, modernization, technology transfer, job creation and social benefits.

The first challenge facing developing countries is to design and implement comprehensive policy frameworks for the services sector. These frameworks can include carefully negotiated market access commitments that can ensure dynamic gains from a greater opening of their services markets, and the effective use of the private sector including public-private partnerships. These contribute to the creation of a competitive services sector, including in infrastructural services and in the building up of SMEs in the services sector. The second challenge is to build effective national and regional regulatory frameworks and institutions for their services economy. In the context of both policy and regulatory frameworks, the development of a National Services Strategy is essential (see Box 10).

Box 10. National Services Strategy

A National Services Strategy (focusing on the services sector within the national environment and economy) is a vital tool for development. Such a National Services Strategy could greatly facilitate the creation of an enabling environment for the services sector; ensure coherence between ministries and in policymaking between the state and federal levels; integrate global level services issues such as services agreements at the national level; and contribute to better governance in the services sector, both vertically and horizontally. A National Services Strategy could include the setting up of effective regulatory and supervisory frameworks and institutions (especially in sectors such as telecommunications, financial services, energy services, and water services); ensuring coherence of national and global processes on promoting national development goals; encouraging entrepreneurship; and allocating optimal resources and finance for achieving services development objectives.

Comprehensive national assessments and policy reviews of services and trade in services have a central role to play in assisting developing countries and the international community in meeting the challenge of integrating developing countries into the services economy. Such assessments enable countries to appropriately pace and sequence policy reforms affecting the services sectors. Such policy reviews can facilitate intergovernmental deliberations and consensus-building on best practices, lessons learnt, as well as policy options for services development. Follow-up capacity-building support in countries and regional groupings are also important in developing and implementing services agreements, putting in place regulatory regimes, and developing competitive services supply capacities. At the same time, the human and social development implications of the service economy and regulations have to be addressed in terms of universal access to essential services such as education, energy, health, water, and telecommunications services. The international community can greatly help in this regard.

CHAPTER VI

UNLEASHING THE DEVELOPMENT POTENTIAL OF LABOUR MOBILITY³⁹

6.1. The reality of labour mobility and development gains

In 2005 about 200 million people were living outside the country of their birth as compared to 175 million in 2000.⁴⁰ Regional demographic projections in major developed and emerging markets indicate a reduction of the total labour force by 29 million by 2025, and by 244 million by 2050.⁴¹ This trend is in contrast to the projections for the South, where the labour force is seen to increase by about 784 million by 2025, and by 1.55 billion by 2050.

The flow of temporary migrants to developed countries has increased recently. This is partly in response to policy changes in some of these countries, which have eased the requirements for admission for certain occupations. For instance, the United Kingdom has increased its work permit approvals from 85,600 in 2000 to 115,700 in 2001, including in education (an increase of 100 per cent), health care (over 40 per cent) and computer technology (roughly 25 per cent). In Japan, the figures increased by 10 per cent for the period 2000-2001. Germany's 'green card' programme, instituted in August 2000, has tripled the employment of foreigners in the health care sector and has granted more than 13,000 green cards to foreign computer engineers. The European Union employs almost 500,000 seasonal agricultural workers from countries outside the EU.

With demographic and economic imbalances between the North and the South persisting, migration and labour mobility is expected to rise continuously, aided also by a variety of economic (trade and investment), political/security, and social/cultural push-and-pull factors. Labour mobility is becoming a hallmark of the latest wave of globalization. The migration of labour covers the whole gamut of movements of people, regardless of purpose and duration of stay – temporary or permanent. There are also increasing opportunities for labour integration and mobility in the context of trade and investment-led globalization as never before due to several factors (see Box 11). These push-and-pull factors, combined with global production, distribution chains, and technological developments have created a global pool of labour which is accessible to businesses and consumers on a cost-quality competitive basis, with beneficial trade and development results for all. The benefits and costs of migration apply to both sending and receiving countries. The challenge is to ensure that there is more 'gain' than 'drain' in the process of migration. There is scope for win-win gains for both developed and developing countries from liberalizing the movement of people.

Box 11. New opportunities for labour mobility

Enhanced opportunities for labour integration and mobility are generated by the following factors:

- the growing complementarities between developed and developing countries with respect to demographics and the labour force (i.e. an ageing population in developed countries *vis-à-vis* a young one in developing countries);
- skills shortages in developed countries *vis-à-vis* surpluses in developing countries at all skill levels in key sectors;
- innovations in transport, telecommunications and ICT technology which allows easy access to cost-quality competitive labour anywhere in the world;
- the growth of new labour-intensive sectors such as nursing, home and health care services; and
- productivity and wage differentials between developed and developing countries.

³⁹ This section draws heavily from Lakshmi Puri, "Economic Benefits and Costs of Labour Integration and Implications for Growth and Development," paper prepared for the International Development Conference, Harvard University, 21 April 2007.

⁴⁰ Global Commission on International Migration (2005). *Migration in an Interconnected World: New Directions for Action: Report of the Global Commission on International Migration*, October.

⁴¹ Holzmann, R. (2005). "Demographic Alternatives for Aging Industrial Countries: Increased Total Fertility Rate, Labor Force Participation, or Immigration," Institute for the Study of Labour (IZA), Discussion Paper No. 1885.

Labour movements could be realized through unilateral, bilateral and multilateral schemes, most notably under Mode 4 of the GATS in the WTO. However, in overall terms, current liberalization in market access remains relatively limited. This is due to political and security pressures as well as perceived negative wage and employment effects. That there has been a growth in the demand for labour from developing countries at all skill levels is generally acknowledged. However, current international trade and economic governance structures and agreements do not provide favourable conditions for meeting this demand, and this situation is not resolved due to the lack of progress made in Mode 4 liberalization in the WTO. Developed countries have tended to resort to targeted recruitment and bilateral arrangements rather than multilateral accords to regulate liberalized sectors. Most countries regulate foreign markets through unilateral regimes and schemes that are unpredictable, and in which the developing countries have no say.

Even within the limited labour mobility visible today, there are neo-protectionist concerns revolving around the 'export of jobs'. Many factors underlie these concerns: the importation of goods and services from low-wage countries at various skill levels; investment by OECD transnational corporations in manufacturing and services in developing countries; new ways and areas of outsourcing and off-shoring to developing countries (from low-skill services to high trend and high-tech R&D, from manufacturing blue collar tasks to services); and wage depression and social security erosion in the home countries, giving rise to concerns over 'social dumping'.

There are several ironies and issues of coherence that hamper labour market integration and the cross-border movement of labour from contributing fully to trade and development. These include the fact that cost-quality competitive labour is one of the strongest endowments of most developing countries. And yet, this comparative advantage is largely being left out of the ambit of trade liberalization, both at the multilateral and regional levels. Market realities and actual labour flows on the ground (i.e. in terms of supply meeting actual growing labour market demand) far outstrip formal international agreements and frameworks for liberalization. Political populism against labour integration in policy discourse nationally and internationally often minimizes the recognition of considerable socio-economic, welfare, and efficiency gains – regardless of whether they are direct or indirect, short-, medium- or long-term – for all the economies concerned.

Moreover, there is often a gap between corporate interests and labour interests when, in real terms, economy-wide interests and benefits point to the coherence of these interests, including in net job creation and savings, in the generation of new consumers and markets, and in the ensuing additional purchasing power in both the sending and receiving countries. While labour integration is an important component of goods, finance, entrepreneurship and information-related trade, the freer movement of labour is continually being resisted. Thus, the impact of an inadequate understanding of the costs and benefits of labour integration and globalization for all countries – both developed and developing – may well mean that the most win-win and inclusive phase of globalization for development through labour market integration has been forestalled for some time to come.

Significant global welfare gains are estimated from the liberalization of the temporary movement of natural persons to provide services abroad. One estimate finds a global welfare gain of US\$150-200 billion from the relaxation of entry conditions for the temporary movement of workers or service providers at all skill levels, with greater gains expected from the liberalization of the movement of less-skilled workers.⁴² The estimated gains are greater than the total gains expected from all other areas of negotiations under the WTO Doha Round. An earlier study found that the elimination of global restrictions on labour mobility would bring worldwide efficiency gains ranging from 15 to 67 per cent of world GDP. However, when only skilled labour is allowed to migrate,

⁴² See Winters, L. Alan, and others (2002). *Negotiating the Liberalization of the Temporary Movement of Natural Persons*. Discussion Papers in Economics, No. 87. Brighton, UK: University of Sussex at Brighton. p.27.

welfare gains are smaller (ranging from 3 to 11 per cent of world GDP) since skilled labour is only a small proportion of the labour force in developing regions.⁴³

Despite the existence of a real demand for foreign workers in developed and some developing countries, barriers to entry and stay continue to exist. Barriers to service suppliers include quotas, economic needs, and labour market tests, lack of recognition for diplomas and competencies acquired outside of the destination country, language and residency or citizenship requirements, as well as complex and expensive visa and permit acquisition procedures. Also, once allowed in, foreign workers are prone to a host of challenges like abuse in employment contracts and conditions, including lower wages, under employment, absence of social security protection, and vulnerability to exploitation.

6.2. Maximizing the gains from labour mobility

Labour exporting countries can benefit from several socio-economic benefits including: the inflow of remittances and foreign exchange; the return of skilled workers increasing local human capital stock, and transferring skills and links to foreign networks (brain gain and circulation); and technology transfer, investments and venture capital contributed by citizens in the diaspora. However, a brain drain occurs when highly skilled workers are recruited, thus reducing the quality of essential services, especially in occupations such as health and education that are also much in demand at home.

Remittances from migrants form a substantial proportion of foreign exchange earnings for sending countries, and are a stable source of finance for development. In 2001, the remittances sent home to developing countries from workers living abroad were equal to 42 per cent of the total FDI inflows to those countries, and double that of ODA flows. Recorded remittance flows have doubled over the past five years, and stood at US\$249 billion in 2005 - \$180 billion of which is accounted for by developing countries. These figures could be twice as much if unrecorded flows are captured. Of the top thirty recipients of worker remittances, Remittances play a key role in the economies of some countries. For instance, for about 20 developing countries and countries with economies in transition, the share of remittances in the GDP range from 11 per cent (Kiribati) to as high as 31 per cent (Tonga). This share is estimated to be about 13 per cent for the Philippines with its 80 million inhabitants,

Remittances provide direct income benefits to the recipients in source countries, thereby helping them ease household consumption expenditures, and encouraging more household investments in education, health, and entrepreneurship. World Bank household surveys indicate that remittances have led to declines in the poverty headcount ratio in some countries, such as declines of 11 percentage points in Uganda, 6 in Bangladesh and 5 in Ghana.. With regard to their impact on poverty reduction, a World Bank analysis based on household surveys indicates that remittances have been associated with declines in poverty headcount ratio in some countries as follows: 11 percentage points in Uganda, 6 in Bangladesh, and 5 in Ghana. Gender-specific data provide some examples suggesting a significant increase in the temporary cross-border employment of women.⁴⁴ For example, in Sri Lanka, 2002 figures reveal that 70 per cent of the 970,000 Sri Lankan overseas contract workers were women, resulting in a positive impact on the economic and social empowerment of women.

As remittances have grown in recent years (and now constitute a significant portion of the GDP of some low-income countries), efforts are being made to mobilize and channel these funds to maximize their impact on the development of the sending countries in general, and for the well-being of the migrants and their families in particular. For example, several countries (e.g. Brazil, India, Mexico, Panama and Turkey) have introduced remittance-backed bonds to raise funds at lower interest

⁴³ Ana Maria Iregui (1999). *Efficiency Gains from the Elimination of Global Restrictions on Labour Mobility: An Analysis Using a Multiregional CGE Model*, JEL, December.

⁴⁴ The World Bank, *Global Economic Prospects*, 2006.

rates on the international bond market. In India, the government floated specialized bonds for development purposes, raising close to US\$10 billion.⁴⁵

Efforts could also be made to tap the skills of diaspora populations and the networks they have established abroad. It has been documented that Chinese and Indian IT specialists have either invested back in the countries of their origin, or have gone home to set up their own business ventures, with some even setting up a commercial presence in other countries. Other government initiatives targeted at assisting the reintegration of returning migrant workers so as to stimulate investment include the provision of facilities for importing capital goods and raw materials, business counselling and training, access to loans, and encouraging entrepreneurship for development.⁴⁶

On the cost side of migration, there are several actions that sending governments could consider for mitigating the negative effects of the brain drain. These include: compulsory public service for critical occupations such in health care and education; paying back for their training and the (at least partial) costs of their education (especially in cases where the mandatory domestic employment requirement is not completed); devising some form of rotation schemes to ensure the availability of an ample supply of qualified nurses domestically (which also assures them that their chance to work abroad is just a matter of time); encouraging return migration by acknowledging their training abroad and giving them some visiting scholar positions (or other honorary positions); encouraging them to serve as trainers; requiring those who leave to post a bond to ensure their return to the country; adopting a human resource programme which would encourage the retention of staff through salary increases and other incentives, and an expansion of domestic training capacity.

Governments could pursue bilateral country-to-country or institution-to-institution initiatives in order to forge and maintain bilateral cooperation arrangements. Some of these could include: facilitating the movement of workers (e.g. the recruitment agreement between the Philippines and the United Kingdom); requiring some compensation from host countries for every foreign worker taken in; exploring the possibility of regularly inviting some of their own experts, practitioners and specialists to conduct training on advances in the relevant field on a short-term basis as compensation for the loss of skilled workers; and arranging special visa schemes which will ensure that the employment and stay of foreign workers remains temporary in the host country, thus ensuring their return migration.

6.3. Fostering an enabling environment: Leveraging human resources in trade

A key challenge in the formulation of policies is to ensure that there is 'gain' rather than 'drain' from migration. Measures can be taken that encourage temporary migration, with better means to ensure the return of migrants and curb illegal migration; promote policies and management that achieve 'brain gain and brain circulation'; ensure the consideration of 'ethical approaches' in the codes of practice in recruitment; craft domestic measures that ensure the return of workers; and other measures that maximize the utilization of remittance receipts. In the long run, developing countries should not become over-reliant on labour export to the neglect of other productive and export sectors. All countries must generate adequate economic growth and employment opportunities to meet the needs of their peoples.

Those developing countries that have a critical mass of human resource pools should incorporate the labour export component into their trade and development strategies at the national level. Ensuring the sufficient availability of skills for the domestic economy while, at the same time, leveraging human resources in international trade requires a major and sustained investment in the development of skills through education, training, and institution building. To be truly competitive in global labour markets, the quality and quantity of labour needs to be skilled within certain parameters.

⁴⁵ OSCE, IOM and ILO(2006), Handbook on Establishing Effective Labour Migration Policies in Countries of Origin and Destination, pp. 77-81.

⁴⁶ Ibid.

Also, developing countries need to include an enhanced and predictable access to export markets for their skilled labour as a priority in their trade negotiations agenda. They also need to enter into the development-oriented return of their workers as well as a ‘brain gain’ agenda for their skilled personnel. This should be done in cooperation with the destination country governments and diasporas.

At the international level, the best approach towards the promotion of a more open and predictable yet rule-based market access to all developing countries wanting to export labour is for meaningful commitments to be made in GATS. Such commitments should cover service providers at all skill levels, from all developing countries, and be complemented with facilitation initiatives in terms of procedure as well as administrative and qualification requirements. Bilateral and regional trade agreements (e.g. the agreements between the United States and Mexico, Spain and Morocco, France and Morocco, Spain and Senegal) have also served as very useful instruments in this regard.

Even in terms of unilateral liberalization schemes, developed country governments could liberalize *de jure* to the extent of the *de facto* situation prevailing in these countries, thereby making it easier to reduce the gap between what they are willing to commit to multilaterally and the effective market access which they are granting. A number of countries (e.g. the United Kingdom and Spain) have set examples of a ‘market access plus’ approach to support the temporary movement of developing country workers. These then return to their home country in the ‘brain gain’ mode.

The GATS negotiations can be an important avenue to facilitate the temporary movement of natural persons supplying services (Mode 4) at the multilateral level. However, no substantive progress in this area of the Doha negotiations has been achieved. This has been so due to difficulties in finding an agreed upon methodology at the multilateral level for managing the movement of services providers to ensure that such movement is temporary (which still has to be defined and agreed upon by WTO members) and not permanent. Transparency of rules and regulations to facilitate access to export markets, as well as facilitating the accession of developing countries to existing mutual recognition arrangements (MRAs) have also been sought. Some countries have resorted to bilateral and regional arrangements in facilitating the movement of workers. However, these must remain supplementary to the multilateral means. For example, the US-Singapore free trade agreement provides Singapore with a quota for service providers under the H1B visa programme.⁴⁷

There is a need to raise awareness – in both developed and developing countries – of the actual cost and benefits of labour integration, together with a sustained dialogue between labour and global enterprises. This would include economy-wide analysis of labour requirements sectorally – both domestic and foreign as well as in the short to medium-term – to determine the best policy mixes on migration. International cooperation for a better-managed migration policy would certainly be useful. This would include devising rules and regulations on employment and labour, visas, human resource development, structural adjustment policies and social safety nets. Policies could be geared towards better managing these movements through the regulated entry of temporary workers rather than through outright prohibition which often leads to illegal migration and other attendant problems.

⁴⁷ This scheme provides visas to a total of 65,000 foreign workers wishing to work in the United States.

CHAPTER VII

ENERGY, TRADE AND DEVELOPMENT

7.1. The problematic of recent high energy prices

The past few years have witnessed wide fluctuations in oil prices, which reached record levels in the summer of 2006 and continue to rise. Generated by the unexpected increase in world consumption and geopolitical upheavals, this price volatility has led to a global consensus on the need for a strategic and development-conducive energy portfolio.

Higher oil prices affect the economies of developing countries at both the macro- and micro-levels. An important part of the effects are transmitted through changes in the terms of trade. According to UNCTAD estimates, the terms of trade of countries in whose exports fuel products play a substantial role increased by 30 per cent during 2002-2004.⁴⁸ All fuel-importing developing countries with manufacturing-dominated exports experienced deterioration in their terms of trade during this period. The terms-of-trade losses for East and South Asian economies with predominantly manufacturing exports ranged from 8 per cent for the Taiwan Province of China to over 14 per cent for India in 2003 and 2004. The effects were less pronounced in economies such as Colombia, Costa Rica, Viet Nam and South Africa whose exports include significant shares of both manufactures and primary products. In the case of Malaysia and Mexico – for which fuels account for one tenth of exports – the positive contribution of higher fuel prices largely offset the negative impact of deterioration of terms of trade in manufactures on their overall terms of trade during the same period.

While the intensity of oil use has declined in developed countries since the first oil shock in 1973, developing countries have significantly increased the use of oil as a commercial fuel, especially with increasing industrialization. According to the IEA, Africa's oil use intensity (oil consumption in relation to GDP) in 2002 was 2.34 times higher than that of the OECD. Thus, the impact of high oil prices is felt strongly when oil prices rise. This is particularly so in net oil-importing countries with very low per capita income. On average, the impact is estimated to be a 1.5 per cent drop in GDP for a US\$10 per barrel price increase, and a drop of up to 3 per cent for very poor countries. During the first two oil shocks of the 1970s and 1980s, inflation and unemployment increased dramatically in Africa and in LDCs. During the present upturn in oil prices, the experience has – to some extent – been reversed by the application of prudent monetary and fiscal policies.

However, there are signs that inflationary pressures are beginning to take hold. Companies are struggling with lower demand and higher energy costs as well as with the demand for higher wages. A number of countries, including Burundi, Seychelles, and the Democratic Republic of the Congo have already seen inflation climbing rapidly. The African Development Bank predicts that current high oil prices, if sustained, will translate into an average increase in inflation of 2.6 percentage points for oil-importing African countries in 2006. One other obvious effect of the oil price increase is higher oil import bills. A survey of African importers by the African Development Bank shows that oil accounts for more than 15 per cent of total imports in 12 countries and for 10 to 15 per cent in 16 countries.

Oil-exporting countries are experiencing different problems. Oil revenue has risen to unprecedented levels, generating massive windfall gains. In 2004 and 2005, the windfall gains that accrued to the Governments of nine oil-exporting countries in Africa exceeded US\$15 billion. Research by the Overseas Development Institute estimates the surpluses generated by the eight largest oil exporters in Africa to be as high as US\$22 billion in 2006, growing to US \$35 billion in 2015 at

⁴⁸ See UNCTAD (2006), *Adjusting To Recent Changes In The Energy Sector: Challenges And Opportunities* (TD/B/COM.1/EM.31/2).

current prices.⁴⁹ In the oil-exporting countries of Africa and LDCs, the revenue flow resulting from high oil prices has caused real exchange rates to appreciate. This may weaken the competitiveness of a country's other exports and cause its traditional export sector to shrink. The effect, described as the 'Dutch Disease', requires remedies to reduce excess liquidity such as by investing overseas revenues that are surplus to the absorptive capacity of the economy.

The issue of how to invest the surplus is also receiving growing attention. While prudence would dictate that the excess funds should be invested conservatively so as to provide income for future generations, it could be argued that it is possible to invest in development without straining the absorptive capacity of the surplus country – for instance, by placing the surplus in a fund for regional development. Discussions about possible arrangements are under way in African institutions such as the African Development Bank.

Outside the oil sector itself, a rise in oil prices has similar implications at the micro-level in both oil-importing and oil-exporting countries. Rising prices reduce the real disposable income of households outside the oil sector, particularly of urban households (firewood remains the most widely used fuel in rural areas, particularly among poor people). They also raise production costs in most sectors, including both industry and agriculture, and may damage competitiveness.

Moreover, oil accounts for virtually all the fuel used in the transportation sector in the developing countries of Africa and other LDCs. Thus, understandably, the impact of rising prices on these economies is great. Without the shield of price controls, increased transportation costs resulting from high oil prices have a direct impact on the movement of goods. For instance, Ethiopia has made progress in increasing the rate of economic growth. However, current high oil prices have pushed up transportation costs, thus raising production costs. This affects the competitiveness of the country's major export, coffee. Furthermore, a shortage of truck fuel is hampering drought relief in the south of the country. As is evident in the case of coffee, the impact on export-oriented agriculture can be particularly severe. Agriculture employs the majority of the population in most African countries, and remains of great importance both for food security as well as foreign exchange earnings. However, farmers are now faced with increasing costs of fuel needed to operate farm equipment and irrigation systems. Also, higher costs of energy-intensive supplies (such as fertilizer) lead to the diminishing use of these supplies and, thus results in lower productivity.

Moreover, rising oil prices also affect Government finances. Often, poverty reduction programmes in oil-importing countries get affected because funds are reallocated to cover the rising costs of fuel. Many countries have attempted to alleviate the effect of energy prices on poverty with the help of subsidies. While subsidies may help to mitigate the immediate impact of oil price increases, they may not be the most appropriate instruments to deal with high oil prices in the longer term. The burden of subsidies on government budgets may be unsustainable for most countries. Moreover, subsidies may also delay the necessary adjustments in consumer behaviour and demand structure. Indeed, in some countries, there appears to be considerable scope for the reduction of energy costs through market liberalization (see Box 12). However, the removal of subsidies has often caused public unrest in several developing countries. In 2005, a decision to increase fuel prices by 30 per cent in Indonesia was met with widespread protests. In 2005, several cities in Nigeria were paralysed by strikes protesting against fuel price increases under a policy of deregulating the downstream sector.

⁴⁹ Michael Warner, September 2005, "Sustained Oil, Gas and Mineral windfalls mean that Africa could fund a substantial portion of its own MDG Financing Gap" (http://www.odi.org.uk/Publications/opinions/51_sept05.pdf).

Box 12. Energy-saving measures in Hyderabad

In Hyderabad (India) only the richest 10 per cent of households used liquefied petroleum gas (LPG) in 1980. Middle-class households used kerosene because they could not obtain LPG, a more efficient fuel. There was no kerosene for the poor because middle-class households bought the limited amounts available for public distribution. As a result, the poor had to use wood, which was even more expensive than kerosene. When the Indian Government liberalized energy markets and relaxed restrictions on the production and import of LPG, more middle-class households switched to LPG. Supplies of kerosene were then more plentiful and more available to the poor. More than 60 per cent of households in Hyderabad now use LPG.

7.2. Dealing with oil price rise

One consequence of the increase in oil prices is that the Governments of oil-importing countries have an incentive to make their domestic oil markets more efficient. Since the 1980s, many developing countries have opened their energy markets to competition. However, competition in importation is difficult to achieve owing to the limited size of the markets and deficiencies in infrastructure, such as poor port facilities. Thus, the refining and distribution of oil products tend to be natural monopolies that have to be regulated. However, with regard to oil procurement, there appears to be room for increased cooperation between developing countries, including on tendering procedures. Financing oil imports is another area where gains could be made, particularly by using structured financing techniques more intensively.

All strategies which might be adopted by oil-importing countries to deal with oil price increases would entail some sacrifices. The strategies differ mainly in the timing of the sacrifices. Cutbacks in expenditure are one way of absorbing the consequences immediately. If the consequences can be postponed and spread over a longer period, their impact on development may be less pronounced. Governments can avoid the impact of oil price increases by hedging oil imports through the purchase of derivatives such as options, futures, and swaps. No doubt this would have to be done much in advance of the price increase. Governments may also use the compensatory financial mechanisms provided by international financial institutions, even though they would usually be subject to conditionalities. Existing multilateral schemes for compensatory financing do not fully meet the needs of developing countries – they are often not large enough in proportion to the shocks, and are often provided too late. Indeed, there is much scope for strengthening South-South and regional cooperation in this area (see Box 13). Measures to enhance efficient use of energy are also essential.

Box 13. Venezuela's Petrocaribe initiative: South-South cooperation in energy

Venezuela launched a scheme, the Petrocaribe initiative, in which participating countries from the Caribbean region can benefit from low-cost long-term financing to buy their oil. Under the initiative, when the price per barrel is greater than US \$50, only 60 per cent of the cash is needed upfront, while the remaining 40 per cent can be paid over a 25-year financing period (including a two-year grace period) at an interest rate of 1 per cent per annum. As a part of the agreement, a fund is established for social and economic programmes, with Venezuela making an initial contribution of US\$50 million, and additional contributions made by participating countries.

With regard to oil-exporting countries, strategies focus on ways of avoiding the expansion of export revenues, which leads to excess liquidity and causes the 'Dutch Disease'. Such strategies usually have two elements. The first is a decision or rule that attempts to put a brake on government spending. This is usually done (either explicitly or implicitly) by estimating a rate of growth of potential output, and avoiding expenditure increases that are not compatible with this estimate. The second uses the method of both sterilizing revenues that are surplus to current requirements as well as ensuring that such revenues are put to good use (e.g. for national or regional development). The use may vary. However, the focus is either on preserving inter-generational equity by reserving funds for a future date (i.e. when the oil will have run out), or on smoothing out cyclical economic fluctuations by releasing funds when oil prices fall as also when other indicators point to the economy needing an

infusion of funds. The issue of where funds should be parked in the interim (i.e. until they are re-injected into the economy one way or another) has attracted increasing attention recently.⁵⁰

All this has resulted in the balance of power shifting in favour of national oil and gas companies (NOCs). Many of them – especially those from resource-rich states that have profited from soaring prices for oil and gas – may be taking a more prominent role on the global markets, perhaps competing more strongly with the major international oil companies. Moreover, high oil prices and the increasing clout of state-owned/controlled companies have transformed the mergers and acquisitions market. Indeed, the energy industry has undergone the biggest merger boom since the wave of consolidation among major oil companies at the end of the 1990s. In 2006, the total value of deals involving energy companies was US\$566 billion, up from US\$372 billion in 2005. In 2007 the value of deals is set to be higher still: announcements for 2007 (so far) already nearly match the 2005 total at US\$356 billion. NOCs spent \$57 billion on acquisitions last year, accounting for a third of the value of all transactions in oil and gas exploration and production worldwide.

Much of the recent activity has been domestic, such as the acquisitions of Rosneft and Gazprom, as well as the asset deal between China's Sinopec and China Petrochemical, both state-owned. However, a rising number of the deals are international, such as China's CNOOC which paid US\$2.7 billion to South Atlantic Petroleum for a 45 per cent stake in the Akpo field in Nigeria, and India's ONGC which purchased the Colombian assets of Omimex for US\$850 million. While China and India are making deals overseas to secure resources, companies from other resource-rich states are taking advantage of ample liquidity to expand overseas. Perhaps the most momentous development is that NOCs from resource-rich countries are taking their interest in the 'security of demand' to its logical conclusion by trying to buy consumer-focused companies in destination countries.

Because natural gas is overtaking coal to become the second most important global energy source after oil, international trade in natural gas is predicted to evolve progressively towards worldwide integration. The fact that the traditional business model in the gas industry is changing is evident in the flexibility of LNG (liquefied natural gas) ships increasingly allowing sellers to bring gas to markets with the highest value. The rapidly growing LNG market-share already transfers price signals among markets as distant as Japan, Spain and the United States. With the Atlantic LNG market set to equal the Pacific market by 2010, a definite trend towards the establishment of a global gas market is becoming evident. The tremendous growth in LNG trade as well as the increasing importance of gas in the current and future world energy mix are attracting more and more attention to the evolution of the LNG markets and their implications for all market players.

7.3. Energy security in the global market context

The concept of 'energy security', which first emerged in the 1970s, has broadened and assumed the utmost importance. Consuming countries focus on the 'security of supply' – i.e. the reliability and availability of energy at reasonable prices. Exporting countries, on the other hand, are more concerned about the 'security of demand' – i.e. a sufficient access to markets and consumers that will justify future investment (and the protection of their national revenues). The Russian Federation placed the theme of 'energy security' as the central issue during its G8 presidency.

A further examination of the issue reveals that the differences are even sharper. For the Russian Federation today, energy security is about the state retaking control of the 'commanding heights' of the energy industry and extending that control downstream i.e. over the critical export pipelines that provide a substantial part of government revenues. In contrast, Europe's concerns centre

⁵⁰ At an African Development Bank Meeting of African Finance Ministers in 2005, a proposal was made for the Bank to establish an oil fund, with voluntary contributions coming in from a part of the windfall gains of major oil companies from oil-producing countries. According to the ministers, this type of fund, could be used to help African countries absorb the shock as well as support African developmental efforts.

not so much on oil but on natural gas, as well as on the debate about its critical dependence on gas imports. For other countries, the question is quite different: how can they compensate for the deficit in domestic energy resources? Countries like China and India need to make sure that the energy problem does not hold back the economic growth they need for development, which could result in social turbulence. In the United States, energy security has a double focus: one is to offset any possible disruptions in supply; and the other is to achieve the (often cited) goal of ‘energy independence,’ first articulated as early as in the 1970s – although, in the years since, the United States has moved from importing a third of its oil to as much as 60 per cent today.

In recent statements, OPEC ministers have indicated that, without the guarantee of a market in the future, they may slow down investment in production capacity. OPEC members have expressed concern that increased efficiency, alternative fuels, higher taxes on oil, and subsidies for alternatives to oil will diminish and, perhaps, even reverse the growth in petroleum demand.

Meanwhile, cooperation between countries that produce and export energy resources, particularly natural gas, is on the increase. There are discussions about bilateral ventures in natural gas, of how to coordinate efforts in third countries, and how to work together on some deposits in the countries of both parties. Talks of plurilateral cooperation have resurfaced in the Gas Exporting Countries Forum and in the Shanghai Cooperation Organization. Indeed, while gas producing countries consider how they should coordinate their actions, especially with regard to the pricing of gas and the establishment of the main gas routes, fears have been expressed by some that such cooperation constitutes the first steps towards the establishment of a ‘GASPEC’ (gas OPEC).

Any ‘solution’ of the issue of international energy security that includes only a part of the energy chain will remain a partial solution. This applies to both upstream and downstream links in the chain. It may be noted in this connection that, when the G8 leaders vowed ‘to reduce barriers to energy investment and trade,’ they also added that: ‘It is especially important that companies from energy producing and consuming countries can invest in and acquire upstream and downstream assets internationally in a mutually beneficial way and respecting competition rules.’⁵¹

Increasing oil price volatility and the growing seriousness of global warming have driven countries and institutions to diversify by exploring alternative energy sources, especially renewable and climate-friendly ones. In connection with climate change concerns, it is clear that carbon emissions (which have destabilizing effects on climate) will continue to rise and the sustainability of the current energy system will increasingly be questioned. If current government policies do not change, CO₂ emissions will increase by 55 per cent between 2004 and 2030.⁵² This provides an incentive for the consideration of alternative (and renewable) energy sources (solar, wind, geothermal, biomass and biofuels) that promote both climate change mitigation (due to the low/zero greenhouse gas emissions) as well as energy security (since renewable energy can often be sourced domestically) and enhanced energy efficiency. Policy intervention will be needed to address the issues of energy security as well as climate change concerns in such a way as to achieve both reduced energy security risks and deeper cuts in greenhouse gas emissions.

7.4. Fostering an enabling environment: Realizing trade gains from the energy sector

The new energy paradigm has brought into focus the ‘international rules of the game’ that apply to the energy sector, how they are implemented and how they can be strengthened. Oil and gas industries have traditionally been dominated by state-owned, vertically integrated utilities engaged in the production, transport and distribution of energy products. This has left little margin for trade and competition in energy services. Energy goods have been largely exempted from trade rules, and are

⁵¹ St Petersburg Plan of Action on Global Energy Security, G8 Summit, St Petersburg, Russian Federation. 16 July 2006.

⁵² International Energy Agency, **World Energy Outlook 2007**.

based on GATT general exceptions for national security and the conservation of exhaustible natural resources. These exceptions have promoted the perception that, in general, international trade in (crude) oil is governed by its own distinctive rules. This perception was strengthened by the fact that the main oil and gas producers and exporters were outside of the WTO. Indeed, some still are, most notably Algeria, Islamic Republic of Iran and the Russian Federation.

At the same time, energy trade and investment have been subject to the rules of the Energy Charter Treaty, which has emerged as the international legal framework for the energy sector. The Energy Charter provisions on trade are drawn from those of the WTO, in the most part by direct reference to the WTO rules. The Charter Treaty addresses specific challenges for the energy sector that are not covered by the WTO, in particular the issue of investment protection and the specific characteristics of energy transit through electricity grids and pipelines.

Some provisions in the Energy Charter have been subject to much criticism. It has been suggested that: they make the control of the transport network – considered a security issue – more difficult; the dispute settlement mechanism foreseen for transit disputes gives too much power to the conciliator; and the investment provisions should not apply exclusively to the post-investment phase. The provisions envisaged on access to technologies as well as on the sovereign rights of a State over its national resources are also considered by some to be insufficient.

With the accession to the WTO of Mexico (1986), Venezuela (1990), Oman (1995), Qatar (1996), Saudi Arabia (2005), as well as the ongoing accession process of the Russian Federation, attempts have been made to put energy on its agenda. A range of energy-related issues were raised in the accession negotiations, as well as during the Uruguay Round. These included the issue of dual pricing and, more specifically, the problems that arise in finding acceptable mechanisms (such as export restrictions, export duties or taxes, and government provisions of low-cost energy inputs) to keep domestic prices lower than world prices.

In 2002, Saudi Arabia (still an observer at that time) requested that energy taxation, subsidies and incentives be included in the negotiations. Their concern was that the energy and environmental policies of developed countries – which include energy and environmental taxes and subsidies – may have negative economic implications for developing countries. Moreover, countries pursuing environmental objectives may contravene their WTO obligations in a number of areas, while others may seek to protect their domestic interests under the guise of environmental protection. Qatar has recently been promoting natural gas as the economic and environmental fuel of choice in the WTO Committee on Trade and Environment. It has also argued for the liberalization of trade on goods, equipment and technologies used in conjunction with (liquefied) natural gas.

In 2006, the EU Trade Commissioner mooted the idea of a new WTO round of negotiations that would address the energy sector, and seek to treat oil and gas in the same way as other traded goods.⁵³ This could potentially require oil and gas producers to liberalize distribution networks, thus opening up access to gas pipelines, currently under monopoly control. Energy-importing developed countries would like to eliminate barriers to trade in energy as increasing global demand for oil and gas drives up prices. If producers do not support liberalization, it is suggested that they be offered in exchange additional investment, as well as more security for their energy exports.

In a related development in the WTO services negotiations in February 2006, a group of energy-importing nations and a few major energy exporters – including Canada, Saudi Arabia, the US, Australia and the EU – tabled a ‘collective request’ to a group of developing countries – including Brazil, China, Colombia, Ecuador, Egypt, India, Kuwait, Nigeria, Qatar, and the United Arab Emirates – asking them to open up their markets to freer trade in energy services. The proposal covered sectors

⁵³ Interview with the Wall Street Journal, 23 June 2006.

that encompass the core activities of oil and gas production, processing and distribution. However, these are limited in scope when compared to what the EU has proposed.

Subsidies for oil, coal, gas and nuclear power are often cited as a very significant barrier to renewable energy. As a general matter, it is open to question whether WTO dispute settlement proceedings would be a realistic option to challenge such subsidies: Governments might be reluctant to deploy legal arguments that could result in challenges to their own support programmes.⁵⁴ On the other hand, to break out of the pattern of just a handful of countries participating substantially in renewable energy deployment, it may be necessary to shift away from subsidies and preferential public procurement in the renewable energy sector itself. It is accordingly important to examine whether and to what extent trade regimes could be used to challenge or discipline policies (regulatory barriers) that disadvantage renewable energy and, conversely, whether and to what extent Government policies to promote renewable energy might be challenged as non-tariff measures.

⁵⁴ Nevertheless, at least with respect to export subsidies, this consideration did not, for example, prevent the launching of cases in the WTO where Canada and Brazil challenged each other's measures on civil aircraft.

CHAPTER VIII

TRADE, ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Globalization has led to increased public awareness of the environmental effects of trade growth and the important developmental implications of issues in the interface between trade and environment. There is a general recognition that increased trade flows that result from globalization have to be accompanied by environmental sustainability and poverty reduction to truly achieve sustainable development. Environmental impact is perceived as an increasingly important factor of production that directly bears on production costs, competitiveness and opportunities in international trade. If properly implemented, trade liberalization can lead developing countries to access new environmentally sound technologies, goods, services, and production methods. These can facilitate transition to environmentally sustainable production and consumption patterns and augment their international competitiveness. For the first time in the history of the GATT/WTO, trade and environment issues have become a negotiating subject of global liberalization. Hence the environmental effects of enhanced trade are being much emphasized, and are becoming more and more the centre of public discussion.

Issues at the intersection of trade liberalization, environmental protection and economic development have become more closely integrated with globalization. These are climate change and biodiversity; new environmental, health, and food-safety requirements; and access to environmental goods, services and technologies, and related sustainable production methods. They will pose formidable challenges for the international community in the years to come as any attempt to reduce poverty will have to take the natural environment into consideration.⁵⁵ It is the poor who are the most dependent upon the natural environment to meet their daily food, health, livelihood, and shelter needs. Thus the effects of environmental degradation are felt most immediately and keenly by the poor.

8.1. Trade, climate change and sustainable development

The international community has now reached a consensus regarding the fact that the increasing emissions of greenhouse gases (GHG) such as carbon dioxide and methane – most of which are linked to the human use of fossil fuels – are causing changes in global climate systems. Climate change currently poses one of the greatest risks to environmental, social and economic development globally. Private and public responses to the climate crisis are bringing significant changes in several economic sectors, especially related to energy. Some of the recent trends in the energy sector are outlined in Chapter VII. This section highlights the broad range of relationships among climate change, trade and development: how trade policy might impact on climate change through economic transformation; how significant competitiveness and market access concerns may be affected; how climate change may physically impact economic structures, in particular in agriculture and services, as well as infrastructure; and how trade rules interact with measures for climate change mitigation.

The UN Development Programme's Human Development Report 2007/2008 focuses on potentially dramatic impacts of climate change upon agricultural production and food security, water stress and insecurity, rising sea levels and flooding, ecosystems and biodiversity, and human health.⁵⁶ The Intergovernmental Panel on Climate Change outlines mitigation options for the following sectors: energy supply, transport, buildings, industry, and agriculture, forestry, and waste - reflecting the extent to which climate measures are affecting nearly every aspect of the economy.⁵⁷ The new sense of urgency behind efforts to curb global warming may provide the stimulus for a more proactive

⁵⁵ For more details on some of these salient issues at the interface of trade, environment and development, see UNCTAD's report on *Trade, environment and development* (TD/B/COM.1/86).

⁵⁶ UNDP (2007), **Human Development Report 2007/2008**, pp. 17-19.

⁵⁷ IPCC (2007), *Summary for Policymakers of the Synthesis Report of the IPCC Fourth Assessment Report*, pp. 17-18.

approach to integrating trade policy within sustainable development strategies. Global concerns on the impact of climate change have emerged as a key development theme with globalization.

Impacts of Trade and Investment upon Climate Change

International trade may impact climate change in a multi-faceted way through its (i) scale effects, resulting in increased economic activity; (ii) composition effect leading to changes in the structure or patterns of economic activity; (iii) boost and changes in technology; and (iv) direct GHG emission effects, *inter alia*, from increased maritime, truck and air transport.

The scale effect of trade will generally have a negative climate change impact, because higher production of most goods and services will generate more GHG emissions. The composition effect of trade liberalization tends to shift production to goods and services in which countries have a comparative or absolute competitive advantage. Depending on national policies, this might lead to a more or less carbon-efficient economy. The overall outcome, however, could be a global reduction of GHG emissions, provided there is internalization of the environmental costs of GHG emissions. The technological effect of enhanced trade and investment flows can make a significant contribution to material and energy efficiency, and thus to climate change mitigation. Conversely, more trade and investment generally lead to directly higher GHG emissions from increased maritime, truck and air transport, in addition to higher electricity consumption by global computer and telecommunications networks.⁵⁸

The right mix of specific trade and investment policy measures can optimize multi-faceted impact of trade and investment liberalization on climate change. In this regard, tariff liberalization for renewable and clean conventional energy and related equipment, as well as energy-efficient goods or inputs for energy- and carbon-efficient production processes is one promising cluster of trade policy tools. Another is the reduction or removal of subsidies for conventional energy sources and energy-intensive sectors. A third cluster is the use of technical requirements and standards to encourage carbon-efficient modes of production and consumption. Fourthly, government procurement can be used to encourage consumption and investment in low-carbon goods and technologies. Last but not least, investment policies can be geared to gradually redirect investment into carbon-efficient sectors and simultaneously enhance carbon efficiency in energy-intensive industries. This implies greater opportunities for energy-efficient and carbon-neutral industries and stimulating technological innovation. Also, changes in the energy mix will often support local energy and development needs more effectively than fossil fuel imports. The Clean Development Mechanism of the Kyoto Protocol offers significant opportunities for attracting and directing investment into carbon-efficient or carbon-neutral areas, including changes in the energy mix.

In order to restructure markets toward carbon neutrality, consumers, corporations, and governments need to consider certain increased costs as medium to long-term investments. Businesses directly involved in GHG-intensive activity need to be supported to make the necessary transition to minimize dislocation in the interest of broader societal benefits. Developing countries that invest private capital and direct their public policies toward climate-friendly products will stimulate domestic innovation, reap the advantages of technological "leapfrogging", and are likely to increase their export potential. Developing private and public sector strategies with climate change in mind also often offers local environmental protection and other benefits as well. Countries that fail to do so risk consolidation in dirty industries on the lower end of the value chain, and damage the environment.

⁵⁸ The total energy consumption of web-hosting servers worldwide is estimated to be equivalent to that of global air traffic.

Possible tensions between trade law and attempts to address climate change

Although the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol have no specific trade obligations, they have significant trade implications as they aim to modify the carbon impacts of the ways in which goods and services are produced and consumed. The interface between trade rules and climate change concerns the WTO disciplines on tariffs, technical barriers to trade, government procurement, subsidies, investment policies, and border tax adjustment. The growing importance of national measures to address climate change, the UNFCCC as an element of international economic governance, and climate change as a factor in international commerce will heighten the importance of the interface between trade and environment policy but does not pose an inherent conflict. Rather, it does necessitate enhanced coordination among policymakers.

The principle of differentiated level of obligations among the parties according to their different stages of development – adopted in Agenda 21 in 1992 – is the basis of the UNFCCC and the Kyoto Protocol. There are prospects for evolving post-Kyoto commitments frameworks (i.e. beyond the 2012 targets for developed economies), with a potential for further (but differentiated) engagement by some developing countries. The United Nations Conference on Climate Change in Bali (December 2007) resulted in the adoption of the Bali roadmap. The Bali roadmap charts the course for a new negotiating process to be concluded by 2009. This will ultimately lead to a post-2012 international agreement on climate change. There is also increasing interest in ensuring access to low-carbon technologies and to additional financial resources for implementing climate change policy.

Competitiveness and market access concerns

The competitiveness concern arises regarding two issues. On the one hand, the likelihood that a country that takes stronger climate change mitigation measures might put its companies or industries at a disadvantage relative to foreign competitors in countries that do not adopt similarly strong measures. This may lead to a “carbon leakage” problem, where strong mitigation measures may encourage companies to relocate to other countries. On the other hand, there is concern that even among countries taking similarly strong climate change mitigation measures, there is unfair competition due to differentiated employment of such measures. The World Bank finds that “there is some evidence – although it is not very pronounced – of leakage of carbon/energy-intensive industries to developing economies that could be attributed to more stringent climate change policies and energy efficiency standards.”⁵⁹ Sectoral characteristics also matter, i.e., how energy intensive is the economy and to what extent companies and the sector are in a position to pass on cost increases to customers.

Developing countries face a significant challenge due to their industrial structure and its carbon intensity. Investment in energy-intensive industries in developing countries may expand, resulting from domestic needs for industrialization, energy security, physical-infrastructure development, but also redeployment of carbon-intensive industries from developed to developing countries. For example, “environmentally-sensitive industries” (chemicals, metals, minerals, pulp and paper) represent a growing share of exports for several Latin American countries.⁶⁰ Within these sectors, developing countries often concentrate on the bulk market segment where higher carbon/energy prices are difficult to pass onto consumers.

A potentially significant problem for developing countries is the competitiveness and market access impact of technical measures to trade, caused by requirements on energy efficiency product and process standards or related eco-labelling programmes. In its recent study, based on a simple two-

⁵⁹ World Bank (2007), *Warming Up to Trade?* (Washington D.C.), pp. 37.

⁶⁰ Presentation by UN Economic Commission for Latin America and the Caribbean, 29 November 2007. *Latin America and the Caribbean: Environmental Impacts of Trade*, accessible at: www.unctad.org/trade_env/meeting.asp?MeetingID=232.

country trade model, the World Bank singles out energy-efficiency standards as likely to have the most significant trade impact of all trade policy tools for climate-change mitigation.

Impact of climate change on trade and investment

Climate change will have significant implications on trade flows arising from its impact on agriculture, forestry, trade-related physical infrastructure, and services such as tourism. Weather extremes and related natural disasters can disrupt specific sectors, notably agriculture, and negatively impact infrastructure, in particular along coast lines. Tourism is likely to be impacted by weather conditions and fundamental ecological changes. Rising temperatures are also likely to modify the competitive advantage in agriculture based on ecological factors. The Intergovernmental Panel on Climate Change (IPCC)⁶¹ forecasts imply gradual but colossal shifts in production patterns, cultivated crops and yields, the spread of pests and diseases, as well as accelerated desertification and droughts. The introduction of climate response measures through the emerging carbon market and the Kyoto Protocol will have trade and development implications as they are introduced in several sectors of the economy, such as transportation, energy use, electricity generation, agriculture and forestry.

Many developing countries, in particular the small and vulnerable ones, will be particularly hard hit by these climate change impacts. For example, sea-level rise is causing enhanced soil erosion, loss of productive land, increased risk of storm surges, reduced resilience of coastal ecosystems, and raising attendant costs of responding to and adapting to these shocks. Countries in temperate zones are likely to be far less affected or may even benefit from a longer vegetation period, more cultivable crops and higher yields. As a result, international trade patterns in agriculture will change over time because of different supply and demand patterns, as well as yields.

8.2. Biodiversity, traditional knowledge and trade

The international approach to the protection of biodiversity continues to focus on innovative ways to promote sustainable use, bringing economic, social and environmental benefits to nations and their people. Biodiversity-rich countries are taking advantage of new trade and investment opportunities for biodiversity products and services in the emerging market, with increasing participation of the local private sector. UNCTAD's BioTrade Initiative has estimated that the world market for natural ingredients used in the cosmetic and pharmaceutical sectors amounts to over US\$1 billion annually. Greater scientific certainty, public awareness, growing trade and investment activity levels, as well as the availability of statistical data on environmental and economic losses associated with certain patterns of development, have all led to more discussions and the promotion of more pragmatic policy options aimed at sustainable development.

Harnessing the knowledge-for-development focus will require assisting developing countries to benefit from their own resources: their rich traditional knowledge, innovations and practices (TK). TK is the main asset of the poor who use it to derive goods and services from their natural environment. Yet TK is being lost at alarming rates worldwide, as globalization and environmental degradation are accelerating the break-up of traditional communities and endangering livelihoods. There are also concerns that TK is being inappropriately exploited and patented by third parties without the consent of the original holders of that TK, and without the fair sharing of resulting benefits. There is need for concerted action at the national, regional, and international levels to redress this. A key example is organic agriculture, whose production systems are built on a synthesis of local TK and the results of modern research. In this way, producers who use local varieties adapted to local conditions can achieve higher incomes and greater security than would be the case with conventional

⁶¹ The IPCC is a scientific intergovernmental body set up by the World Meteorological Organization (WMO) and UNEP to provide the decision-makers and others interested in climate change with an objective source of information about climate change.

agriculture. Further, the protection of TK as intellectual property is an important means of harnessing the potential benefits of TK for trade and development gains by the owners (of the TK) themselves.

8.3. New environmental, health and food safety requirements and market access

An important trend at the trade-environment-development interface is the growing impact of new environmental, health and food-safety requirements (EHFSRs) on the access of developing country products to key export markets. The proliferation of private voluntary standards (PVS) on EHFSRs and sustainability standards (mostly created by NGOs) in international trade, and their impact on market access and national development of developing countries is a major concern. In contrast to the proliferating standards, there is a dearth of empirical knowledge both about their impact as well as about successful adjustment strategies to these standards taking into account national developmental priorities. Four developments are particularly challenging:⁶²

- 1) New EHFSRs are becoming more stringent, frequent, complex and multidimensional (i.e. linking quality, environmental, and social issues, often in package form). This constitutes both serious challenges as well as opportunities for export competitiveness, sustainable production, and consumption methods at the national level.
- 2) There is a growing trend towards the 'privatization' of many EHFSRs, with voluntary requirements imposed by the private sector co-existing and inter-acting with mandatory governmental requirements. Governments set product characteristics, product-related processes, and production methods (PPMs); the private sector and NGOs follow by imposing specific non-product-related PPMs to meet the product characteristics. As it is open to question whether or not private standards fall under the WTO disciplines, they pose serious challenges in terms of justifiability, transparency, discrimination and equivalence.
- 3) Besides their function of providing technical quality-assurance, private standards often play a governance role in global supply chains, leading to significant dependencies and the shifting of costs and risks away from buyers, often to the disadvantage of producers/exporters in developing countries.
- 4) The new breed of private voluntary standards, but also some sustainability standards of NGOs, poses particular challenges for small farmers in developing countries. It is not so much the lack of quality or productivity of small growers, but the enhanced management and coordination costs in implementing and complying with PVS that are causing very high recurrent adjustment costs, on average about 20 percent of turnover or up to 50 percent of total income of small farmers⁶³, often causing massive drop-outs of small producers from PVS compliance schemes. According to a recent study on horticultural exports from Ghana, Kenya, United Republic of Tanzania, Uganda and Zambia to the United Kingdom, over 50 per cent of

⁶² For more in-depth analysis, see: UNCTAD, The implications of private-sector standards for good agricultural practices - exploring options to facilitate market access for developing-country exporters of fruit and vegetables: Experiences of Argentina, Brazil and Costa Rica (UNCTAD/DITC/TED/2007/2), Geneva, 2007; UNCTAD, Challenges and opportunities arising from private standards on food safety and environment for exporters of fresh fruit and vegetables in Asia: Experiences of Malaysia, Thailand and Viet Nam (UNCTAD/DITC/TED/2007/6), Geneva, 2008; and UNCTAD, Private-sector standards and national schemes for good agricultural practices – implications for exports of fresh fruit and vegetables from Sub-Saharan Africa: Experiences of Ethiopia, Ghana, Kenya, Uganda, and Zambia ((UNCTAD/DITC/TED/2008/1), Geneva, 2008.

⁶³ PIP Magazine, No. 12 (November 2007), p. 4, accessible through: www.coleacp.org/pip; Graffham, A., Karehu, E., and MacGregor, J., Impact of EurepGAP on small-scale vegetable growers in Kenya, Fresh Insights, No. 6, London, 2007, p. 3, accessible at: www.agrifoodstandards.net.

small producers participating in PVS compliance schemes have dropped out of these schemes between March 2005 and September 2006.⁶⁴

The mushrooming of new EHFSRs has to be dealt with in a proactive and coordinated way. This requires the development of national adjustment strategies that minimize the costs and maximize the benefits of the new requirements (e.g. through lower pollution or higher efficiency in the use of materials, occupational and food safety, etc.). It also requires actions to seize production and export opportunities including through 'front-of-pipe' solutions on production processes, materials for environmentally friendly goods and services. These would include organic agriculture products, other biodegradable products, natural colorants and flavours.

Of particular importance is conceptual clarity on the design of national programmes on Good Agricultural Practices (GAP) that in a modular (multi-tier) way allowing producers to meet national and regional (including South-South trade) requirements with buyer recognition in lucrative overseas export markets. In these national GAP programmes, governments need to pay special attention to support the participation of small producers through supportive/flanking measures, which lower adjustment costs, provide bridging funding, support the creation or continuation of stable and well-managed groups of small producers, and provide improved extension and training services.

8.4. Developing environmentally preferable products, services and production method

International public attention on the problems caused by climate change, material and pollution intensity of economic growth and unsustainable life styles as well as the pressure from new EHFSRs have heightened the interest in environmentally preferable products, services and production methods. These are the strategic markets of the future. Developing countries need to identify market niches and the opportunities open to them as well as the policy initiatives needing to be launched in time to turn these opportunities into reality.

The growing consumer demand for environmentally preferable products (EPPs) presents new opportunities for those producers and countries that can produce them in more energy-efficient and environmentally friendly ways, especially if they can effectively communicate this to consumers. A prime example of this is the rapid expansion of organic agriculture markets: global growth rates have been over 12 per cent over the past decades, and compare favorably with the overall agriculture market growth of only 2-4 per cent. In addition to the economic advantages accruing from premium prices and expanding sales, organic agriculture offers developing country producers (including smallholders) an array of environmental, health, social, cultural, and food security benefits (see Box 14). Other examples of EPPs include energy-efficient electronic goods and certified wood products. Yet even here, differing standards can become obstacles to trade. Thus, further harmonization and equivalency are needed to fully reap the gains in trade and sustainable development.

⁶⁴ Graffham, A, Greenhalgh, P, Kleih, U, Legge, A, MacGregor, J, Orchard, J, Mapping different supply chains of fresh produce exports from Africa to the UK, Natural Resources Institute, London, October 2007, accessible at: www.agrifoodstandards.net.

Box 14. The East African Organic Products Standard

In recent years, growth in production and exports of certified organic products has been improving the livelihoods of thousands of smallholder farmers in Kenya, Uganda and the United Republic of Tanzania. Yet their governments have had no specific supportive policies or research and extension services for organic agriculture (OA). In 2005, there were at least five public or private standards for OA production in the region, which stakeholders saw as a potential technical barrier to regional trade and collaboration. Consequently, a general consensus began forming that a common East African organic standard was needed. Research within the framework of the UNEP-UNCTAD Capacity Building Task Force on Trade, Environment and Development (CBTF), and following multi-stakeholder consultations in the three countries, an East African Organic Products Standard (EAOPS) was adopted by the East African Council of Ministers in April 2007 and launched, together with the associated East African Organic Mark, by the Prime Minister of the United Republic of Tanzania in May 2007 (for more information, see: www.unep-unctad.org/cbtf/events/dsalaam2.asp). The EAOPS is the second regional organic standard in the world after the European Union's and the first ever to have been developed through cooperation between the organic movements and the national standards bodies. It is expected to boost organic trade and market development in the region, raise awareness about the benefits of OA among farmers and consumers, and create a unified negotiating position to influence international organic standard-setting processes. It should also facilitate technical equivalence or benchmarking with standards in developed-country markets, which would help EAC organic farmers gain access to those lucrative export markets.

8.5. International trade agreements for managing the trade and environment interface

In the Doha Round, and for the first time in the WTO history, trade and environment has become a negotiating subject. The main challenge to the negotiations provided for in paragraph 31 (iii) of the Doha Ministerial Declaration on environmental goods and services is to make three main objectives – environmental sustainability, development and trade liberalization – converge in a mutually supportive way. The current positions span a wide range of approaches. On the supply side, there is the very pragmatic approach of putting forward self-defined lists of environmental goods. On the demand side, there is the environmental project approach, which seeks to strengthen the hands of the individual countries reflecting their divergent environmental situations and developmental priorities. Still other approaches seek to bridge both sides in the negotiations. Irrespective of which negotiating approach prevails, it will have far reaching implications in the longer term. The risk lies in the absence of criteria, which may lead to a precedent, an inadequate introduction of this subject matter in trade liberalization rounds, with consequences for the following rounds and tendency to deal with the issue on the basis of negotiating power.

Climate change policy highlights the growing interface between energy and environmental goods and services. Goods, equipment and technologies used in conjunction with renewable energy sources - renewables - are one case in point. The strength of the international commitment on climate change may play a catalytic role and influence the modalities for cooperation, including in the WTO, be it as a separate "WTO climate initiative" or in the context of the negotiations conducted under the mandate provided for in paragraph 31 (iii) of the Doha Ministerial Declaration regarding the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.. As climate change does not form part of the negotiating history in the Doha Round, there is a need to carefully manage the interplay between the on-going work and any new initiatives. There is a growing consensus, however, that the negotiations on environmental goods and services should include renewables, and possibly technologies for cleaner utilization of conventional energy sources such as natural gas-driven turbines, low-emission coal combustion, and carbon capture and storage. They could also include climate positive goods such as biofuels and energy-efficient construction materials and appliances or even goods derived from more GHG-efficient processes and production methods.

The expansion of product coverage in the negotiations to include these goods is not without problems. While the existing HS (harmonized system tariff codes) can capture most renewables, the ubiquitous nature of some goods and their component parts means that the dual use problem will

remain over and above what could be sorted out by a greater specificity in the tariff codes. As for GHG-efficient goods or goods produced in a GHG-efficient way, there are simply no HS codes to match, not to mention that climate or energy efficiency is a moving target.

The inclusion of goods derived from GHG-efficient processes and production methods (PPMs) is especially problematic as it may dramatically increase the scope for protectionist measures. The relative importance of tariffs and non-tariff barriers (NTBs) is another sticky point. Lowering the tariff reductions may well be a simpler task, but NTBs are considerably more important for the liberalization to be commercially meaningful.

Another important issue is that climate positive technologies and the export of related goods tend to be concentrated in developed countries. It is important to balance market opportunities brought about by climate positive technologies and access to these technologies by developing countries. "Technology will play an essential role in our collective response to climate change".⁶⁵ The ultimate goal is to capture the "public goods" nature of innovation and international trade.

More than 50 countries with 80 percent of the world's population now have measures in place, both mandatory and voluntary, for energy efficiency. And yet there is a significant gap between expectations and actual impacts. At the same time, energy efficiency standards affect trade flows and market access. As the marketplace for energy and environmental goods and services becomes increasingly global, so too is the need to ensure cooperation in the development of these standards.

Financial flows and official development assistance targeting climate positive technologies may play a catalytic role in the development of renewables in developing countries through increased trade, investment and technology transfer. Some developed countries (e.g. Germany) are involved in a number of projects in developing countries. The international consensus on climate change provides an important incentive framework for various types of cooperation arrangements.

Countries increasingly use bilateral and regional trade agreements to manage the trade and environment interface. A variety of instruments has been deployed, ranging from environmental chapters and side agreements to consultation, cooperation, and exception clauses. Among the OECD members, Canada, EU, New Zealand and the USA have included the most comprehensive environmental provisions in recent RTAs. The 'Global Europe' communication of November 2006 announced a set of new bilateral negotiations by the EU. Environmental concerns have a very important role in these negotiations, which will be seeking substantial commitments from both sides, with possible market access and development assistance incentives. Among non-OECD countries, Chile's efforts to include environmental provisions in its trade agreements are particularly noteworthy. Few trade agreements among developing countries include environmental provisions like ASEAN and MERCOSUR.

8.6. Fostering an enabling environment: Promoting trade and environmental sustainability

The interface of trade-environment-development with globalizations necessitates a transition to environmentally sustainable production and consumption patterns as well as international competitiveness. Trade policies and trade liberalization should facilitate access to new environmentally sound technologies, goods, services, and production methods.

In meeting this challenge, dealing with climate change has major trade and development implications that the world as whole has to address. Three sets of policies are accordingly being developed at the international level to ensure a coherent approach that will minimize the detrimental effects and maximize possible opportunities. One set of policies concern 'Cap-and-Trade' policies on

⁶⁵ UN Secretary-General Ban Ki-moon.

carbon pricing, taxation, emissions trading, and regulation. These policies will ensure that people face the full socio-economic costs of their actions. A second set of policies promotes home-grown technological solutions and incentives that will drive the development and deployment of a wide range of low-carbon and high-efficiency products and services. A third set of policy measures will aim to remove barriers to energy efficiency, and to inform, educate and persuade individuals on what they can do to respond to climate change in each sector of the economy.

Effective action to counter climate change impact requires a global policy response. These typically involves: (a) mitigation, or the reduction of greenhouse gas emissions (i.e. investing in a low carbon economic development path); and (b) adaptation, or by 'climate proofing' economies (i.e. increasingly ensuring the development of climate-friendly societies). If the future global climate regime is going to contain emission reduction commitments involving some developing countries, developed countries should assist them in capacity-building, technology transfer, and adaptation. In parallel, the impact of efforts made towards reducing emissions in those developing countries which are highly dependent on the production/export of fossil fuels should also be examined. Special support should be provided to them. The long-term nature of the climate change problem makes technological change a central issue in policy considerations. Specific financing mechanisms should be made available to them to help in the process of developing and adopting new energy technologies.

Renewable energy sources comprise an important means to reducing climate change. Developing countries have two advantages contributing to the competitiveness of their renewable energy sources. They tend to have strong renewable energy resources and (in many cases) a lower costs profile for the production of equipment, components, and biofuels (see Box 15). These two factors point to the scope for trade and cooperation in renewable energy. However there are major considerations that still have to be addressed. These include tariff barriers affecting trade in renewable energy, market deployment policies for renewable energy (i.e. measures that underwrite the costs of introducing new technologies into the market), and other carbon-reducing energy technologies. Financial flows and official development assistance targeting climate positive technologies may play a catalytic role in the development of renewable energy sources in developing countries through increased trade, investment and technology transfer. Some developed countries (e.g. Germany) are involved in a number of projects in developing countries. The Kyoto Protocol provides an important incentive framework for various types of cooperation arrangements.

Box 15. The Biofuels option

Among the measures for mitigating the impact of climate change, flexible mechanisms are being utilized to ensure win-win situations in which trade and investment frameworks provide an incentive for cleaner technology as well as lower carbon-intensive energy and transportation options, such as biofuels. In this regard, as a pre-event to UNCTAD XII, a Conference on "An orderly transition towards a less carbon-intensive economy: the biofuels option as a lever for inclusive sustainable development" was organized from 4-5 December 2007 in Rio de Janeiro, Brazil. It was jointly organized by UNCTAD and the Brazilian Energy Planning Agency. It concluded that the worst impacts of climate change can still be avoided if decisive collective action is taken. In this regard, the biofuels option offers win-win-win opportunities to developing countries in terms of climate change benefits, rural development, decent work, energy diversification, while leading to a less carbon-intensive economy. If properly introduced and sequenced, biofuels need not impair food security and deforestation. However, the biofuels option should be considered in a broader policy and economic context, taking fully into account individual country national circumstances. The conference stressed that UNCTAD has a significant role to play in assisting developing countries facing the expected shifts in relative prices and relative production costs stemming from the introduction of climate policies and measures. Moreover, UNCTAD could contribute to a smoother transition to a post-high-carbon economy and to a more robust international biofuels market. For a summary of the deliberations of the event, see "Outcome of the conference "Biofuels: an option for a less carbon-intensive economy" (TD/416).

Addressing new EHFSRs is another emergent issue on the international agenda in the area of trade and environment. The concern is how to design appropriate proactive adjustment strategies to address new EHFSRs. This requires conceptual clarity, a good understanding of the role of supportive

or flanking policies, effective public-private partnerships as well as policy coherence at the national level. At the initiative of several developing country members, the WTO SPS and CTE Committees have recently begun discussing the salient issues of private sector standards and WTO disciplines. The development of regional standards by developing countries – as part of proactive adjustment approaches – is a worthwhile initiative because, apart from facilitating access to overseas markets, such standards can also ease regional trade.

Liberalization efforts in the WTO on environmental goods and services should be considered in conjunction with the possibilities for supporting and financing these efforts, and to make them commercially, financially and technically viable. So far, no institutional linkages have been established between the negotiations and the different fora dealing with development finance and assistance. There is a need to promote coherence in the negotiations between the WTO and other environmental infrastructure projects financed by multilateral financial institutions, especially in terms of meeting financial needs and building capacity.

The key driver in introducing environmental provisions in RTAs is ensuring a level playing-field among the parties. This can be done by giving a legal expression to a commitment to maintain high levels of environmental protection. Another motivation is to enhance cooperation in environmental matters. The fact that an increasing number of RTAs serve as a framework for cooperation in environmental matters does not necessarily (and always) make such cooperation trade-related. In fact, most cooperation agreements are not trade-related. They have typically taken place (and would have taken place anyway) among countries with shared ecosystems. Indeed, a lot of regional arrangements for environmental cooperation pre-date the respective RTAs.

Finally, there seems to be a missing link between international trade negotiations (multilateral and regional) and the need to be responsive to broader development goals, such as the MDGs. There is a need to look at the technical issues arising in the negotiations on trade and environment from a broader development perspective. The MDGs are one case in point. There are many potential target (environmental) areas to be derived from MDGs such as the supply of drinking water, drainage systems, sanitation, the disposal of sewage, waste disposal, and the development of renewable energy sources. The choices the WTO Members make could also be linked to multilateral environmental agreements. Bringing a development dimension to negotiations on environmental goods and services is important to promote sustainable development.

CHAPTER IX

ENSURING FAIR COMPETITION

9.1. Trade, competition and global enterprises

Trade liberalization alone is often not enough to maintain an optimal level of competition in all economic sectors. Private actors – fearful of the consequences of trade liberalization and stronger competition – may be inclined to protect their interests and market shares by introducing cross-border anti-competitive practices. These include international cartels, abuses of dominance, and the abuse of intellectual property rights. In some circumstances, such practices can limit international trade even more severely than high tariffs and just as severely as non-tariff barriers. Market entry may be restricted, for instance, where suppliers enter into exclusive arrangements with their distributors, or large retailing chains (with important buyer power) refuse to distribute traded goods on reasonable terms and conditions. International cartels established to fix prices and allocate markets would prevent competition from alternative sources of goods or services from undercutting the high prices imposed by cartel members. If an effective competition law is in place, such anti-competitive practices can be challenged. However, in countries where there is no competition law, the benefits of trade liberalization could be lost through such anti-competitive conduct.

It is increasingly clear that anti-competitive practices, both domestic and cross-border, impair the process of development in developing countries more significantly than has previously been thought. This is true for at least four reasons. Firstly, given their narrow domestic industrial base, developing countries have to rely on imports of intermediate goods. To the extent that such intermediate goods are subject to anti-competitive practices – either within national borders (for example through restraints on distribution channels) or by the foreign suppliers of these imports (for example, an export or international cartel) – the developing country in question will be penalized by higher prices for both the intermediate goods and the goods for which they are used as production inputs. In a number of papers, UNCTAD has documented the extent to which international cartels still operate in markets where developing countries have to import a lot, including in markets for intermediate goods. There is also increasing concern that the agricultural exports and imports of LDCs are dominated by small numbers of traders, facilitating cartelization or collective abuses of dominance which would lead to higher import prices or reduce the benefits from exports.

Secondly, to achieve their developmental goals, developing countries need to rely on export-oriented strategies. However, the gains expected to arise from liberalized market-access conditions at a multilateral level or through preferential schemes will be severely limited if private anti-competitive practices are still in place.

Thirdly, foreign firms feel freer to engage in across-the-border anti-competitive behaviour when the countries to which they export do not have a domestic competition law, and can neither individually nor through cooperation with foreign competition authorities challenge the market behaviour of the firm. Thus, countries that do not have a domestic competition law will be the prime victims of international anti-competitive practices. Even where such laws have been adopted, taking enforcement action against foreign firms is a daunting task for developing countries which, in many cases, still need capacity-building assistance to sufficiently establish their competition authorities, as well as international enforcement cooperation.

Fourthly, effects on trade arise from the conditions under which foreign direct investment is established and operates. The impact of FDI is not always pro-competitive. Where, as often happens, FDI takes place through the acquisition by a foreign corporation of a domestic enterprise, or the establishment of a joint venture between a foreign and a local firm, the foreign investor may gain a dominant position in the relevant market, enabling it to charge prices above competitive levels but often temporarily. Another scenario often encountered in developing and transition economies, is where the affiliates of two transnational corporations (TNCs) compete with each another in a

particular market and the parent company overseas undertakes the merger. With the affiliates no longer independent of one another, competition in a host country may be adversely affected, even if the merger does not significantly affect competition in the markets of the TNCs' home countries. In both scenarios, the effects would be felt in the domestic markets of the host country as well as on its international trade since higher prices in the domestic market would encourage imports.

With globalization and technological change, there is a trend towards the establishment of global production and distribution chains, as well as network-based industries such as in computer software. There is a danger that such trends – together with recent trends relating to mergers and acquisition – may be leading to a concentration of market power in a few global enterprises and reduced competition in the markets involved, thereby facilitating anti-competitive practices. Such anti-competitive practices may reduce domestic and global efficiency gains as well as the welfare benefits that should arise from liberalization. They will also adversely affect the trade and development prospects of developing countries, their enterprises, especially SMEs, and their consumers.

9.2. Effects and implications of the wave of mergers and acquisitions

In recent years, there has been a strong increase in the numbers and transaction value of mergers and acquisitions across the world, especially within some sectors, such as in the oil and gas, food, metals and minerals sectors, automobiles and, in particular, in some services sectors such as financial services (see Table 5). Thus, since widespread deregulation has permitted the integration of banking, asset management and insurance, the global annual average number of mergers and acquisitions involving a financial company increased from 954 in the period 1990-1995 to 1556 in 1996-2000, with a slight drop to 1436 in 2001-2003.⁶⁶ The transaction values of deals in 2005 stood at US\$93.8 billion. In the mining sector, there was a dramatic rise in the number and value of mergers and acquisitions in 2005 and 2006 (compared to those recorded over the past decade) – amounting to a transaction value of around US\$60 billion by the third quarter of 2006.⁶⁷

Such mergers would reduce the number of competing rivals and may thus facilitate anti-competitive practices (such as abuses of dominance or the formation of cartels), which may adversely affect developing countries. Risks of cartelization may also be heightened by the enhanced avenues of communication among firms arising from new technologies and globalization, as well as from the fact that there is often relatively more frequent contact among multinational firms (compared to other firms) because they operate in several geographical markets. For example, developing economies are estimated to have been overcharged between US\$12.5 and US\$25 billion for several products which were the subject of international cartels during the period 1990-1995.⁶⁸ Moreover, evidence confirms that cartels with multi-continental effects raise prices higher than other types of international cartels and that, despite evident increases in cartel detection rates and the size of monetary fines and penalties in the past decade, a good case can be made that current global anti-cartel regimes are not sufficiently robust and are not serving as a deterrent.⁶⁹

⁶⁶ See Dario Focarelli, Alberto Pozzolo (2007), “Cross-Border Mergers and Acquisitions in the Financial Sector: Is Banking Different from Insurance?” in *Economics and Statistics Discussion Paper* No. 32/07.

⁶⁷ UNCTAD, Cross-border Mergers & Acquisitions database. Available from www.unctad.org/fdistatistics.

⁶⁸ UNCTAD (2003). *Can Developing Economies Benefit From WTO Negotiations On Binding Disciplines For Hard Core Cartels?* (UNCTAD/DITC/CLP/2003/3).

⁶⁹ See J. M. Connor (2007). “Price-fixing Overcharges: Legal and Economic Evidence”, in *Research in Law and Economics*, Volume 22, 2007, pps 59-153.

Table 5
Cross-border merger-and-acquisitions sales, by sector/industry of seller (millions of dollars)

	2004	2005		2006	
		First half	Total	First half	Total
Total industry	380 598	254 413	716 302	377 309	880 457
Primary	19 414	11 103	115 420	18 425	86 133
Agriculture, Forestry, and Fishing	1 245	1 611	1 824	2 132	2 191
Mining, quarrying and petroleum	18 169	9 492	113 596	16 293	83 942
Secondary	120 747	89 693	203 730	89 796	274 407
Food, beverages and tobacco	23 870	17 240	44 816	13 437	24 878
Textile, clothing and leather	1 585	917	2 133	2 903	3 549
Wood and wood products	3 769	2 923	5 280	1 259	5 696
Wood Products, Furniture, and Fixtures	833	2 483	3 273	1 021	2 269
Paper and Allied Products	2 936	440	2 007	238	3 427
Printing, Publishing, and Allied Services	8 965	2 468	9 961	1 553	25 425
Oil and Gas; Petroleum Refining	880	568	1 892	1 187	4 281
Chemicals and chemical products	41 788	20 189	54 438	27 468	59 369
Rubber and Miscellaneous Plastic Products	570	940	2 443	4 749	7 451
Stone, Clay, Glass, and Concrete Products	5 178	3 574	6 915	7 898	9 777
Metal and Metal Products	4 579	15 437	29 460	7 011	48 890
Machinery	6 688	3 110	5 274	3 041	19 164
Electrical and electronic equipment	12 998	6 885	15 055	8 092	39 259
Motor vehicles and other transport equipment	3 639	8 412	11 052	4 906	16 014
Measuring, Medical, Photo Equipment; Clocks	5 871	6 679	13 488	4 807	8 903
Miscellaneous Manufacturing	367	350	1 525	1 486	1 750
Services	240 437	153 617	397 152	269 087	519 918
Electric, Gas, and Water Distribution	24 799	16 073	38 259	6 971	23 253
Construction Firms	3 324	1 978	6 232	9 102	11 402
Hotels and restaurants	4 618	1 370	7 604	22 616	31 968
Trade	26 445	15 163	29 232	10 914	23 105
Transport, storage and communications	36 530	37 835	97 502	92 647	140 913
Finance	81 809	26 880	93 795	55 030	131 615
Business activities	55 261	41 836	93 127	50 540	109 233
Public Administration	18	31	87	90	92
Health and social services	2 726	1 965	6 201	8 692	13 565
Educational Services	79	10	1 499	0	425
Community, social and personal service activities	3 349	10 457	23 415	9 617	30 040
Miscellaneous Services	1 479	20	200	2 868	4 308

Source: UNCTAD, cross-border M&A database, available from www.unctad.org/fdistatistics.

9.3. Fostering an enabling environment: Promoting competition and controlling anti-competitive practices

Exploiting the opportunities arising from liberalization requires both national competition policies and international cooperation to deal with both domestic and cross-border anti-competitive practices, particularly those that hamper trade and investment. Yet there are serious deficits at the national, regional, and multilateral levels in respect of applicable legal rules and enforcement capacity (especially in developing countries) for controlling such anti-competitive practices, particularly when these practices are of a cross-border nature.

One element typically found in competition law is the prohibition of any merger, acquisition, or takeover which is likely to substantially lessen competition or which leads to the acquisition of a dominant position in the relevant market. Thus, any adverse consequences of mergers and acquisitions involving TNCs, for instance, can be avoided if an effective competition law is in place in the host

country. As UNCTAD⁷⁰ points out, competition law enforcement signals to firms that any inward investment that is motivated by the pursuit and eventual abuse of a dominant position will be dealt with severely by competition law. It is also argued that an economy that has implemented an effective competition law is in a better position to attract foreign direct investment than one that has not. This is because most TNCs are accustomed to the operation of such a law in their home countries, and know how to deal with any concerns that the competition authority may raise provided that the competition authorities act with impartiality in cases involving domestic and foreign firms, as well as between foreign firms.

While it may not be feasible to ban more than a few mergers outright, competition authorities often impose conditions in return for allowing such mergers. In recent years, in response to the trends relating to mergers noted above, some developing countries have occasionally examined the domestic effects of international mergers upon their markets and imposed requirements upon the local subsidiaries of the companies concerned as a condition for approving such mergers. For instance, as a condition for approving a merger between two large international shipping companies, the South African Competition Commission required one of them to divest its assets, rights and obligations in respect of its liner shipping activities on the South Africa/Europe and South Africa/North America routes. Moreover, after its investigations, it also shared information with the European Commission, which also investigated and imposed conditions relating to this merger in respect of EU markets.⁷¹ However, there is ample evidence that developing countries face special enforcement difficulties when addressing anti-competitive practices with international elements.⁷² It is indeed open to question whether a developing country's competition authority ordering the prohibition of a merger between two global companies in order to prevent anti-competitive effects upon its markets (something which is sometimes done by developed country competition authorities) will actually be able to enforce it.

Thus, enhanced international cooperation on competition law and policy is also required to address anti-competitive practices which lead to losses by developing countries. The general consensus regarding the benefits of competition policy for development led to the unanimous adoption of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices by the General Assembly in 1980⁷³ (see Box 16).

Box 16. The UN SET

The UN Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices was adopted by the UN General Assembly in 1980. The Set's continuing validity and the fundamental role of competition law and policy for sound economic development were re-affirmed by the Fifth UN Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices. The Conference, held in Antalya, Turkey, in November 2005, recognized the positive contribution made by the Set – and by UNCTAD – to the promotion of competition policy as a tool for assuring successful economic reform conducive to sustainable development, and the need to further promote the Set's implementation (TD/RBP/CONF.6/14). Both Fifth Review Conference and the São Paulo Consensus recognized the importance of the role of competition policy in promoting competitiveness, building entrepreneurship, facilitating market access and entry, enhancing the equity of the international trading system, as well as ensuring that trade liberalization brings about development gains.

Since the Set's adoption, there has been a universal trend towards the adoption, reform and the enhanced application of national competition laws and policies. There has also been a substantial

⁷⁰ UNCTAD **World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy**, (UNCTAD/ITE/IIT/5).

⁷¹ See UNCTAD, *Recent Important Cases Involving More Than One Country*, (TD/RBP/CONF.6/5/Rev.1, TD/B/COM.2/CLP/53).

⁷² See for example UNCTAD, *Experiences Gained So Far On International Cooperation On Competition Policy Issues and the Mechanisms Used* (TD/B/COM.2/CLP/21/Rev.5) and *Ways in Which Possible International Agreements on Competition Might Apply To Developing Countries* (TD/B/COM.2/CLP/46/Rev.3).

⁷³ G A resolution 35/63 of 5 December 1980

increase in international cooperation in this area, resulting in relevant bilateral and regional agreements. Of the approximately 300 RTAs which are in force or under negotiation, over a 100 contain competition-policy related provisions. Yet much remains to be done to help ensure that anti-competitive practices do not impede or negate the realization of the development benefits arising from liberalization in globalized markets. The objective of such action should be to facilitate stronger international cooperation. This should include: the identification of how competition rules in bilateral and regional agreements might be developed further, and better cater for developing country specificities, and how they can be more fully implemented. It should also work towards strengthening the consistency and coordination between national action and international cooperation in the area of competition law and policy.

Global coherence in dealing with anti-competitive practices, particularly those affecting more than one country, would also require addressing the following:

- a) international mergers and market concentration, abuses of dominance and export and international cartels affecting developing country markets and their effective market entry opportunities;
 - b) enhancement of legislation and institutions for implementing competition law and policy;
 - c) coherence between competition policy and other policies, including possibilities for cooperation between competition and trade authorities;
 - d) exchange of experiences and best practices, networking, provision of capacity-building to competition agencies in developing countries and voluntary convergence on standards and rules;
 - e) strengthening of consultations, exchange of information and cooperation in the competition area at the regional and multilateral levels; and
 - f) preferential or differential treatment for developing countries.
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CHAPTER X

AID FOR TRADE AND DEVELOPMENT – BUILDING CAPACITY

10.1. Meeting adjustment costs and building productive capacities

The Aid for Trade (AfT) initiative is an essential complement to trade liberalization in the international trading system. It is necessary both in realizing potential gains and in mitigating the costs of trade liberalization, whether multilateral, bilateral or unilateral. There is general agreement also that the AfT initiative should not become a substitute for a development outcome to the Doha Round, but should rather complement to it. The need to help developing countries and LDCs build competitive supply capacities, make better use of market access opportunities, and diversify their exports has long been recognized as being part of a long-term development strategy in which trade operates as an effective engine of growth, development and poverty reduction. However, there is also an important immediate need to help developing countries cope with the trade shocks associated with liberalization as well as the difficult transition into a more liberalized global trading environment. Thus, adjustment assistance is indispensable, particularly when countries lack their own social safety nets. The AfT initiative is thus novel in the sense of responding specifically to trade liberalization under the WTO, as well as a long-awaited response to the need to generally provide trade-related assistance and support to developing countries to build up their trade capacities to participate effectively and benefit from international trade.

Trade-related adjustment costs cover a wide range of issues but primarily include those relating to preference erosion which particularly affects countries dependent on textiles and clothing and agricultural commodity exports. Other adjustments needing assistance include the loss of revenues from trade taxes; increases in food prices for net food-importing countries; shortfalls in export earnings; and other social costs such as the loss of jobs/livelihood activities due to the contraction of import-competing sectors and/or export sectors faced with the loss of trade preferences.

Another category of costs that require AfT assistance are those associated with compliance to the commitments, rules and standards of the international trading system. Such costs include those incurred in the process of setting up domestic regulatory mechanisms and institutional frameworks to support the liberalization of services; the implementation of a new agreement on trade facilitation; the creation of standard-setting institutions, certification agencies and testing laboratories; and compliance with the TRIPS Agreement.

Because of inadequate trade-related infrastructure and supply-side capabilities, many low-income countries need to make substantial investments in these areas before they will be able to take full advantage of market access opportunities. Trade-related infrastructures include both physical infrastructure (such as roads, ports, storage facilities, telecommunication systems, energy and electricity, transport systems, and water supply and sanitation), as well as institutional infrastructure, such as an efficient banking and financing system, business services and other trade support institutions. This involves focusing attention on developing competitive services sectors.

The strengthening of supply-side capacities also calls for strategically targeting support at the enterprise and producer levels. This involves support to enhance entrepreneurship and enterprise development, the upgrading of skills as well as technology absorption and innovation. All these are aimed at strengthening export production capabilities and competitiveness, building trade facilitation capacities, and facilitating entry into new markets (market diversification) and a more beneficial participation in global supply chains.

10.2. Fostering an enabling environment: Implementing the Aid for Trade initiative

Although the concept of the AfT initiative has been accepted as a necessary systemic response to trade marginalization, it still needs to be operationalized. It will assist the implementation of new

Doha Round agreements; help ease adjustment costs to economic reforms; and facilitate the utilization of new market access. It is urgent that the mechanism be supported with substantial resources that should be additional to development aid, without being unpredictable and/or debt creating.⁷⁴

The recommendations of the WTO Task Force on AfT provide a framework for transforming the commitments of the Aid-for-Trade initiative into action (see Box 17). The Task Force affirmed that the effectiveness of its recommendations for operationalizing AfT requires substantial additional targeted resources for trade-related programmes and projects, as pledged at the WTO's Hong Kong Ministerial Conference. During the conference Japan announced that its development assistance spending on trade, production, and distribution infrastructure would be increased to US\$10 billion over three years; the United States announced AfT grants of US\$2.7 billion a year by 2010; and the EU and its member States announced trade-related development assistance spending of €2 billion per year by 2010. At St. Petersburg G8 summit in 2006, the G8 leaders expressed their expectation that AfT funding would rise to US\$4 billion by 2010.

Moreover, the broader international commitment at the International Conference on Financing and Development in Monterrey (2002), as well as the G8 summits in Gleneagles (2005) and St. Petersburg (2006), promised to significantly scale up development assistance by 2010. The OECD estimates that these commitments entail an increase in ODA, which will include assistance for trade, by about US\$50 billion per year by 2010.

Box 17. Some key recommendations of the WTO AfT Task Force

The WTO Task Force has recommended that: 'Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies.'* For monitoring purposes, the task force suggested six categories for reporting AfT-related flows:

- (a) Trade policy and regulations, including: the training of trade officials, the analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate the implementation of trade agreements, and to adapt to and comply with rules and standards.
- (b) Trade development, including: investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.
- (c) Trade-related infrastructure, including: physical infrastructure.
- (d) Building productive capacity.
- (e) Trade-related adjustment, including: supporting developing countries to put in place accompanying measures that assist them to benefit from liberalized trade.
- (f) Other trade-related needs.

* WTO, *Recommendations of the Task Force on Aid for Trade* (WT/AFT/1).

The delivery channels for AfT are also important. The multilateral versus exclusively bilateral channelling of AfT funding is an important issue, involving predictability and effectiveness in dealing with some of the challenges and gaps in current AfT identified by the Task Force. Accordingly, the Task Force has recommended that donors should 'consider channelling Aid-for-Trade funds multilaterally, when appropriate'. The provision of AfT through global programmes – such as those currently provided by international organizations such as UNCTAD – should be an avenue for delivering trade-related assistance (public goods) for the benefit of all countries. In this context, the assistance expected under the AfT initiative should not replace existing operational mechanisms which are already delivering trade-related assistance through the UN agencies at the global level.

⁷⁴ Ideas on UN's support to aid for trade is provided for example in the summary of discussions of the "Pre-conference event: Aid for Trade and development: towards a new global solidarity initiative, Bangkok, 24–25 January 2008" (TD/429).

In this context, it is worth considering the experience of the Integrated Framework for LDCs (IF). In existence since 1997, it is an important instrument for delivering the Aid for Trade initiative to LDCs. The IF experience has shown that assessing needs and setting priorities at the country level can be time-consuming (taking up to two or more years); that country ownership is weak when there is uncertainty or lack of funding at the end of the process; and that in a system with diffused responsibility for management and implementation ('everyone, yet no one is responsible'), implementation will be weak and programme objectives will not be met.⁷⁵ Because of this experience, IF stakeholders (which include donors and recipient countries as well as the six core agencies – IMF, ITC, UNCTAD, UNDP, World Bank and WTO) have agreed to implement an enhanced facility (the Enhanced IF). The Enhanced IF will have a full-fledged multilateral institutional, managerial and governance structure, and increased predictable financial resources (although still modest – an increase from US\$1- \$8 million in grants per LDC) to support the implementation of priority projects and actions. This is, perhaps, an experience worth building on for the larger AfT effort.

For their part, the prospective beneficiaries of AfT would have to specifically and strongly mainstream trade into national development policies and plans. The prioritization of trade in development is critical to evolving the commitment of stakeholder Governments to trade and to implementing trade-enhancing programmes. Without a counterpart reflection in a national framework, AfT will have limited impact. The WTO Task Force also recommended that developing countries should therefore consider and set up national and regional aid for trade committees to identify their needs. These could be new multi-stakeholder consultative bodies comprising the trade policy community, or they could be existing trade consultative institutions whose functions could be expanded to take on the AfT initiative. This is a key first step in benefiting from the AfT initiative.

The first Global Aid-for-Trade Review conducted by the WTO took place on 19 and 20 November 2007. The took stock of what is happening on Aid for Trade; identified what should happen next; and proposed improvement to WTO monitoring and evaluation. Inputs to the global review came from the outcomes of three regional events on mobilizing AfT for respectively Latin America and the Caribbean (Lima, 13-14 September 2007), Asia and the Pacific (Manila, 19-20 September 2007) and Africa (Dar-es-Salaam, 1-2 October 2007). Information and analyses were also provided in a joint WTO/OECD report on Aid for Trade at a Glance 2007: 1st Global Review which compiled information provided by Governments and agencies on their perspectives on and involvement in AfT.

The report on the review to the WTO General Council by the WTO Deputy Director General Mrs. Valentine Rugwabiza (21 November 2007) highlighted, *inter alia*, the following consensus: (a) the importance of country leadership, mainstreaming, setting priorities, and improving regional approaches; (b) the direct involvement of the private sector is indispensable; (c) the clear need to scale up the overall ODA envelope – as pledged in Gleneagles and elsewhere – while at the same time acknowledging that recipient countries had a responsibility for making trade a priority and for developing viable projects; and (d) that while Aid for Trade is an important complement to trade opening, especially to a successful Doha Round, it cannot – and should not – be a substitute. In his report to the WTO General Council also on the periodic work on aid for trade carried out by the WTO Committee on Trade and Development, the Chairman stressed that “there remains a large knowledge or understanding “gap” - between the trade and development communities, between partner and donor countries, and between the various international actors engaged in the delivery of Aid for Trade. Bridging this gap will be key to harnessing trade for development - whether we call it “mainstreaming” or “priority setting” or “national vision”. This is one of the main benefits that WTO monitoring through the global review can bring to the AfT initiative and the role that the Committee on Trade and Development is playing as well.

⁷⁵ See Report of the Chairman of the Task Force on an Enhanced Integrated Framework, including Recommendations (WT/IFSC/W/15).

CHAPTER XI

UNCTAD'S ROLE: PROMOTING QUALITATIVE TRADE INTEGRATION

11.1. Overview

A number of emerging trade and development issues have been identified in this report in the context of the new realities and opportunities created by globalization and the persistent challenges of poverty and underdevelopment in the world economy. To help developing countries to benefit from these opportunities, to use trade to meet internationally agreed goals such as the MDGs, as well as to overcome persistent challenges, UNCTAD's contribution to maximizing development gains from the international trading system will be important over the short-to-medium term in the areas of international trade and trade dynamism, commodities, services, fair competition, South-South trade, environmental issues linked to trade, and trade and development aspects of energy, labour mobility and climate change, as well as its contribution to the aid for trade initiative through its trade-related technical assistance. In this connection for example, UNCTAD member States agreed at the Mid-term Review of the São Paulo Consensus on several areas in which emphasis should be placed (see Box 18).

Box 18. Mid Term Review of the São Paulo Consensus by the Trade and Development Board: Outcomes regarding international trade in goods, services and commodities

Member States agreed inter alia that UNCTAD shall, within its mandate, under the São Paulo Consensus, emphasis the following areas in respect of assuring development gains from the international trading system and trade negotiations:

- (a) Coordination of UN-wide activities on trade and development;
- (b) Commodity issues and their integration into national, regional and international development and poverty reduction strategies;
- (c) Contributing to national, regional and international policy efforts to resolve the trade and development problems associated with commodity dependence;
- (d) Competition law and policy, in accordance with the resolution adopted by the Fifth United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices;
- (e) Trade negotiations, issues, capacities and WTO accession and its follow-up, as well as services development and trade negotiations, with particular emphasis on the strengthening of country ownership and capacity building in preparing and conducting trade negotiations;
- (f) Strengthening the participation of developing countries in new and dynamic sectors of world trade;
- (g) Non-tariff barriers (NTBs), including support for the Group of Eminent Persons on Non-Tariff Barriers established by the Secretary-General of UNCTAD;
- (h) Development and dissemination of trade-related databases, and trade and development benchmarks;
- (i) Cross-cutting issues of trade, poverty, sustainable employment creation, gender, matters pertaining to movement of natural persons, and adjustment to trade reform;
- (j) New dynamics of world trade which includes facilitating the emergence of new dynamic centres of trade and growth in the South; monitoring and analysing changing patterns of developing countries' participation and share in international trade; identifying success factors, including private-public partnerships, and disseminating lessons learned; encouraging South-South trade and economic integration; and supporting a more comprehensive GSTP;
- (k) Trade, environment and development issues, the BioTrade Initiative and related partnerships, and the Biofuels Initiative;
- (l) The development dimension of intellectual property, in close cooperation with relevant organizations;
- (m) Aid for Trade, including aid for institutional, regulatory, infrastructural and human resources development in developing countries;

Source: TD/B(S-XXIII)/7 (Vol. I)

With regards to its research and analysis, UNCTAD monitors trends and systemic developments. It provides strategic perspective and forecasting as well as simultaneously pointing out the practical ways and means of ensuring development gains. UNCTAD's work can bring policy issues

into focus through empirical research, and bring best practices to bear on national policies according to the individual characteristics of each developing country. It can contribute to national/regional trade and development strategy setting, including through multi-stakeholder involvement and consultation, institution building, and human resource development. It could provide useful analytical inputs through policy and sector-specific reviews such as the trade and environment reviews, voluntary competition policy peer reviews, and reviews of new and dynamic sectors. Such reviews can be considered further through, for example, multi-year expert discussions to more systematically identify 'pragmatic solutions' at the national, regional and international levels. This will, in turn, help enhance the enabling environment for development at the national level in terms of public policies and measures as well as corporate policies and practices. Most of all, as the focal point in the UN System for the integrated treatment of trade and development, UNCTAD can, through its analytical work and consensus-building work, contribute to ideas and norm-setting at the international level in a way that promotes the best possible global governance, coherence, and solidarity for development.

Technical cooperation and capacity-building is the practical and concrete manifestation of policy conclusions and options of intergovernmental deliberations, and ahead-of-the-curve thinking and analyses. UNCTAD's technical assistance on international trade and commodities is being adapted to the new UNCTAD-wide approach of thematic clusters of technical assistance as recommended by UNCTAD member States. This will enable UNCTAD to have a significant impact on development in developing countries, and play a proactive role in the 'one UN' system of operational support at the country level.

Inter-agency cooperation, including within the UN System, and partnerships between civil society and the private sector on trade development is being pursued and expanded. These provide practical means through which common development objectives can be achieved by putting together the expertise and resources of partners. UNCTAD's range of trade-related partnerships, including both project-based and research-oriented ones, can be strengthened.⁷⁶

11.2. Facilitating beneficial integration into the international trading system

UNCTAD monitors and assesses the evolution of the international trading system and its development impacts; multilateral, regional and bilateral negotiations and capacity-building; WTO accession; the trade impact of non-tariff measures (NTBs); and the Doha Round negotiations and the international trading system generally – all from a development perspective. It endeavours to ensure coherence and interface between regional trade agreements and the multilateral trading system; strengthening the participation of developing countries in the new and dynamic sectors of world trade; and improving trade and development analytical tools such as the Trade and Development Index.

UNCTAD's key contribution lies in rigorously upholding the MDG goal of an open, equitable, rule-based, predictable, and non-discriminatory multilateral trading system. This has been instrumental in monitoring the international trading system, and assessing to what extent the development dimension has been achieved generally and specifically in the WTO, especially in the Doha Round. UNCTAD has provided support (including analysis) to intergovernmental deliberations including the Trade and Development Board and the UN General Assembly. Its capacity-building assistance at the national, regional and international levels helps promote awareness on the contribution of trade to the realization of the MDGs specifically in the area of the Doha negotiations. It also builds up the human, institutional and regulatory capacities of developing countries relevant to engaging in the multilateral trading system; promotes the greater utilization of the Generalized System of Preferences (GSP) and other trade preferences (like AGOA and EBA); and assesses the implications of preference erosion. UNCTAD helps to enhance the understanding of and active participation in multilateral and regional

⁷⁶ For a glance of UNCTAD's rich work on trade in goods, services and commodities, see for example the **DITC Activity Report 2006** (UNCTAD/DITC/MISC/2006/14).

trade negotiations by developing countries and contributes to clarifying the interface between multilateral and regional trade to ensure coherence and mutual supportiveness.

UNCTAD implements global, regional and country-specific assessments of the development impact of WTO Agreements and the Doha negotiations in developing countries. It strengthens the capacity of countries to understand, manage and participate in the complex and demanding WTO accession process in a sustained manner, helping them in reflecting their national development priorities. UNCTAD's support for all the stages of the WTO accession process – including the post-accession phase – is particularly intensive and wide-ranging. A recent evaluation of its work on the accession process has found its support as being 'very relevant, focused and timely, pro-development and responsive to the changing needs of the beneficiary countries.'⁷⁷

Trade-related technical assistance on trade policy and trade negotiations is a growing need for developing countries in the context of continuing multilateral trade negotiations, the effective management of the WTO Agreements, and their participation in proliferating RTAs. UNCTAD has developed useful and tested products in these areas. These include: advice on WTO Doha negotiations and RTAs; the development of trade in services; regulatory and institutional capacity-building including in African countries, particularly under the JITAP (Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme to African Countries); support in the WTO accession process; help in ACP-EU negotiations of Economic Partnership Agreements (EPAs); regional integration in services trade, such as for SADC; and skills training for trade negotiations. UNCTAD is also provides assistance on the utilization of the dispute settlement system of the WTO and other trade and investment agreements. UNCTAD is working in several countries, e.g. in India, over several years to maximize development gains from globalization especially in pro-poor sectors. Such capacity-building activities of UNCTAD can be strengthened and successful experiences replicated.

The systematic monitoring, research, and analysis of international trade flows, trends, and patterns by UNCTAD provide updated information, analyses and data for use in trade policy formulation, trade negotiations, and business operations globally. The availability of such information helps in the exploitation of new trading opportunities and in minimizing costs.

A tool in this regard is UNCTAD's Trade and Development Index (TDI). It serves as an innovative diagnostic and policymaking tool which incorporates the interactions and interdependence among various factors in the trade and development process that 'enhance the enabling environment' for development. TDI analysis support the argument that there is a symbiosis between development-related structures, policies and processes on the one hand, and trade-related outcomes on the other. Similarly, trade-related processes and outcomes have an impact on development outcomes. A continuous refinement of the TDI will be important.

Other key outputs include trade-related analytical, statistical, and information bases and tools (e.g. TRAINS-WITS) and making available – and increasing the transparency of – measures relating to trade such as through the recent joint ITC/WTO/UNCTAD **World Tariff Profiles 2006** publication, derived from a common tariffs database.⁷⁸ UNCTAD also provides systematic assessment on the evolving trading system, such as with DESA, through the annual World Economic Situation and Prospects report, and the annual Millennium Development Goals Report. Independent trade policy assessment in different countries could be undertaken to enhance effective trade policy making. Priority areas for analyses can include the performance of dynamically growing and trading countries and the policies they utilize, and global, South-South, and country-level trade activity to assess

⁷⁷ UNCTAD (2006). *Evaluation of UNCTAD's Trade-related Technical Assistance and Capacity Building on Accession to the WTO* (TD/B/WP/190).

⁷⁸ CAMAD (Common Analytical Market Access Database).

progress, identify the lessons learnt, and highlight best practices – all to be shared with other countries. These could be discussed at intergovernmental meetings to build consensus on relevant policy options.

UNCTAD is promoting the awareness that effective trade liberalisation for the exports of developing countries entails more than addressing the question of tariff barriers. It also requires addressing the more intractable market entry barriers of non-tariff barriers (NTBs), product standards, and product quality requirements. UNCTAD is helping to identify, classify, and quantify these NTBs. UNCTAD also promotes stakeholder partnerships in addressing them, especially through the Secretary-General of UNCTAD's Group of Eminent Persons on NTBs and its multi-agency task force.

During the process of trade liberalization and reform, developing countries face important implementation, adaptation, and adjustment costs. UNCTAD conducts analyses on such costs and how they need to be factored into the liberalization and reform agendas at the national, regional and international levels. It also helps developing countries create and strengthen supporting institutional and infrastructural capacities to respond to these costs and take advantage of new trading opportunities. For example, UNCTAD is assisting developing countries to better assess the possible implications of coping with WTO negotiations on industrial products.

Strengthening the participation of developing countries in the dynamic new sectors of world production and trade is needed to positively enhance the integration of developing countries into the international trading system. UNCTAD is contributing through intergovernmental reviews of these sectors,⁷⁹ backed by practical, on-the-ground technical assistance and capacity-building initiatives. In this respect, public-private partnerships can be useful vehicles. A trend-setting example is an UNCTAD-Philips initiative on the electronic/electrical sector in Southern Africa. Another example is the recent adoption of an UNCTAD-architected regional standard for organic agriculture in East Africa: a highly desirable avenue for export promotion in a sector that is not only very dynamic (15 per cent average annual growth in the last 10 years) but is also very beneficial developmentally in terms of the economy, ecology, poverty alleviation among small farmers (who tend to become marginalized in conventional agricultural supply chains), and the social fabric in general.

Promoting awareness of the interface between trade and the achievement of MDGs generally and in specific areas such as poverty reduction and gender empowerment remains a priority of UNCTAD. Such awareness can lead to the identification and implementation of trade policy measures, liberalization practices and capacity-building programmes at international and national level that best promote poverty-sensitive and gender-sensitive trading and help realize pro-poor trade growth, globalization and development. UNCTAD conducts analyses of trade and poverty and trade and gender (such as in African and India) which can set the basis for further detail analysis and deliberations. UNCTAD also develops and implements global, regional and national programmes, with the support of the international donor community, that help developing countries to enhance their preparedness and strategies for pro-poor and gender sensitive trade growth and globalization.

11.3. Sustaining the ascent of the South and South-South trade

South-South trade – be it intra-regional or inter-regional – is taking quantum leaps, and fast accounting for half the world trade of developing countries. The new drivers of the South and their enterprises are at the forefronts of the revival in South-South trade, investment and economic cooperation. This has resulted in a new reality in South-South trade and a stronger and broader economic cooperation among developing countries. UNCTAD can contribute to facilitating and

⁷⁹ Sectors already covered include energy, electronics, fish and fishery products, steel and related specialty products, IT-enabled outsourcing of services, renewable energy technologies and products, biofuels and textiles and clothing.

consolidating the ascent of the dynamic South in which many developing countries are gradually moving from the periphery to the centre and from dependence to interdependence. As this can result in a positive sum gain for all countries, this trend is to be encouraged, replicated and deepened within and across countries and continents. At the same time, as the more successful developing countries climb the ladder, they need to also help pave the way for others to follow. New models and prospects have created opportunities for ‘development-transmitting’ trade and investment relationships within the South. With UNCTAD support these can be identified and promoted.

UNCTAD identifies ways of harnessing the increased potential for South-South cooperation in trade, investment and knowledge transfers. It can foster new ECDC (economic cooperation among developing countries) models including for bilateral, plurilateral and multilateral partnerships; help build new dialogues among the institutions of the South for the South, including through triangular cooperation; and strengthen and set up South-South institutions, networking platforms and partnerships on trade, investment, finance, R&D, enterprise development, technical cooperation, and trade and transport infrastructure. For example, UNCTAD has facilitated the creation and entry into operation of the Global Network of EXIM Banks and Development Finance Institutions to foster South-South trade through financing. Such efforts can complement North-South trade and development cooperation.

Systematic monitoring as well as research and analysis of South-South trade flows is important to identify lessons and best practices that can contribute to the replication of positive development experiences and sustain further development of such trade. The development of a South-South trade information system by UNCTAD is useful in this regard. UNCTAD has also launched an initiative to encourage networking among the RTAs of developing countries through the sharing of experiences on positive development instruments for regional integration. This initiative can be consolidated to provide a forum for the regular exchange of experiences among RTAs.

The continued servicing of the GSTP Agreement and its third round of negotiations by UNCTAD remain central to its work on South-South trade. For sustaining South-South trade, it is important to conclude the third round of GSTP negotiations.

The further development of the RTAs of developing countries into effective instruments for trade integration and regional development is important. As UNCTAD’s Trade and Development Report 2007 points out, South-South RTAs have a positive impact on trade and development for the countries concerned. They help to improve infrastructure linkages, competitiveness, and value chain participation, as well as spurring FDI. South-South trade in services – especially intraregional trade through regional trade agreements – has to be fully exploited. UNCTAD is conducting pioneering work in this regard – for example with SADC to develop a regional services agreement based on in-depth services assessment and negotiations.

Since its creation in 1964, UNCTAD supports ECDC as an essential complement to national development strategies. Over the years, the various facets of ECDC have evolved and now, with the rise of the dynamic South combined with market-driven South-South trade and investment expansion, it is an opportune to examine ways in which ECDC can be strengthened. Given its traditional and longstanding expertise in this field, UNCTAD is well placed to ensure that ECDC becomes a catalytic force for the growth and development of developing countries.

11.4. Re-launching the commodity agenda

With respect to commodity issues, UNCTAD has traditionally been at the forefront of international efforts to transform the commodity problematic into a commodity boon. With the recent rise in commodity prices and the probability that such trends will be sustained in the medium term (especially with trade-driven globalization fuelling the hunt and competition for natural resources), this is a timely opportunity to re-launch the commodity agenda, with UNCTAD playing a catalytic

role. A key aspect of this agenda has to include support in managing windfall revenues, for commodity producing and dependent developing countries, especially in Africa and LDCs, that benefit from the boom in the prices of their agriculture, minerals and metals, oil and gas and energy exports. Addressing the links between international commodity trade and national development, particularly poverty reduction, is being mainstreamed by UNCTAD.

UNCTAD monitors developments in commodity markets and assists developing countries – in particular those most dependent on commodities – in formulating strategies and policies that respond to the challenges of commodity markets, including that of over-supply. It can further facilitate the exploitation of growing opportunities (including in new areas such as biofuels) for commodity-dependent countries. It will also have to contribute to national, regional and international policy efforts to reduce commodity dependence and to diversify into high-value and dynamically growing products. It supports the efforts of commodity-dependent developing countries to diversify their production, address the high volatility of prices of especially agricultural products, develop new generation of commodity financing schemes (including commodity exchanges), and strengthening participation in the global supply value chain. UNCTAD assists in particular small and poor commodity producers to become competitiveness, meet standards, access commodity information and databases, provide value addition, and reach global markets. It can help mobilize increased flows of development assistance to commodity dependent developing countries, including through the aid for trade initiative.

UNCTAD promotes intergovernmental cooperation on commodities, such as assistance to and cooperation with International Commodity Bodies. It can continue to build effective partnerships among stakeholders aiming at sustainable approaches to commodity problems. These should include fostering public-private cooperation in commodity chains with a view to ensuring, *inter alia* through market-based principles, a more equitable distribution of revenues and benefits along the supply chain and supporting diversification. Contributing to the implementation of the Global Initiative on Commodities constitutes one set of activities for re-launching the commodities agenda via a network of cooperation among international agencies.

11.5. Developing services economy and trade

Services constitute the new frontier of international trade. UNCTAD conducts national assessments and policy reviews of services; supports multilateral and regional negotiations on services; strengthen services data and statistics; promotes strategies and regulatory frameworks for the development of a competitive service supply capacity (particularly infrastructural services); provides analyses of regional services liberalization, regulatory frameworks and cooperative mechanism on services; and supports South-South negotiations of services agreements and cooperation in services.

Comprehensive national assessments and policy reviews of services as well as of trade in services have a central role to play in assisting developing countries, together with support from the international community, to effectively integrate into the services economy. These reviews will enable countries to appropriately pace and sequence the policy reforms which affect the services sectors. UNCTAD can provide such policy reviews, and facilitate regular intergovernmental deliberations and consensus-building on best practices, lessons learnt, and policy options for the development of services. Follow-up capacity-building support in countries and regional groupings will play an important role in developing and implementing services agreements, putting in place regulatory regimes, and developing competitive services supply capacities. At the same time, the human and social development implications of the service economy have to be addressed in terms of universal access to essential services such as education, energy, health, water, and telecommunications. UNCTAD has integrated such concerns into its work in the services sector.

UNCTAD plays a unique role in raising awareness of the key contribution of services to development, as well as clarifying and improving the understanding of the services paradigm. It has conducted sectoral studies and intergovernmental expert meetings on over 13 services sectors. These

include distribution, insurance, audiovisual, logistics, tourism, air transport, environment, energy, professional and construction and financial services, as well as universal access to essential and infrastructural services and Mode 4 of GATS. UNCTAD also assists developing countries in undertaking the national assessment of their own services sectors. These have enabled them to put in place specific strategies and policies to increase supply capacity and trade. Lack of data and disaggregated statistics are major challenges while undertaking services assessment, devising appropriate policies and regulatory frameworks. UNCTAD is helping in this regard by improving data and statistics in the services sector.

11.6. Unleashing the development potential of labour mobility

UNCTAD actively promotes the integration of labour flows in national and international development strategies, especially in areas such as domestic regulation, mutual recognition agreements, migration, and gender. It promotes the temporary movement of workers and the trade in skills, while keeping in sight the many related social, economic, cultural and political dimensions. UNCTAD's analysis regarding labour mobility, growth and development focuses on the economic (trade and development) causes and consequences of migration, the imperatives of labour integration and mobility, and the identification of appropriate regulatory frameworks to enhance the benefits and mitigate the downside for both sending and receiving countries. UNCTAD's advocacy and approach is based on the premise that it will be a win-win situation for both the countries of origin and destination when labour movements occur in response economic forces. Indeed, freer movements of labour will benefit the global economy as a whole if the integration is managed in an enlightened and cooperative manner, in the spirit of pragmatism and realism, and without political or cultural prejudice.

UNCTAD's work on the different trade-related facets of labour mobility and integration assists in clarifying issues that lie at the interface of trade, migration and globalization can better equip policymakers everywhere to address these issues. It can also help shape public opinion towards a greater understanding of the balance of benefits accruing from the integration of the labour market. UNCTAD also advances such win-win strategies on labour flows through its active membership of the Global Migration Group (GMG).

11.7. Promoting energy trade and security

Regarding energy, trade and development, UNCTAD analyses and suggest ways of providing for the growing demand for energy, particularly in the context of how to sustain the development process in developing countries, especially LDCs. It takes into account technologically and economically feasible alternative energy sources (biofuels, solar and wind); regional initiatives on energy; possible energy efficiency measures; as well as identification of regulatory and trade issues including capacity-building needs to expand capacity and diversify supply.

UNCTAD adopts a holistic approach, helping exporting countries to devise strategies for fostering the development of the energy sector as an engine for growth and development. For some countries, this sector generates over 90 per cent of their total revenues and accounts for over 50 per cent of their GDP. Key development objectives include channelling oil revenues into capital investments in national and regional infrastructure development and basic services, while avoiding real exchange rate appreciation, and taking due account of each economy's absorption capacity. Oil-importing countries could reap great benefits from cooperation, particularly in the procurement field. Savings can be made from efficient procurement procedures for oil and oil products. Reorganizing the procurement of small volume imports of petroleum products into bulk procurement, and distributing these imports to subregions, will generate economies of scale. Sharing storage infrastructures can also generate savings. However, this requires active cooperation from the governments involved.

In Africa, UNCTAD convenes the Africa Oil, Gas, Trade and Finance Conference on an annual basis. The 11th Conference held in Kenya in May 2007 brought together Ministers and senior-

level executives from the oil, gas and finance sectors. It provided a meeting place for investors concerned with opportunities and developments in the African energy sector. In this context also, a pre-event to UNCTAD XII, an India-Africa Hydrocarbon Conference & Exhibition, was convened for the first time in New Delhi from 6-7 November 2007. It was jointly organized by the Ministry of Petroleum & Natural Gas of India, the Federation of Indian Chambers of Commerce and Industry, and UNCTAD. Deliberations at the event resulted in the identification of a framework for cooperation and partnership at different levels in the hydrocarbon sector between India and Africa.⁸⁰

Among the products emerging from the search of a new economic model based on low-carbon emissions are biofuels – a sector that has experienced considerable development over the past decade. To ensure that engaging in the production/use of biofuels yields positive environmental and development results, Governments have to take crucial decisions and develop appropriate strategies. These will include deciding whether the production of biofuels is intended for transportation, or for broader energy replacement; what the land requirements are; and which conversion technology is desirable. The economic and environmental impacts, the compatibility of biofuels with existing fuel delivery/use infrastructures, and competing uses for biomass also have to be assessed. UNCTAD assists countries in implementing country-based assessments of the feasibility of engaging in the production of biofuels, and in setting up the required domestic frameworks. UNCTAD's Biofuels Initiative is working in this area. It has conducted such assessments for several countries. It focuses on sound economic, legal, and trade policy analysis, capacity-building activities, and consensus-building tools. It provides lessons learnt from successful cases, and illustrates the problems encountered by developed and developing countries alike while dealing with the technical, policy, and economic aspects of biofuels development. It is working closely with other intergovernmental organizations, civil society, academia, and the private sector.

Also, UNCTAD and the ECOWAS Bank for Investment and Development (EBID) have pooled their efforts to promote the financing of the production of biofuels and the development of *Jatropha* plantations in Africa, drawing upon the Clean Development Mechanism of the Kyoto Protocol. This initiative – the first of its kind – involves creating a fund to finance the agricultural and industrial production of biofuels in Africa. The main objective is to promote investments in the biofuels supply chain, including a window for financing R&D and capacity-building.⁸¹

11.8. Addressing trade and development aspects of trade and environment

UNCTAD assists developing countries in identifying and addressing issues arising at the interface of trade, environment, and development.

UNCTAD has been working in the areas of trade and climate change, particularly in the assessment of the potential for biofuels production in developing countries, as well as in the growing biotrade market opportunities for biodiversity products and services. In this light, the growing national and international commitment towards more stringent policies for addressing climate change enhances UNCTAD potential contribution in this area on trade and development aspects, especially: (a) aspects of trade competitiveness related to climate change policies designed to influence process and production methods, in particular changes in the fossil fuel energy content in tradable goods; (b) trade and investment opportunities from climate change measures; (c) investment promotion in climate-friendly production and trade in developing countries under the Clean Development Mechanism of the Kyoto Protocol; and (d) compatibility issues between climate policy and trade rules (the existing potential for conflict could be avoided through early mutual recognition).

⁸⁰ See “Outcome of the India-Africa Hydrocarbon Conference and Exhibition” (TD/418).

⁸¹ A first step in this direction will be an EBID-financed project for the production of biodiesel in Ghana, at a cost of US\$35 million, in conjunction with Ghanaian commercial banks and other financial institutions.

Launched in 1998, UNCTAD's BioTrade initiative is a useful tool to help develop the niche market for biodiversity products and services. A considerable number of these biodiversity-based products, developed sustainably by SMEs in developing countries, are entering the main export markets. These are increasingly recognizing and demanding respect for species and ecosystems as well as consistency with sustainable production practices. UNCTAD's work towards consolidating the business case for greater market access for sustainably produced biodiversity products is timely. Moreover, greater demand also entails an increasing need to support these typically small businesses in their institutional and entrepreneurial capacity, as well as in their access to good manufacturing and agricultural practices. Many small and large producers lack methodologies and tools that would allow the differentiation of their products in the market. Likewise, a growing number of cosmetics and pharmaceutical industries seek effective tools to validate their sustainable development claims.

The trade of developing countries is increasingly impacted by health, safety and environmental requirements applied by governments or the private sector and NGOs in a mandatory or voluntary way. UNCTAD is helping countries to address such obstacles. It launched several specific initiatives that analyse EHFSRs, and provide capacity-building support to interested developing countries in addressing these daunting challenges. UNCTAD's Consultative Task Force on Environmental Requirements and Market Access for Developing Countries supports the designing of appropriate proactive adjustment strategies to address new EHFSRs. UNCTAD addresses the difficulties that developing countries have in: (a) monitoring and approaching changes on standards and market access; (b) evaluating their likely impact; and (c) knowing where to go for help in building the capacity to respond in a timely and appropriate fashion. UNCTAD's Consultative Task Force also assists developing countries in their engagement in WTO discussions relating to salient issues of private sector standards and WTO disciplines. The results of such analytical work and stakeholder dialogue have already been presented at various WTO TBT, SPS and CTE meetings.⁸² The results should also in the longer term contribute towards more inclusiveness, transparency, and appropriateness in private sector standard-setting and its implementation in developing countries, as well as to sound approaches to adjustment at the national level.

Over several years, the UNCTAD-UNEP Capacity-building Task Force on Trade, Environment and Development (CBTF) conducted a series of activities to promote the production and export of organic agricultural products in several developing regions. In East Africa, this work culminated in the creation of an East African Organic Products Standard. In its third cycle (2008-2010), the CBTF focuses on supporting developing countries in seizing economic, social, and environmental win-win opportunities resulting from the new environmental requirements in export markets. Particular emphasis is placed on 'front-of-pipe' approaches that seize opportunities in new export markets for environmentally preferable goods. This work includes normative work on creating regional standards (e.g., for organic agricultural products in developing countries) that facilitate regional trade and access to overseas export markets.

Environmental issues are likely to become more prominent at the WTO and in regional and bilateral trade agreements. This will take place through avenues such as the accelerated liberalization of environmental goods and services, challenges to environmentally-related domestic legislation, and the clarification of the relationship between trade rules and environmental agreements. UNCTAD has a key role to play in ensuring that developing countries are able to identify their interests and effectively pursue them in international policymaking fora. UNCTAD's contribution in providing substantive support to the negotiations on environmental goods and services in these negotiations is important as it brings in the development perspective. UNCTAD's Trade and Environment Review 2008 is devoted to a detailed examination of the scope for and implications of environmental goods and services liberalization, with particular emphasis on the interface between trade, climate change

⁸² On 25 June 2007, for instance, UNCTAD and the WTO jointly organized an informal information seminar on private standards on the sidelines of the regular summer session of the SPS Committee. More information on the meeting is available at: http://www.unctad.org/trade_env/meeting.asp?MeetingID=229.

and development. The Trade and Environment Review series aims to enhance understanding of and promote dialogue on the development dimension of key trade and environment issues.

Harnessing knowledge for development has a crucial trade and environment dimension in terms of traditional knowledge, innovations and practices associated with genetic resources. UNCTAD assists developing countries and can help the international community in addressing issues related to promoting, protecting and preserving traditional knowledge.

11.9. Ensuring fair competition

A major challenge faced by developing countries is the increased concentration of market power within many sectors of global production and trade, such as some products within agro-industry, electronics, pharmaceuticals, tourism, telecoms, energy or financial services. These put developing country producers, enterprises or consumers at a competitive or bargaining disadvantage. Developing countries must be enabled to deal with anti-competitive practices or mergers which affect them, whether encountered within their own territories or on international markets. Stronger multilateral and regional cooperation in this area is essential. As mandated by the General Assembly, UNCTAD is playing a unique role in promoting national and regional actions as well as international cooperation in this area through its work on competition law and policy and consumer interest issues.

UNCTAD services the quinquennial United Nations Conference for the Review of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (UN Set). In between the conferences, the Intergovernmental Group of Experts on Competition Policy and Law, a global forum of competition experts, meets annually to discuss competition issues. Since 2005, UNCTAD has instituted and facilitated a voluntary peer review (by selected countries and regional groupings) of competition policies. A key area of work pertains to technical assistance to countries and regional groupings in order to formulate, revise, and implement competition policies as well as build the required institutional enforcement mechanisms. For example, assistance has been provided for Andean countries through the COMPAL programme, UEMOA countries, and SADC countries. Many developing countries and countries with economies in transition have benefited from the unique assistance offered by UNCTAD.

11.10. Implementing the Aid for Trade initiative

UNCTAD's analyses, policy-oriented work, and technical assistance have advanced the notion that aid for trade, in addition to aid for development, is a necessary prerequisite to improving the supply capacities and competitiveness of developing countries, as well as enabling them to meet implementation and adjustment costs arising from trade liberalization. This work underpins UNCTAD's efforts to bring the aid for trade initiative into operation and thus contribute the effort by WTO to implement the initiative. UNCTAD's contribution to the aid for trade initiative has been endorsed by the Mid-Term Review of the São Paulo Consensus.

UNCTAD contributes to the Aid for Trade initiative *inter alia* through examining to the best strategies needed to deal with capacity constraints and trade adjustments in developing countries. It has convened brainstorming events on the AfT initiative, held a global conference in March 2006 as a follow-up to the decision taken at the 6th WTO Ministerial Conference on the subject, and has actively supported developing countries in responding to the initiative. It has contributed to and participated in first Global Aid for Trade Review conducted by the WTO. It is a member of the WTO Advisory Group on Aid for Trade. UNCTAD (in cooperation with other international organizations) continue to play a role in addressing a number of outstanding issues. These include country eligibility, scope, ownership, delivery mechanism, monitoring and evaluation, national needs assessment and prioritisation, trade mainstreaming both by beneficiaries and donors, the brokering and funding of

programmes, additional funding, as well as implementation mechanisms. Such assistance will help to build global public good for the service of all countries.

UNCTAD has also gained significant expertise in trade- and development-related technical assistance. Its technical cooperation programmes can help developing countries to achieve development gains from the international trading system and trade negotiations.

CONCLUSION

Globalization is increasing the integration of national markets and the interdependence of countries worldwide for a wide range of goods, services, and commodities. Several factors have engendered such a transition including the liberalization of tariffs and other barriers to trade; foreign direct investment through trade and investment agreements; autonomous unilateral structural reforms; technological innovations in transport and communications; international development cooperation; and the strategic use of policies, experimentation and innovation.

Some developing countries are beginning to realize the prospects of a more beneficial integration – both quantitative and qualitative – into the global economy and the international trading system as a result of globalization. For many others, an increased quantitative integration has not had positive results in terms of poverty reduction, employment or increased welfare. Still others have seen only partial gains. In LDCs especially, the expected gains of trade-driven globalization are still missing or insufficient. There is concern that the costs of trade driven globalization maybe economically, socially, politically, and environmentally unsustainable. A prime concern today for most policymakers everywhere is how to maximize the development benefits of globalization and trade, and to minimize their costs.

Assuring development gains from international trade in the context of globalization necessitates improving the *quantitative and qualitative* integration of developing countries into the international trading system and economy. Accelerated economic growth and increased returns from trade should be channelized into achieving human and social development goals as embodied in internationally agreed development goals, including in the Millennium Development Goals. Reducing inequalities and democratizing the trade and development gains within and across countries should become the essential attributes of the globalizing world.

Efforts to create and sustain an enabling environment to benefit from trade driven globalization will have to be pursued in the context of an increasingly differentiated trade and development landscape. The emergence of a dynamic South as an additional (to the North) motor for world trade and new investment, and an expansion in South-South trade in goods, services and commodities have emerged as key features of the global economy today. It will also be necessary to focus on the specific trade and development concerns of countries in special need, such as LDCs, landlocked countries, and small and vulnerable economies. National, regional, and international trade and development strategies need to take these specificities as well as the baseline scenarios of such countries into account whilst adopting an integrated and holistic approach based on common development denominators. The aid for trade offers a possible mechanism to respond to such concerns. The conclusion of the Doha Round of trade negotiations with strong development dimension is a key expectation of countries. Key trade and development issues to be tackled will include the changing commodity agenda, services trade, fair competition, environmental issues connected with trade, and the trade and development implications of energy, labour mobility and integration, and climate change.

The international community including the United Nations can contribute to harnessing globalization for development. In the area of trade, UNCTAD's work through research and analysis, technical assistance, and intergovernmental deliberations and consensus building contributes to making trade and globalization work for successful development.

