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## International trade and development

### Report of the Secretary-General

*Summary*

The multilateral trading system is facing major uncertainties regarding the prospect of the closing of the Doha Round of trade negotiations, which comes on top of a series of changes in the structure and direction of international trade. The growth of trade in intermediate goods, linked to the spread of international production, has been accelerating in recent years and often includes a strong regional component. Along with the proliferation of regional trade agreements, the drive towards regionalism will be a major focus of the trade policy agenda over the coming years. Favourable economic realities have also contributed to increased South-South trade, along with increased South-South cooperation. Properly harnessed, this too can contribute to inclusive and sustainable development. Still, the multilateral trading system needs to be reinvigorated and the Doha Round concluded with a strong development dimension. An early least developed country package could be the first step in this direction. However, greater coherence needs to be built throughout the different layers and components of the international trading system — multilateral, regional, bilateral and unilateral — if trade is to contribute to more inclusive development paths. The thirteenth session of the United Nations Conference on Trade and Development, scheduled in April 2012 in Doha, will mobilize international efforts towards a development-centred globalization, which contributes to inclusive and sustainable growth and development.

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# I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 65/142, in which the Secretary-General was requested to submit, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), to the Assembly at its sixty-sixth session a report on developments in the multilateral trading system.

# II. Trends in international trade and development

## A. Near-term developments

2. Following a sharp contraction in 2009, world merchandise exports recorded their largest ever annual expansion of 14 per cent in volume (22 per cent in value) in 2010. The speed of expansion was faster in developing countries for both exports and imports (16.7 and 18.9 per cent, respectively) than in developed countries (12.6 and 10.2 per cent), suggesting not only developing countries' strong export drive but also vibrant import demand thanks to robust recoveries in many regions. This was particularly true in Asia, where trade takes place through international production networks. In 2010, world total services exports expanded 8 per cent, but their value was still below the pre-crisis 2008 level.

3. Trade performance has been conditioned by underlying economic developments. The world economy grew 3.9 per cent in 2010, after a contraction of 2.0 per cent in 2009, and is estimated to decelerate this year to 3.3 per cent. Developing countries continued to fuel the global recovery in 2010, with their collective gross domestic product (GDP) growth reaching 7.5 per cent. High and volatile commodity prices, fragility in financial markets and sovereign debt crises, and pervasive unemployment continue to influence the recovery. Given these persistent threats, along with the deceleration of output growth this year, export expansion is expected to slow, highlighting the persistent vulnerabilities of a trading system in an interdependent world economy.

4. Rising commodity prices in 2010 boosted the nominal value of commodity exports but posed challenges for food security and macroeconomic stability. The all-food price index surpassed its historic peak early in 2011. Prices of oil also surged following instabilities in some oil-exporting countries, putting additional strains on growth prospects for many countries. Such high price volatility largely reflects negative supply shocks (e.g. weather conditions) but the price effect is believed to have been magnified by speculation in financialized commodity markets (see A/66/207). While higher prices are positive for net exporters, since many developing countries, particularly the least developed countries, are net importers of food and energy, higher prices are likely to have negative effects on poverty reduction; the recent price hikes could push more than 60 million people into poverty in Asia alone.[1]

[1] Department of Economic and Social Affairs, "World economic situation and prospects 2011, update as of mid-2011". Available from www.un.org/en/development/desa/policy/wesp/wesp_current/2011wespupdate.pdf.

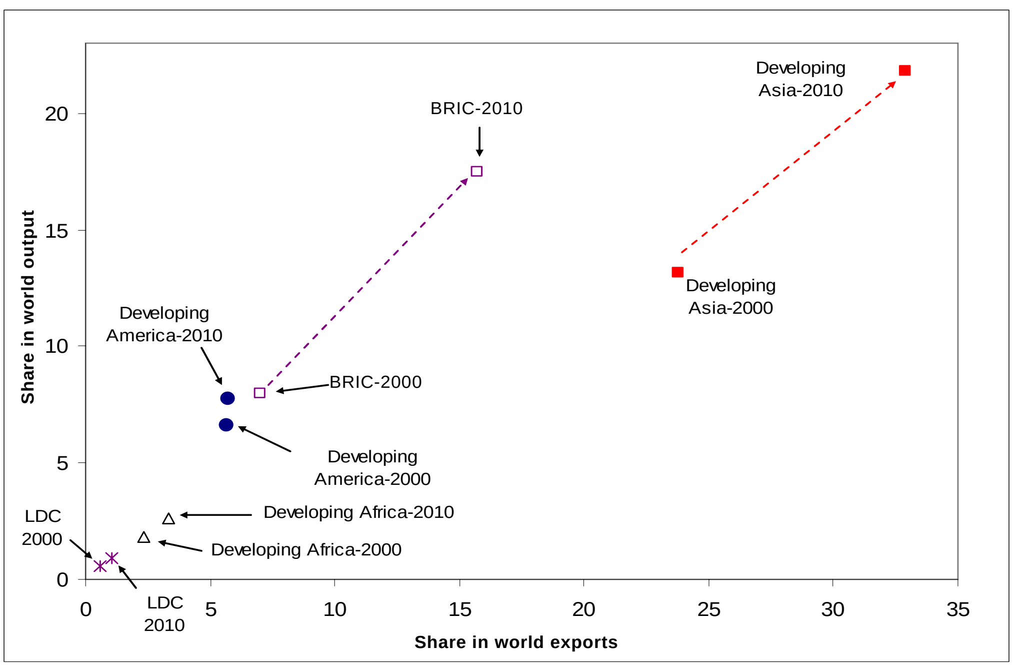
## B. Changing international trade landscape

5. Over the previous decade trade grew persistently faster than GDP (except in 2009), resulting in an increased exports-to-GDP ratio; in developing countries the average figure rose from 29.5 per cent to 36.0 per cent by 2008. The share of developing countries in world merchandise exports expanded from 24 per cent to 42 per cent in the previous two decades, and from 17 per cent to 32 per cent in world output, pointing to the possible future income convergence (see figure I). Consequently, the importance of external markets and the contribution of exports to output growth increased significantly. While total exports have grown rapidly, this growth has not led to a proportionate increase in domestic value added. This arises partly because increased fragmentation of production implies that exports require a significant amount of imported intermediate inputs.

6. The strong growth in Asian countries and several other emerging economies (e.g. the BRIC countries, Brazil, Russian Federation, India and China), has created new trading opportunities, particularly for other developing countries. Developing countries' share in world imports increased from 22 per cent in 2000 to 39 per cent in 2009, contributing 47 per cent to world import growth. The high import content of Asian exports has benefited other developing countries integrated into the global supply chain. South-South exports now account for 53 per cent of total developing countries' exports, up from 43 per cent in 2000. South-South trade in services is estimated to be 10 per cent of global trade.

Figure I
**Share of developing countries and BRIC in world output and exports by region, 2000-2010**

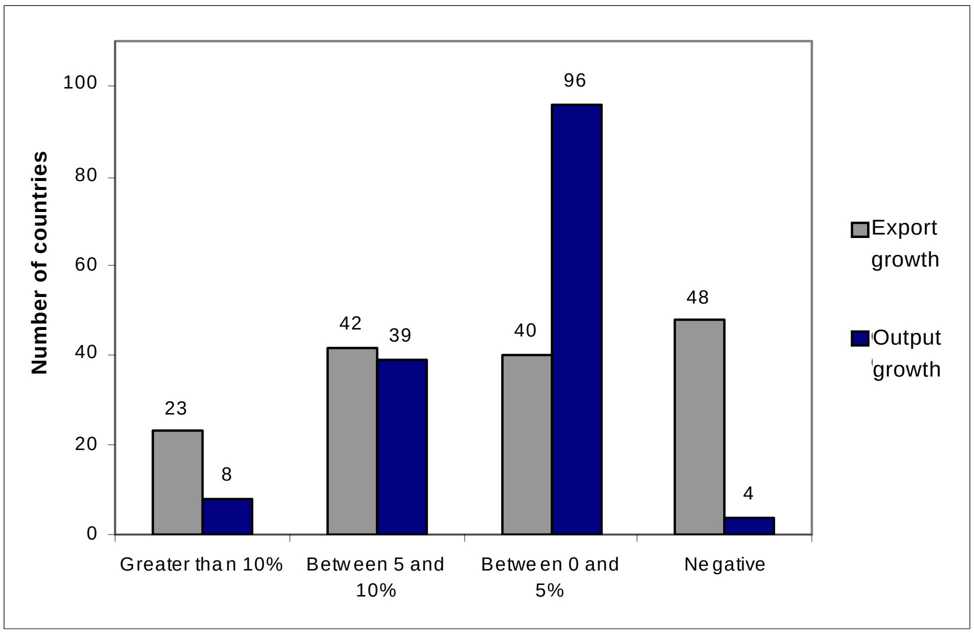
(Percentage)




*Source*: UNCTADstat.

7. While 23 developing countries experienced real annual export growth rates of more than 10 per cent between 2000 and 2010, close to one third (48 countries) experienced export contractions (see figure II). This serves as a reminder that income convergence is not an automatic consequence of a more open global economy, and that polarization remain a challenge for policymakers, at the national and international levels.

Figure II
**Distribution of developing countries by growth in annual average real merchandise exports and output, 2000-2010**

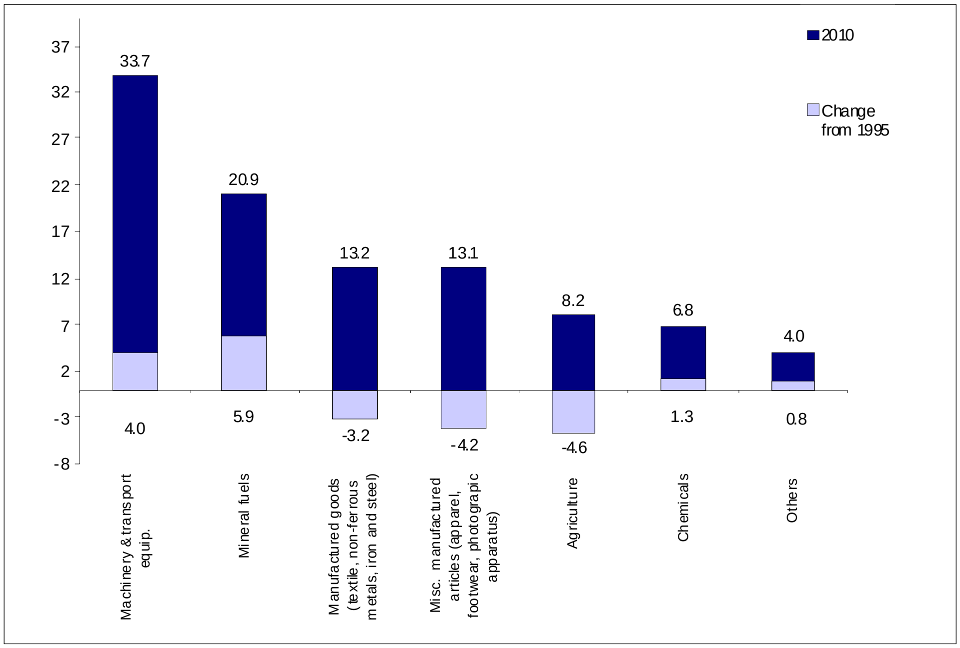



*Source*: UNCTADstat.

8. The changing pattern of world trade is also observable in its product composition (see figure III). The disproportionately fast growth in intensively traded machinery and transport equipment drove the expansion of developing countries' exports, while higher commodity prices have increased the share of mineral fuels. The declining share of light manufactured goods arises partly from increased competition, with the entry of low-wage countries putting pressure on prices.

9. The differing product composition of regions suggests increasing regional specialization, with Asia concentrating in manufactured goods, Latin America in agriculture and resource-based products and Africa and the least developed countries in minerals and other commodities. From 1995 to 2009, machinery and transport equipment contributed more than 40 per cent to export growth in Asia, while mineral fuels were responsible for 60 per cent of export growth in least developed countries. While recent commodity price increases have helped increase export earnings in the latter group of countries, worries remain that their weakly diversified economic structures could hamper long-term growth prospects.

Figure III
**Product composition of developing countries' exports, 2010**
(Percentage)

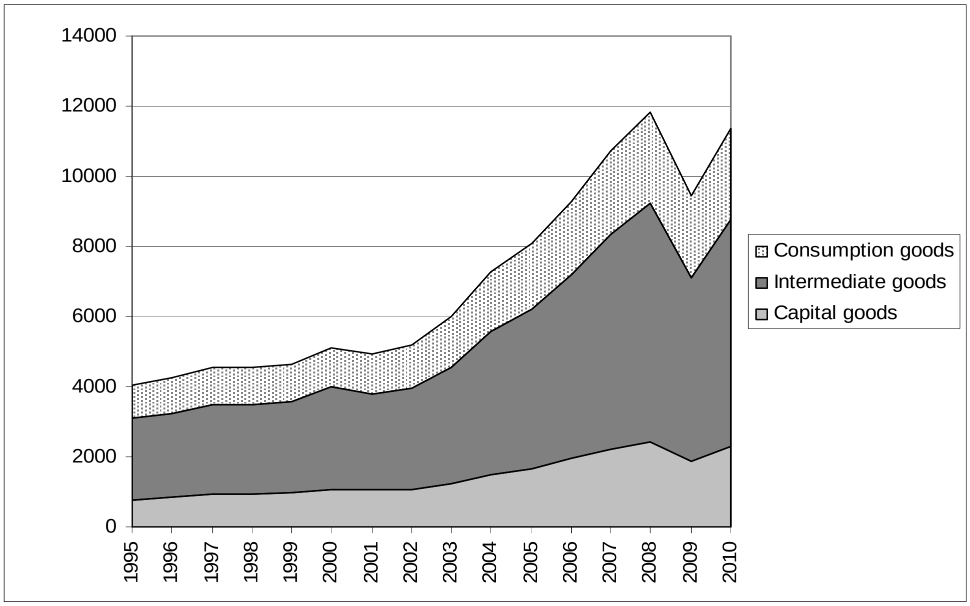



*Source*: UNCTADstat.

10. The shifting direction and dynamism of world trade, particularly along its South-South axis, has been closely linked to the increased fragmentation of production in the global supply chain (see UNCTAD reports TD/B/57/3 and TD/B/C.I/16). Falling transport and trade costs, including tariffs, expanding business and infrastructure services, and buoyant foreign direct investment flows to developing countries (43 per cent of global foreign direct investment inflows) contributed to the development of global production networks.[2] International trade in intermediate goods has been dynamic, and expanded from $2 trillion in 1995 to almost $7 trillion in 2008 to represent 48 per cent of non-fuel merchandise trade (see figure IV and box 1). This trade encourages the specialization of different economies in different processing activities, leading to "trade in tasks" that adds value along the global supply chain. Countries specialized in labour-intensive activities, however, may be locked into low value adding activities, so that domestic value retention is limited despite increased export volume. For instance, to increase competitive edge and profitability, companies relying on innovative technologies are increasingly using a "closed supply chain" among suppliers specializing in components unique to the final products and wherein profit margins are larger. National productive capabilities, human capital and technological sophistication thus matter for countries that seek to effectively benefit from the global supply chain and upgrade their value-chain ladders.

[2] *World Investment Report 2011: Non-Equity Modes of International Production and Development* (United Nations publication, Sales No. E.11.II.D.2).

Figure IV
**Non-fuel world trade, 1995-2010**
(Billions of United States dollars)




*Source*: UNCTAD.

Box 1
**Global supply chain and the measurement of trade**

The growing global supply chain has exposed a measurement issue in international trade statistics. Unlike national income statistics, trade statistics measures the value of trade in terms of the gross value of a product, rather than value added. Increased production in trade-intensive global supply chain has inflated the value of international trade, because parts cross borders several times and are counted each time. For instance, although Apple is a company based in the United States of America and the value added to the production of the iPod by China (where final assembly is done) is small, with the bulk of profits retained by Apple and accruing to the United States (e.g. retailers), every $300 iPod sold in the United States increases its trade deficit with China by $150 (i.e. factory cost). If measured in value added terms, China has an estimated bilateral trade surplus with the United States that is 40 per cent smaller.*

* Greg Linden, Kenneth Kraemer and Jason Dedrick, "Who captures value in a global innovation network?: the case of Apple's iPod", *Communications of the ACM*, vol. 52, No. 3 (March 2009).

11. The small share of agriculture (under 10 per cent) in developing countries' exports understates its importance for some countries as well as the sector's wider development potential. Many developing countries remain dependent on the rural

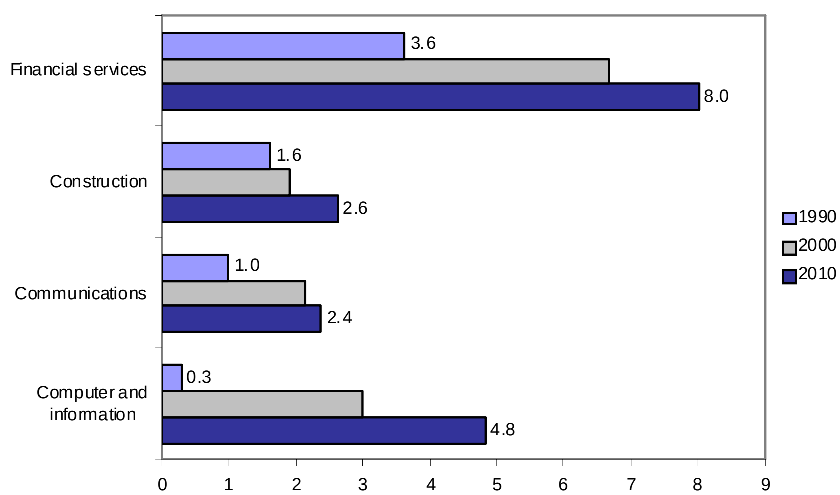
economy for employment generation, income and export earnings. Agriculture accounts on average for 52 per cent of employment in developing countries, while the countries' share in world agricultural exports increased from 31 per cent in 2000 to 36 per cent in 2009, driven by competitive Latin American exporters. Some countries (e.g. Brazil) have been able to diversify and upgrade their agricultural activities to achieve faster growth. Several high-value products have exhibited strong export dynamism (e.g. horticulture and processed food). However, increased specialization has turned many developing countries, even those with predominantly agrarian economies, into net importers of staple foods. This has made food security a pressing issue, particularly with regard to the unpredictability of supply associated with export restriction, resulting in the recent G-20 decision to remove export restrictions on food purchased for humanitarian aid.

12. The services sector, particularly infrastructure services, is not important only in its own right but can help improve efficiency and competitiveness in all sectors of the economy (see TD/B/C.I/MEM.3/8). Services represent 15 per cent of total exports of goods and services for developing countries and 51 per cent of their national output. These percentages are lower than the world average (20 per cent and 67 per cent), indicating the generally lower level of structural transformation in developing countries. However, developing countries are gaining market share. From 2000 to 2010, their share in world services exports rose from 23 per cent to 30 per cent, with many gains originating in Asia — particularly with regard to travel and business services in China and computer and information services in India. Travel and transportation are the two dominant subsectors, representing one fourth and one fifth of services exports in 2010. They are losing ground in favour of modern exportable business services that exhibit strong economies of scale and externalities and absorb highly skilled labour (see figure V). Services provide a realistic opportunity for structural transformation, especially for those countries without comparative advantage in manufactures.

Figure V

**Shares of selected services subcategories in world services trade, 1990-2010**

(Percentage)




*Source*: UNCTADstat.

13. The issue of migration with regard to trade and development has emerged as a major challenge. Increased labour mobility and movement of services providers have created increased workers' remittance flows which contribute to poverty reduction. The number of global migrants reached 215 million in 2010, or 3 per cent of the world population. World remittance flows were $442 billion in 2010, of which two thirds went to developing countries and 6 per cent to the least developed countries (see table 1). Remittances are an important source of external financing, accounting for 1.5 per cent of GDP for developing countries as a whole (1.2 per cent in 2000) and 5.2 per cent for the least developed countries. Although the long-term development impact of remittances is still not well understood, the impact can be strengthened by channelling remittances into productive sectors, including financial sector development and education.[3]

14. To increase remittance flows, measures affecting temporary migration need to be addressed at all levels, including at the Doha Round services negotiations on Mode 4 of the General Agreement on Trade in Services. Policy coherence and integrated approaches are important. There is a need to further strengthen and improve cooperation and coordination nationally and internationally — including among origin, transit and destination countries — and also to share experiences.

Table 1
**Remittances as a share of GDP and of world total remittances, 2010**
(Percentage)

| | *Share in GDP* | *Share in world total* |
|---|---|---|
| Developed economies | 0.3 | 25.9 |
| Transition economies | 1.5 | 6.8 |
| Developing economies | 1.5 | 67.2 |
| Africa | 2.5 | 9.0 |
| Latin America | 1.2 | 13.5 |
| Asia | 1.5 | 44.3 |
| Least developed countries | 5.2 | 5.9 |

*Source*: UNCTADstat.

15. Transforming trade dynamism into greater income opportunities through job creation is a critical development challenge for inclusive growth (see TD/B/C.I/15). The crisis has already left a large worldwide pool of unemployed, totalling 205 million in 2010. Evidence suggests that while trade openness does not affect the overall level of employment in the long run, liberalization can lead to net job losses in the short run, as job destruction in contracting import-competing sectors can outpace job creation in export sectors. Although the empirical relationship between trade and employment warrants further research, this suggests that transforming potential trade efficiency gains into employment gains is not automatic and requires proactive and careful government intervention. Such a trade-employment nexus needs to be critically accounted for in the international trading system

[3] See TD/B/C.I/EM.4/2 and Devesh Kapur, "Remittances: the new development mantra?", *G-24 Discussion Paper Series*. Available from www.unctad.org/en/docs/gdsmdpbg2420045_en.pdf.

# III. Developments in the multilateral trading system

16. The changes outlined above are part of a broader transformation of the international trading system. That transformation is towards fragmented production, multi-polarization, and regionalization, with integration proceeding at different speeds for different countries. Manifestations of the transformation include the current stalemate in the Doha Round negotiations, increased difficulties facing multilateralism and the increasing regional initiatives that complement and compete with the multilateral processes (see TD/B/58/3).

## A. Overview

17. The Doha Round was launched in 2001 and scheduled to conclude by the end of 2004. Continued disagreement over agriculture has delayed overall progress. Efforts intensified in 2011 to finalize the round by December. However, the absence of significant progress on key outstanding issues led to a serious blockage in April. One major issue was deeper sectoral liberalization in non-agriculture market access negotiations. While participation in sectorals was deemed “voluntary”, some developed countries had sought to secure the participation of larger developing countries in two of the three key sectors — chemicals, industrial machinery and electronics — to achieve deeper liberalization, including tariff elimination, in these economies than would result from applying the general tariff-cutting formula. Developing countries found such a demand imbalanced because, under the general tariff-cutting formula, they would already be cutting bound tariffs in proportionately greater amounts than developed countries. Sectoral liberalization was found to be particularly sensitive owing to its labour market implications. Other sectors include enhanced health care, forest products, raw materials and gems and jewellery. Other areas were also controversial, including the issue of stronger commitments by developing countries in Mode 3 of the General Agreement on Trade in Services to bind existing levels of openness (e.g. foreign equity limitations), Mode 4 commitments by developed countries and the special agricultural safeguard mechanism.

18. The three-speed approach — fast, medium and slow lanes — suggested by the Director-General of the World Trade Organization (WTO) in May 2011 as a way forward consisted of seeking partial agreement while preserving a single-undertaking principle. Issues involving the least developed countries — duty-free and quota-free market access, associated rules of origin, a most-favoured-nation waiver to cover possible preferential services market access and cotton — would be targeted for early harvest by the Eighth WTO Ministerial Conference in December 2011. “Least developed country-plus” (LDC-plus) issues would be discussed in the “medium track”, which would also include trade facilitation, agricultural export competition, a special and differential treatment monitoring mechanism, fisheries subsidies and environmental goods and services to strike an overall balance and address the concerns of major trading partners (e.g. the United States). Negotiations on agriculture, non-agriculture market access and services, as well as issues related to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), were proposed to be deferred to 2012.

19. The effective delivery of an early harvest in December 2011 is critical for the subsequent negotiations in 2012. There is concern that prolonged negotiations have

already affected the credibility of the multilateral trading system and made some negotiating issues less relevant to today's economic realities. Developing countries stress, as part of the original Doha Development Agenda, the need to deliver on outstanding issues from the Uruguay Round, while some developed countries (e.g. those in the European Union) call for addressing new issues such as investment, competition policy, government procurement, export taxes and climate change. There is need to move expeditiously to address new "twenty-first century issues" to preserve the relevance of the multilateral trading system to changing economic realities. Trade liberalization and agreements need to contribute positively to addressing broader development challenges, including poverty reduction, employment, productive capacity, sustained and inclusive growth, food and energy security, public health and access to water. Strong leadership is required, including from emerging countries, to reinvigorate the multilateral trading system architecture.

20. The robustness of the rule-based multilateral trading system against protectionism was reaffirmed during the economic crisis. Import-restrictive measures introduced between October 2008 and April 2011 are estimated to cover at most 2.70 per cent of world imports and incur a limited effect — 0.25 per cent by border measures and 0.75 per cent by bailout measures. Aggressive protectionism was contained, thanks essentially to countries' adherence to WTO rules and commitments and strong restraint exercised by many developing countries. WTO was catalytic in mobilizing efforts to address trade-finance shortage (used in 80-90 per cent of trade) and Aid for Trade support for productive capacity, trade-related infrastructure, competitiveness and adjustment. Despite some increase in financial resources (60 per cent from 2005 to 2010), major challenges remain regarding ensuring additionality of resources and enhancing effectiveness and development results, as noted in the Third Global Review of Aid for Trade in July. In 2011, WTO reported signs of accelerating post-crisis protectionism, with an increased recourse to higher tariffs and non-automatic import licensing and export restrictions, against the backdrop of decelerating growth and high unemployment.[4]

## B. Welfare effect of the Doha Round

21. The failure to conclude the Doha Round can be seen as a missed opportunity. The latest UNCTAD analysis of the possible trade and welfare impact of a Doha Round outcome in goods finds that global gains from further liberalization are positive although modest, at around an estimated $70 billion annually (see table 2). The magnitude of gains has been corroborated by other recent studies. Welfare effects of model-based analysis depend, of course, on model specifications, underlying data and simulation scenarios. Earlier studies, such as by the World Bank in 2003, found global welfare gains up to $358 billion but were subsequently revised significantly downwards, pointing to the need for caution in interpreting model results. Even such large gains represent only a fraction of GDP. This suggests the importance of domestic complementary policies to enhance endogenous productive capacities and employment opportunities to increase the benefits of trade liberalization.

[4] WTO, "Report to the Trade Policy Review Body from the Director General on trade-related developments". Available from www.docsonline.wto.org.

Table 2
**Potential annual welfare and trade impacts of Doha outcome**

| | *Doha* | | *Doha with sectorals* | |
|---|---|---|---|---|
| | *Welfare*[a] | *Exports*[b] | *Welfare*[a] | *Exports*[b] |
| European Union | 5 643 | 0.16 | 1 360 | 0.21 |
| United States | -351 | 1.48 | -2 127 | 2.21 |
| Japan | 6 432 | 1.94 | 9 543 | 3.08 |
| Other developed countries | 11 142 | 2.25 | 16 023 | 3.86 |
| Cairns group exporters | 1 858 | 0.59 | 1 831 | 0.84 |
| China | 17 715 | 3.58 | 25 600 | 7.34 |
| India | 4 089 | 3.55 | 5 341 | 8.88 |
| Indonesia | 1 216 | 1.55 | 1 107 | 1.74 |
| Brazil | 1 320 | 1.01 | 1 808 | 1.84 |
| Mexico | -1 322 | -0.53 | -2 543 | -0.95 |
| South-East Asia | 6 413 | 1.90 | 6 569 | 1.83 |
| South Asia | 2 040 | 3.94 | 1 821 | 3.66 |
| Eastern Europe and West Asia | 8 614 | 0.86 | 6 455 | 0.60 |
| Central America | 1 634 | 1.83 | 1 244 | 1.57 |
| Latin America, excluding Brazil | 345 | 0.29 | 41 | 0.15 |
| North Africa and Middle East | 1 296 | 1.57 | 1 222 | 1.41 |
| South Africa | 178 | 0.60 | 35 | 0.48 |
| Sub-Saharan Africa | 2 195 | 1.64 | 2 036 | 1.40 |
| **Total** | **70 457** | **1.09** | **77 367** | **1.73** |

*Source*: UNCTAD (GTAP database).
[a] Millions of United States dollars.
[b] Percentage.

22. The welfare gains are not equally shared among participants. The European Union and Japan have high protection in agriculture (e.g. sugar, meat, rice); reducing that increases efficiency and benefits consumers, taxpayers and foreign suppliers. Similar gains also arise from tariff reductions for apparel and motor vehicles in the industrial sector. Gains for most developing countries are estimated to be smaller. Negative terms of trade effects may overwhelm other gains and lead to negative overall effects. This is the case for Mexico and the United States of America. The risk of losses also exists for sub-Saharan African countries, although as a group their welfare effects are positive in this simulation. Such losses could arise from preference erosion and rising food import prices. Indeed, several studies find negative welfare effects for them.[5]

[5] Sandra Polaski, "Winners and losers: impact of the Doha Round on developing countries". Available from www.carnegieendowment.org/files/winners.losers.final2.pdf.

23. Sectoral elimination in chemicals, industrial machinery and electronics in developed countries and Brazil, China and India could raise the global welfare gains to $77 billion. Exports and imports in these regions would increase more than in the basic scenario. Some regions (e.g. South Africa and Latin America) are estimated to be worse off compared to the baseline scenario. Although the participating developing countries gain in welfare terms, production and employment in the sectors concerned are negatively affected compared to the baseline, with implications for their industrial development and employment objectives. The estimates underscore the importance of voluntary participation in the sectorals as provided in the declaration made at the 2005 Sixth WTO Ministerial Conference in Hong Kong, China.

24. Services trade liberalization could also yield gains for both developed and developing countries. A potential reduction of 10 per cent of the trade barriers could lead to an increase of 2.7 per cent of services exports.[6] The estimated global GDP impact is about $46 billion. Both European Union and United States exports would increase by $10 billion. The multilateral temporary work visa scheme (quota for skilled and unskilled developing country workers at 3 per cent of the developed-country labour force) is estimated to generate $200 billion globally.[7] A reduction of 1 per cent in trade transaction costs is estimated to generate $43 billion in welfare gains worldwide, of which 65 per cent would accrue to countries not part of the Organization for Economic Cooperation and Development.

## C. Doha Round challenges

25. The current stalemate has resuscitated debate over the causes of the setbacks and the future of the Round. Structural changes in the international trade landscape have significantly affected negotiating dynamics, while global crises have overtaken policymakers’ attention and raised the political challenge of justifying concessions. The crises have also changed economic thinking in favour of stronger regulations of market and a more proactive and pragmatic intervention by States. Systemic issues of the multilateral trading system also influenced the course of negotiations.

26. Non-agriculture market access negotiations sectoral liberalization was an immediate cause of the stalemate. The objective of sectorals would be to rebalance the disparity in the contribution between developed and emerging countries and to achieve harmonization of their tariffs. Industrial tariff negotiations had attracted increased attention from developed countries as high agricultural commodity prices made tariffs and subsidies less relevant in agriculture, while services liberalization proved to be complex and without immediate prospects for a commercially meaningful outcome. The increased attention given to exporters’ interest in developed countries may be seen as an attempt to win overall domestic political support for the Doha Round package in order to overcome “resistance” from import-competing domestic interests. Addressing exporters’ interests today requires deep liberalization which is essential for modern trade-intensive production in a global supply chain wherein a small tariff can disproportionately increase production cost — hence the call for sectoral liberalization. Non-tariff barriers — increasingly important given substantial reduction in tariffs — have not been sufficiently addressed.

[6] Peterson Institute, “Figuring out the Doha Round”. Available from www.wto.org/english/res_e/reser_e/dialogue_paper_schott_e.pdf.

[7] Dani Rodrik, “Feasible globalizations”. Available from www.hks.harvard.edu/fs/drodrik/Research%20papers/Feasglob.pdf.

27. This was contested by developing countries as contradictory to the agreed-upon principles of voluntary participation in such initiatives and less-than-full reciprocity for developing countries. While large “tariff water” in developing countries — the difference between bound and applied rates — had drawn attention to effective cuts in applied tariffs, developing countries pointed to their past autonomous liberalization efforts, which had created such water. Between 1990 and 2010, average most-favoured-nation-applied tariffs decreased from 32.5 to 8.2 per cent for developing countries. This highlights the importance of tariff flexibilities as industrial policy instruments. Sectoral liberalization was also seen as sensitive to developing countries’ post-crisis development objectives of building endogenous productive capacity and employment opportunities. The increased economic weight of developing countries — home to over half of global growth in the coming years — allowed them to take an assertive position.

28. The increased number and diversity of members in WTO has increased the complexity of negotiations and trade-offs. Starting from 23 members in 1947, General Agreement on Tariffs and Trade/World Trade Organization membership has increased to 154. A broad-based negotiating agenda in a single undertaking was required to reconcile diverse interests among many participants by allowing cross-sectoral trade-offs. The large agenda, however, appeared to overload negotiators, and resulted in diluting attention from core issues (e.g. the built-in agenda from the Uruguay Round of agriculture and services and development issues). Ensuring transparency and inclusiveness among numerous participants became increasingly challenging (see box 2). Trade-offs between different issues proved to be difficult, as they necessitated a minimum convergence of positions. The single-undertaking approach, together with the consensus rule, was seen as amenable to exceptions, as the approach gave individual countries leverage to seek special treatment.

Box 2

**Trade disputes**

Many difficult and emerging issues are increasingly addressed in trade disputes, rather than through negotiations. The number of disputes is expected to increase. Export restrictions by China on certain minerals (e.g. bauxite, magnesium) were successfully challenged by the European Union, the United States and Mexico on the grounds that the measures discriminate against foreign manufacturers and give unfair advantage to domestic downstream producers. Some disputes were relevant to policies promoting green technologies. The European Union challenged Canada regarding Ontario’s feed-in-tariff programme for renewable energy, which it argues go against a WTO rule prohibiting local content subsidies. The case will have bearing on the ability of countries to support local industries in promising environmental goods and services markets.

29. In view of systemic factors contributing to the stalemate, the case for WTO institutional reform as a long-term objective has been recognized, including in respect to implementing and monitoring trade agreements and policies, addressing trade issues in a more cooperative framework and providing Aid for Trade and capacity-building support. The possible institutional reform needs to ensure that the norms and instruments of the multilateral trading system are a critical factor in evolving

economic realities and development needs. It might, accordingly, be necessary to align existing rules and practices with longer-term development objectives such as strengthening industrial capabilities, creating employment opportunities, managing food security and providing access to essential medicines and services, thereby contributing to the Millennium Development Goals. This implies the need for greater recognition of special and differential treatment and policy space.

# IV. The way forward

30. The effective delivery of an early harvest of least developed country packages, and possibly "LDC-plus" packages, in December 2011 is seen as critical for subsequent negotiations in 2012. The least developed country package will also be important to help the least developed countries to implement the Istanbul Programme of Action adopted at the Fourth United Nations Conference on the Least Developed Countries in May. However, additional complementary support by the international community is still essential, as such a package would not be sufficient to help the least developed countries meet the targets. As things stand, the chance of agreement on an early package is likely to be limited, as it is difficult to strike a balance of interests among all parties.

## A. Duty-free quote-free market access

31. Important progress has been made in expanding duty-free quota-free market access for the least developed countries since 2000. The Hong Kong Ministerial Conference decision's target for covering at least 97 per cent of tariff lines was achieved in all developed countries except the United States, which currently covers 83 per cent of tariff lines. Renewal and substantial reform by the United States of the Generalized System of Preferences scheme (which expired in 2010) to expand product coverage is needed to meet the targets. Extending product coverage could require balancing competing interests of African and Asian least developed countries, because sub-Saharan African countries (e.g. Lesotho, Madagascar) could experience preference erosion of their African Growth and Opportunity Act benefits, especially on apparel, and be severely affected. Coverage may be extended to agricultural products currently excluded from the duty-free quota-free initiative (e.g. tobacco, meat). The selection of products matters, as exports from the least developed countries are highly concentrated; 3 per cent of tariff lines represent 95 per cent of the value of high-income country imports from the least developed countries. It is important to meaningfully address adjustment and competitiveness challenges facing certain sub-Saharan African countries through innovative support measures, so that producers remain in the sector, increase value addition and participate in the global supply chain.

32. The benefits accruing for the least developed countries from full duty-free quota-free treatment could amount to $4 billion to $8 billion. In a scenario where all developed countries provide such treatment for the least developed countries, the potential annual welfare gain for the least developed countries is estimated to be $4.8 billion, with an increase of 2.4 per cent in exports. However, the gains would be very unevenly distributed among countries (see table 3). Results are driven by apparel, textiles and, to a lesser extent, tobacco. Asian least developed countries are

the major beneficiaries, owing to increased apparel exports. Total exports from Cambodia and Bangladesh increase by 18 and 8 per cent, respectively, generating employment gains for unskilled labour of 10 per cent and 3 per cent. If Brazil, China, India and South Africa also open their markets for the least developed countries (as some of them are doing — see box 3), gains for the least developed countries rise to $7.7 billion.

Table 3
**Welfare effect of duty-free quota-free market access**

| | *Welfare (millions of United States dollars)* | *Exports (percentage)* | *Employment, unskilled (percentage)* |
|---|---|---|---|
| Cambodia | 916 | 18.0 | 10.1 |
| Bangladesh | 2 100 | 8.2 | 3.2 |
| Ethiopia | 144 | 1.1 | 0.5 |
| Lao People's Democratic Republic | 5 | 0.2 | 0.1 |
| Malawi | 161 | 7.4 | 4.7 |
| Madagascar | 7 | 0.1 | 0.1 |
| Mozambique | 106 | 1.7 | 1.5 |
| United Republic of Tanzania | 130 | 1.6 | 0.7 |
| Senegal | 221 | 2.1 | 1.9 |
| Uganda | 3 | 0.1 | — |
| Zambia | 42 | 0.6 | 0.5 |
| Rest of West Africa | 355 | 0.5 | 0.6 |
| Central Africa | 108 | 0.6 | 0.3 |
| South-Central Africa | -2 | — | — |
| Rest of East Africa | 498 | 0.9 | 0.5 |
| European Union, United States, Other developed and developing countries | -3 897 | — | — |

*Source*: UNCTAD.

Box 3
**Developing countries' duty-free quota-free initiatives**

Several developing countries have extended duty-free quota-free treatment for the least developed countries. The duty-free quota-free initiative by India, first announced at the India-Africa Forum Summit in April 2008, grants duty-free quota-free access to 85 per cent of tariff lines and duty reductions on another 9 per cent, to be liberalized over five years, so that the duty-free quota-free programme covers 94 per cent of tariff lines, including cotton, cocoa, cane sugar and garments. The scheme developed by Brazil will initially grant preferential treatment to 80 per cent of the least developed countries' exports and subsequently expand to 100 per cent by 2014. China offers 31 sub-Saharan least developed countries an average 10.4 per cent preference margin on 95 per cent of tariff lines (e.g. cocoa beans, leather, copper), while 90 per cent of the least developed countries' imports (e.g. oil) already enter China duty-free through most-favoured-nation status. The scheme by the Republic of Korea provides duty-free quota-free access on 85 per cent of tariff lines and will cover 95 per cent by 2012, including copper, raw tobacco and plywood.

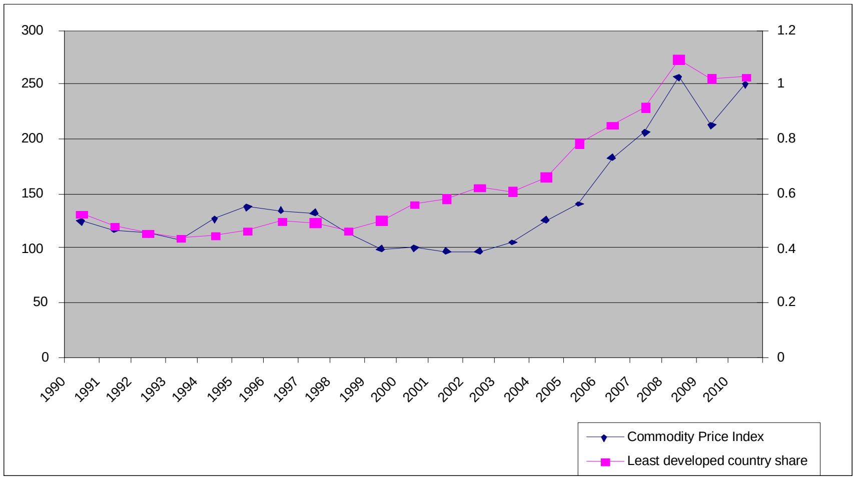
33. Making rules of origin simpler and more transparent has been a key objective of the least developed countries, as stringent rules inhibit effective use of preferences. Evidence suggests that relatively stringent rules of origin on apparel products in the European Union, which required the assembly of apparel from yarn and not from fabric, had the effect of reducing preference utilization. Major progress was made in this regard with the implementation of new European Union Generalized System of Preferences rules of origin in January 2011. The new rules introduced more flexible rules, specific to the least developed countries, for industrial products, including for apparel that now permit "single transformation" (i.e. allowing the use of third-country fabric) (see also box 4). The regional scope for cumulation was extended to four regional groupings without, however, the possibility of pan-African cumulation. By comparison, the Generalized System of Preferences scheme by Canada for the least developed countries provides global cumulation of all Generalized System of Preferences beneficiaries. The least developed countries have called for harmonized rules of origin common to different developed countries based on across-the-board value added criteria with facilitated regional cumulation rules.

Box 4

**Beyond duty-free quota-free market access to support the Istanbul Programme of Action**

The least developed country package will be important to help the least developed countries meet the target of doubling their share in world exports by 2020, as set out in the Istanbul Programme of Action. From 2000 to 2010, the least developed countries' exports outpaced world exports to double their share, albeit to a meagre 1 per cent. Repeating this success for the next decade is, however, a major challenge.[a] Assuming that world exports will expand by 4.7 per cent annually between 2011 and 2020, doubling the share will require exports by the least developed countries to grow by 12.2 per cent annually. This is ambitious because, first, the increase in the nominal value of exports in the last decade was driven by rising commodity prices (see figure below). Second, almost half of products from the least developed countries are destined for developed countries (46 per cent) where import growth is less dynamic (6.7 per cent, compared to 12.0 per cent in developing countries). The majority of the least developed countries fell short of doubling their export share.

**The least developed countries' share in world exports and commodity prices, 1990-2011**




*Source*: UNCTADstat.

This implies that meeting the Programme objective will largely depend on future commodity price developments and the performance of specific products in specific markets. For example, exports from Bangladesh are highly concentrated in apparels and in European Union and United States markets. The duty-free quota-free initiative — estimated to generate a one-time export increase of around 1 per cent for most of the least developed countries — helps but is unlikely to be sufficient. Strong Aid for Trade support by the international community is urgently needed to address the weak productive capacities and infrastructures of the least developed countries.[b] Innovative measures should also be explored. Trade by China with Africa has witnessed explosive growth. China is supporting the establishment of economic and trade cooperation zones in several African least developed countries, which could further increase and diversify exports from Africa, particularly manufacturing.

[a] See *The Least Developed Countries Report, 2010: Towards a New International Development Architecture for LDCs* (United Nations Publication, Sales No. E.10.II.D.5).

[b] UNCTAD "Making trade more development-transmitting, multiplying and inclusive for LDCs". Available from www.unctad.org/en/docs/ditctncd2011d1_en.pdf.

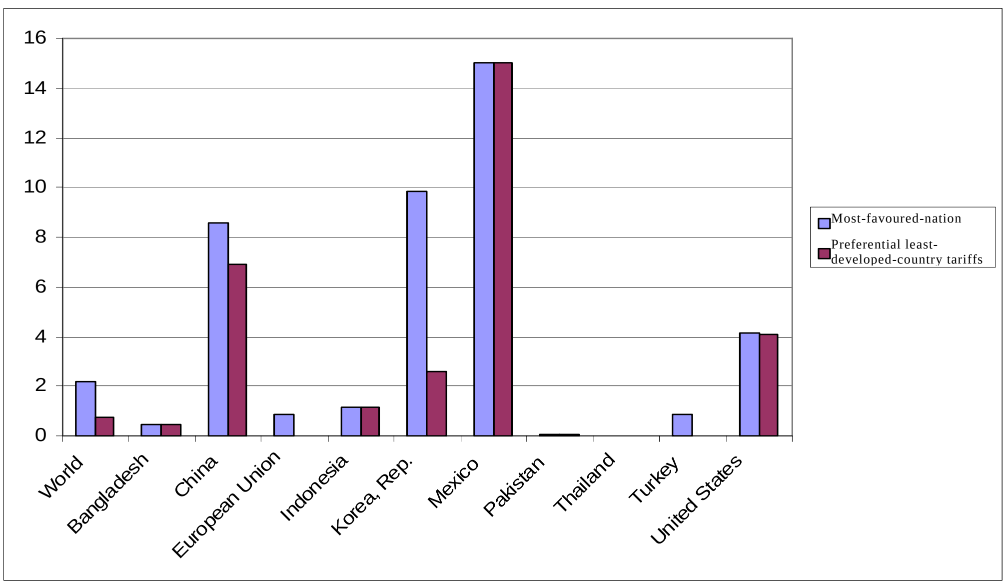
34. The duty-free quota-free market access initiatives and continued international efforts to support the least developed countries are likely to induce further changes to unilateral preferential schemes. In its proposal yet to be adopted, the European Union seeks to overhaul its Generalized System of Preferences scheme from 2014 to redirect its benefits essentially to the least developed countries and other low- and lower-middle-income countries by reducing the number of beneficiaries, for the first time, from the existing 176 to some 80 countries. Concern exists as to whether benefits would be captured by the least developed countries as expected, as countries being removed are essentially high- and upper-middle-income countries that do not necessarily compete with the least developed countries. Limiting

beneficiaries can further accentuate differentiation of developing countries, with implications for the non-discrimination and special and differential treatment principles of WTO. According to WTO jurisprudence,[8] "European communities — conditions for the granting of tariff preferences to developing countries", such differentiation may be permissible if based on an objective standard that is administered in a non-discriminatory manner.

## B. Cotton

35. Ambitious, specific and expeditious reduction and elimination of cotton subsidies and tariffs remain to be fully addressed. The sector is highly concentrated, with the five largest producers (China, India, the United States, Brazil and Pakistan) representing four fifths of the world production. In 2009, the United States was the largest cotton exporter, accounting for one third of world exports, followed by India, Uzbekistan and Brazil. The largest cotton importers are China (23 per cent), Turkey and Bangladesh. Reductions of cotton tariffs in major importing countries would contribute to gains for exports from the least developed countries (see figure VI).

Figure VI
**Most-favoured-nation and preferential tariffs on cotton in major importing countries**




*Source*: UNCTAD (TRAINS).

36. At the core of the issue is the ambitious reduction of domestic cotton support. Total government support to the cotton industry is estimated at $1.3 billion in 2010/11, down from $5.5 billion provided in 2008/09. High prices for cotton led to a sharp decline in subsidies in 2010/11, since many support programmes were not

[8] WTO, "European communities — conditions for the granting of tariff preferences to developing countries". Available from https://docsonline.wto.org.

triggered. The major subsidizing countries are the United States, China, Greece and Turkey. The United States spent $4.2 billion in 2005, while recently China became the largest cotton subsidizer, according to the International Cotton Advisory Committee, mainly providing support to seeds. Over a longer term, the share of world cotton production receiving direct government assistance increased from an average of 55 per cent between 1997 and 2008 to an estimated 84 per cent in 2008/09. Elimination of cotton subsidies could increase cotton prices by 10-20 per cent, which is significant, especially if current high cotton prices fall.

37. Many developing countries, especially 20 least developed countries in Africa, have a high concentration of exports in cotton (up to 85 per cent).[9] Cotton production in the "Cotton Four" countries (Benin, Burkina Faso, Chad and Mali) decreased by 50 per cent, partly due to unfavourable market environments that made them switch to other products. Furthermore, African producers in general have been unable to keep up with productivity growth in countries such as China and India that make increasing use of biotech varieties. Consequently, the market share of African countries declined from 8.8 per cent in 2002/03 to 5.6 per cent in 2007/08. Effective cuts in cotton subsidies could increase their export revenues by 20 per cent. Measures to strengthen productive capacities, including value added, infrastructure and technology contribute to increasing their supply response to higher prices.

## C. Services waiver

38. A waiver authorizing countries to grant preferential market access in services specifically for the least developed countries without having to extend the same treatment to other countries will help the least developed countries to exploit the growing services trade. Such preferential market access, particularly Mode 4, would contribute to increasing exports from the least developed countries. Rules of origin should ensure that preferential access benefits are reserved for suppliers to the least developed countries (i.e. those who have substantial business operations in the least developed countries). The waiver would also allow preferences regarding certain procedural aspects of domestic regulation, such as lower licensing fees. It is important to ensure that preferences given to the least developed countries should be in addition to most-favoured-nation treatment so as not to raise barriers for other developing countries. For the waiver to be meaningful, effective preferential market access needs to be provided.

## D. Accessions to the World Trade Organization

39. While it is not part of the Doha programme of work, the least developed countries have repeatedly emphasized the need to improve the WTO accession process. Currently, 12 of 30 countries in the accession process are least developed countries. The accession of Vanuatu, expected this year, follows only those of Cape Verde in 2008 and of Cambodia and of Nepal in 2004. The absence of pre-established, objective criteria for membership and asymmetric bargaining structure in negotiations has resulted in deep and stringent commitments undertaken by acceding countries. Examples are low bound tariffs; participation in sectoral

[9] UNCTAD, "Pan-African Cotton Meeting 2011, Concept Note". Available from www.unctad.info/upload/SUC/PACM_Benin/Concept_Note_English.pdf.

tariff harmonization; effective and broad-based services liberalization commitments; prohibition of agricultural export subsidies and export duties; privatization; accession to the otherwise-optional Agreement on Government Procurement; and prohibition of export performance and transfer of technology requirements on foreign investors. This approach has limited acceding countries' policy flexibilities.

40. Effective implementation and operationalization of the 2002 accession guidelines for the least developed countries can contribute to improving the accession process. Commitments expected of the least developed countries can be clarified by setting benchmarks for market access and other commitments, for instance based on average tariff and services commitments undertaken by existing least developed country members. Average bound rates of existing least developed country members are 77 per cent in agriculture and 45 per cent in non-agricultural products. They compare with commitments by Cambodia and Nepal in their accession on the order of 28-41 per cent in agriculture and 18-24 per cent in non-agricultural products. On rules, all the least developed countries can be automatically entitled to all special and differential treatment provisions, supplemented by regulatory and policy action plans. Such clarification could usefully be harvested together with the least-developed-country package.

## E. Least developed country-plus package

41. An "LDC-plus" package has been found necessary to achieve balance among diverse WTO members' interests and burden-sharing. Trade facilitation aimed at improved customs procedures can reduce trade costs and have effects similar to tariff reduction for exporters. Some developing countries are concerned over the implementation cost, as some trade facilitation measures (e.g. single window) will incur significant costs, and effective special and differential treatment and capacity-building support has been a key negotiating issue. Environmental goods and services are promoted for potential environmental benefits while concern exists that deeper liberalization on a range of proposed "environmental goods", mostly manufactured goods related to energy efficiency, can have deep liberalization effects similar to sectoral liberalization, and cover, for instance, 20 per cent of all imports for the least developed countries.

42. Commitment already exists to eliminate agricultural export subsidies by 2013. These subsidies were prevalent from 1995 to 2000 and were valued at $6.2 billion annually worldwide; 90 per cent of them originated in the European Union and supported mainly dairy and meat (beef). Since the amount decreased considerably thereafter, its elimination will have limited effect. On fisheries subsidies, since the disciplines are yet to be fully developed, "standstill" on existing subsidies is suggested to limit their adverse effect on overfishing. Possible disciplines will prohibit certain subsidies contributing to overfishing (e.g. for new vessel construction), while opponents argue that poor management of fish stocks is the major cause for depletion of fish stocks. Other issues proposed include a review of the Dispute Settlement Understanding, regional trade agreements and standstills, including on tariffs, to prevent protectionist tendencies.

# V. Regional trade agreements

43. The drive towards regional trade agreements is likely to accelerate with deepened behind-the-border commitments. Preferential trade liberalization represents a major challenge for the multilateral trading system, with some 300 regional trade agreements currently in force. Recent regional trade agreement negotiations involve a greater number of large and dynamic markets — particularly Asia — resource-rich countries and developed countries. This is observable in the recent European Union move towards "competitiveness-oriented" regional trade agreements and the United States engagement in a Trans-Pacific Partnership Agreement. By inducing deeper liberalization and regulatory harmonization covering an increasing share of world trade, they could further affect incentives for multilateralism. Developing countries contributed considerably to the sharp increase, with South-South agreements now representing two thirds of all regional trade agreements.

44. The value of trade covered by regional trade agreements increased to 51 per cent of world trade, although the share of trade actually receiving preferential treatment is much lower (about 16 per cent), as half of world trade is already duty free owing to most-favoured-nation treatment.[10] The preference utilization rate may be high (e.g. 87 per cent and 92 per cent under regional trade agreements involving the European Union and the United States, respectively). Trade liberalization under regional trade agreements generally has a positive effect on global welfare. Participants tend to benefit in terms of welfare, exports and often employment, although government revenues from tariffs may fall, but non-participants tend to lose from trade diversion (see table 4). Simulation shown in table 4 suggests that global gains from some likely regional trade agreements may be negative, indicating that estimated losses to non-members outweigh the gains to members. Smaller countries would suffer losses if they are sidelined in the regional trade agreement formation.

Table 4
**Potential effects from possible regional trade agreements**

| | *Free trade area participants* | | *Free trade area non-participants* | |
|---|---|---|---|---|
| | *Welfare*[a] | *Exports*[b] | *Welfare*[a] | *Exports*[b] |
| European Union-Japan | 9.7 | 0.36 | -9.5 | -0.11 |
| European Union-Association of Southeast Asian Nations | 12.8 | 0.44 | -4.9 | -0.18 |
| Trans-Pacific Partnership | 7.4 | 1.08 | -8.8 | -0.07 |
| Asia-Pacific Economic Cooperation | 207.1 | 6.73 | -43.9 | -1.01 |

*Source*: UNCTAD.
[a] Billions of United States dollars.
[b] Percentage change.

[10] For a recent analysis, see WTO, "World trade report 2011: The WTO and preferential trade agreements: from co-existence to coherence". Available from www.wto.org/english/res_e/booksp_e/anrap_e/world_trade_report11_e.pdf.

45. In 2009, the trade-weighted global average most-favoured-nation tariff was 4 per cent. Such a low rate does not leave much scope for tariff preference, the traditional rationale for regional trade agreements. Recent regional trade agreements have expanded their scope to investment, competition, services, standards, government procurement and intellectual property, as well as labour and environmental standards. They appear to be increasingly motivated by the need to provide a platform for regional supply chains by ensuring duty-free and non-tariff-barrier-free trading environments through deep regulatory integration. Empirical analysis confirms a positive link between trade in parts and components — a proxy for production networks — and the depth of agreements. For instance, the intra-preferential trade agreement trade of intermediate goods is prevalent in the Association of Southeast Asian Nations.

46. The quantitative proliferation and qualitative deepening of regional trade agreements point to the need for coherence between the multilateral trading system and regional trade agreements. Increased transparency, as under the transparency mechanism on regional trade agreements established by WTO, is useful in enhancing predictability of regional trade agreements. Developmental coherence is required so that special and differential treatment and policy space available under the multilateral trading system is not overridden by regional trade agreements where bargaining power can be asymmetric. Regulatory coherence needs to be ensured, including by multilateralizing certain elements of regional trade agreements, such as rules of origin and sectoral liberalization (e.g. ITA). Regional trade agreements could also promote broader cooperation. Economic, financial, regulatory and institutional cooperative schemes, and pooling resources to develop regional infrastructure and trade facilitation, could significantly increase the benefits. The conclusion of the Doha Round could also contribute to such coherence.

## A. North-South regional trade agreements

47. Market access conditions may be a valid consideration for North-South regional trade agreements involving lower-income countries and/or countries reliant on limited products and markets. Locking in existing preferential conditions under unilateral preferential arrangements was a key motivation for some Latin American countries to form regional trade agreements with the United States (agricultural products and for non-least developed country African, Caribbean and Pacific States to conclude economic partnership agreements with the European Union (e.g. banana, sugar under the Cotonou preferences). Under regional trade agreements, for example, several Latin American countries obtained a reduction of European Union banana tariffs, increasing preference margins from €3-€39 per ton.

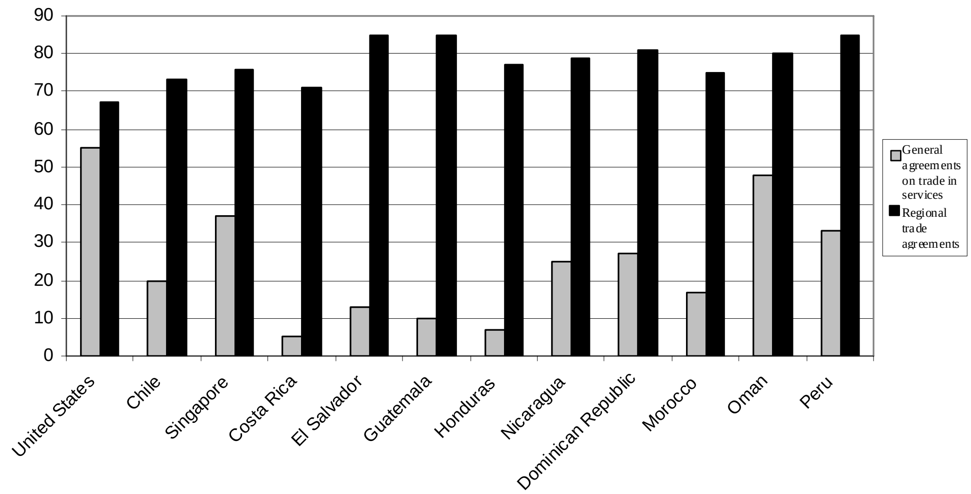
48. Larger developing countries face challenges in effectively securing improved market access under regional trade agreements. Regional trade agreements often preserve high tariffs on import-sensitive products that attracted high protection on a most-favoured-nation basis, including dairy, sugar, cereals and apparel. Preferential tariffs reduce the global trade-weighted average tariff only by 1 per cent, because high tariffs on agriculture and labour-intensive manufacturing goods are often excluded. For example, 27 per cent of agriculture products are excluded compared with 1 per cent of manufacturing goods. This may be changing, as recent North-South regional trade agreements provide for tariff elimination by developed

countries of almost all products by the end of transition period, including some otherwise import-sensitive products (e.g. sugar).

49. Ensuring an adequate content, pace and sequence of their liberalization is a key concern of developing countries, as the effect of reciprocal tariff elimination would be greater for them given economic asymmetries. Their ability to undertake lesser and slower liberalization is, however, constrained by a WTO rule requiring regional trade agreements to liberalize "substantially all trade", often understood as requiring liberalization of 90 per cent of trade over 10 years. Some developing countries have called for revising the rule by incorporating the principle of special and differential treatment to allow "less-than-full" reciprocity in regional trade agreements. Recent regional trade agreements have incorporated a mechanism to automatically extend deeper liberalization that may be undertaken by a regional trade agreement party under future regional trade agreements to the other party, such as "third-party most-favoured-nation" clauses under economic partnership agreements between African, Caribbean and Pacific States and the European Union, which could have a chilling effect on South-South regional trade agreements, and similar provisions applied to selected agricultural products under regional trade agreements of the United States.

50. Trade in services is characteristic of North-South regional trade agreements. Globally, one third of regional trade agreements have services commitments. Two models for services liberalization are the "North American Free Trade Agreement model" based on negative list approach and a "hybrid model" combining positive and negative list approaches. The models generally cover cross-border services, commercial presence (often in conjunction with investment in goods), movement of natural persons and sector-specific regulatory issues (e.g. financial services). More substantial commitments are made under regional trade agreements than under general agreements on trade in services (see figure VII). Under the economic partnership agreement between the European Union and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM), for instance, the CARIFORUM countries listed 75 per cent of subsectors. Certain regional trade agreements have incorporated disciplines on services regulations that could potentially constrain their right to regulate, such as financial prudential carve-outs conditioned, unlike under general agreements on trade in services, on "necessity tests". North-South regional trade agreements could help provide meaningful market access on sectors and modes of interest to developing countries, particularly Mode 4, where opening is limited.

Figure VII
**Index of services liberalization commitments**




*Source*: UNCTAD, based on WTO.

51. Regional trade agreements often incorporate "TRIPS-plus" disciplines on intellectual property rights that affect various public policies, ranging from health to innovation. They expand the coverage, title holder's rights and duration of several intellectual property categories with stricter enforcement, so that flexibilities available under TRIPS are often restricted (e.g. compulsory licensing to import essential drugs). Some have the effect of delaying the market entry of generic products (e.g. protecting pharmaceutical test data for at least five years). Some estimates suggest that such provisions could increase drug prices by 10-40 per cent (e.g. Costa Rica).

52. North-South regional trade agreements have embarked on liberalization of government procurement, a market representing 10-15 per cent of GDP. The lack of supply capacity in developing countries has often prevented meaningful reciprocity. Conversely, government procurement has long served as an important industrial and public policy instrument for them — to support local suppliers and promote technological development. While domestic preference policies requiring local content have historically contributed to the establishment of some strategic industries, such policies are generally prohibited and permissible only in connection with government procurement under WTO (for most developing countries not party to the Agreement on Government Procurement). Such important policy flexibilities are increasingly restricted by regional trade agreement disciplines.

## B. South-South integration

53. South-South integration and cooperation increasingly provides a platform for dynamic South-South trade (see box 5). Most South-South regional trade agreements have covered trade in goods, while many have embarked on broader regulatory and cooperative measures. They allow the exploitation of economies of scale, serve as development launch pads to global integration, promote trade in

non-traditional goods and have the potential to facilitate diversification.[11] Less stringent rules of origin and the mutual recognition of standards — more easily achievable among countries with similar level of development — can promote the development of regional value chains.

Box 5

**Potential benefits of an African common market**

The level of intra-African trade is low, including in intermediate goods. To overcome fragmentation and small markets, African countries seek to establish a pan-African common market by 2023. Favourable economic conditions create the right environment for a meaningful African integration agenda. The tripartite initiative among the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa and the East African Community demonstrates commitment to bringing coherence to overlapping African regional trade agreements. Thus far the integration process has focused mainly on tariffs, but "developmental integration" combining trade liberalization with regulatory and development cooperation could go a long way. A reduction by 50 per cent of intra-African tariffs and non-tariff barriers often resulting from infrastructure deficiency or burdensome administrative procedures could generate significant welfare gains of $6.5 billion with a positive employment effect in all regions, up to 4.8 per cent in the Economic Community of West African States (ECOWAS). Intra-African trade and output would increase, contributing to structural change.

**Potential effects of intra-African integration**

| | *Welfare (millions of United States dollars)* | *Employment, unskilled (percentage)* | *Exports (percentage)* |
|---|---|---|---|
| North Africa | 1 188 | 0.66 | 1.72 |
| ECOWAS | 1 814 | 4.78 | 7.04 |
| East and Central Africa | 1 329 | 0.07 | 3.19 |
| SADC | 2 177 | 2.04 | 3.12 |

*Source*: UNCTAD.

54. Interregional South-South trade cooperation has received impetus from the conclusion in December 2010 of the third round of the Global System of Trade Preferences among Developing Countries (GSTP) negotiations, launched in 2004 at the eleventh session of UNCTAD. The agreement reduces applied tariffs by 20 per cent on 70 per cent of dutiable products, thereby combining effective cuts with policy flexibilities. The resulting tariff concessions broaden product coverage to 47,000 tariff lines. Twenty-two of the 43 GSTP members participated in the round

[11] UNCTAD, "Making South-South trade an engine for inclusive growth". Available from www.unctad.org/en/docs/presspb20093_en.pdf.

and 11 exchanged tariff concessions.[12] UNCTAD estimates find the 11 participants will see welfare gains of $2.5 billion, which could be increased to $5.8 billion if all 22 countries that participated in the round undertake tariff reduction. Broadening and deepening liberalization, with enhanced rules of origin, and extending cooperation and liberalization to non-tariff barriers, trade facilitation, trade finance and eventually services trade could significantly enhance its potential.

## VI. Conclusion

55. **A dynamic trade and investment nexus has, over the past two decades, been a key driver of growth and structural transformation in some developing countries. That dynamism has begun to change the economic landscape and has redirected focus to the complementary policies required to strengthen productive capacities, expand employment opportunities in support of inclusive and sustainable development, and better cope with external shocks. Greater attention needs to be given to agriculture and services sectors. Integrated and coherent trade, industrial, labour market and social policies can go a long way towards realizing a more equitable sharing of wealth and opportunities, within and across countries. The international trading system is an important catalyst for realizing the benefits of trade, and the efforts behind the protracted Doha Round negotiations need to be urgently channelled into meaningful development gains. The least developed country package should make an important contribution to the implementation of the Istanbul Programme of Action. Attention should be given to the realization of Millennium Development Goal 8 on an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system. Reinvigorating the multilateral trading system and preparing it for twenty-first century challenges is important. Development imperatives under rapidly changing economic conditions need to be factored into the norms and instruments of the international trading system, such as through enhanced policy space for development and achieving greater developmental coherence between the multilateral trading system and regional trade agreements, as well as between the international trade and financial systems.**

[12] Argentina, Brazil, Cuba, Egypt, India, Indonesia, Malaysia, Morocco, Paraguay, Republic of Korea, Uruguay.