First session of the Preparatory Committee for the fourth International Conference on Financing for Development

Multi-Stakeholder Round Table Discussion on "International Trade as an Engine of Development"

Wednesday, 24 July 2024, 11:30 – 13:00

Issue note

Background

The Addis Ababa Action Agenda (Addis Agenda) highlights the critical role of international trade in driving economic growth, reducing poverty, and narrowing the development gap between countries. As a key pillar of the global economy, trade facilitates the flow of goods, services, capital, and technology across borders, contributing to higher productivity, employment, and improved standards of living. To realize this, the Addis Agenda outlines several commitments to harness international trade as an engine for development, emphasizing the need for an inclusive, rules-based, open, non-discriminatory, and equitable multilateral trading system.

The Addis Agenda also recognizes the potential of **international trade to contribute to sustainable development** by promoting inclusive growth, reducing poverty, and supporting environmental sustainability. Member States emphasize the importance of promoting sustainable trade practices that protect the environment and support the transition to a low-carbon economy, including measures to address trade-related environmental challenges and promote green technologies. Member States also commit to endeavor to craft trade and investment agreements with appropriate safeguards so as not to constrain domestic policies and regulation in the public interest, and to implement such agreements in a transparent manner.

Increased efforts are needed to **integrate developing countries into the global trading system**. The Addis Agenda emphasizes the importance of improving market access for goods and services from developing countries, particularly the least developed countries (LDCs). Developed countries and developing countries in a position to do so are urged to provide duty-free and quota-free market access for all products originating from LDCs. The need to simplify and streamline rules of origin for LDC exports to help LDCs take full advantage of preferential trade agreements and access global markets more effectively is also stressed.

The central role of the World Trade Organization (WTO) in **promoting a rules-based multilateral trading system** is reaffirmed. The Addis Agenda urges the full and effective implementation of the Bali Package, which includes measures to facilitate trade, improve food security, and support LDCs. The need for ongoing reforms to trade rules and institutions to ensure they are fair, equitable, and reflective of the changing global economy, including efforts to make the WTO more inclusive and responsive to the needs of developing countries, is also highlighted.

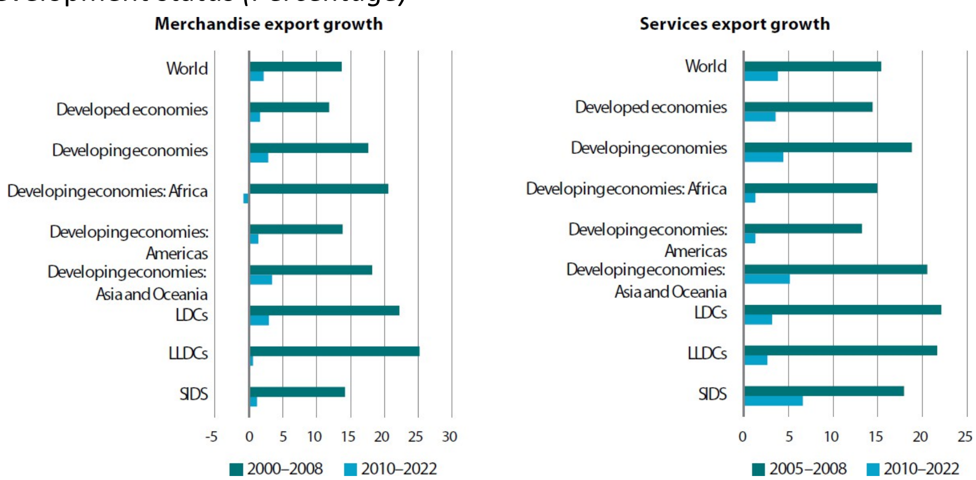
The potential of **regional trade agreements (RTAs)** to complement the multilateral trading system and support regional integration is highlighted. The Addis Agenda expresses support for regional integration initiatives that promote trade and economic cooperation among developing countries.

Trade finance is addressed as a critical component for enhancing international trade. The Addis Agenda includes commitments to enhance access to trade finance; expand multilateral development bank (MDB) support to trade finance programs and facilities; develop and implement risk mitigation mechanisms and innovative financial instruments to support trade finance; and create collaborative efforts between governments, international organizations, and the private sector to create an enabling environment for trade finance.

How have we done?
Key trends:

In the past two decades, international trade has acted as an engine for development for many developing countries, but trade dynamism has weakened (figure 1). Growth rates in trade in services also slowed markedly since the 2008 world financial and economic crisis.

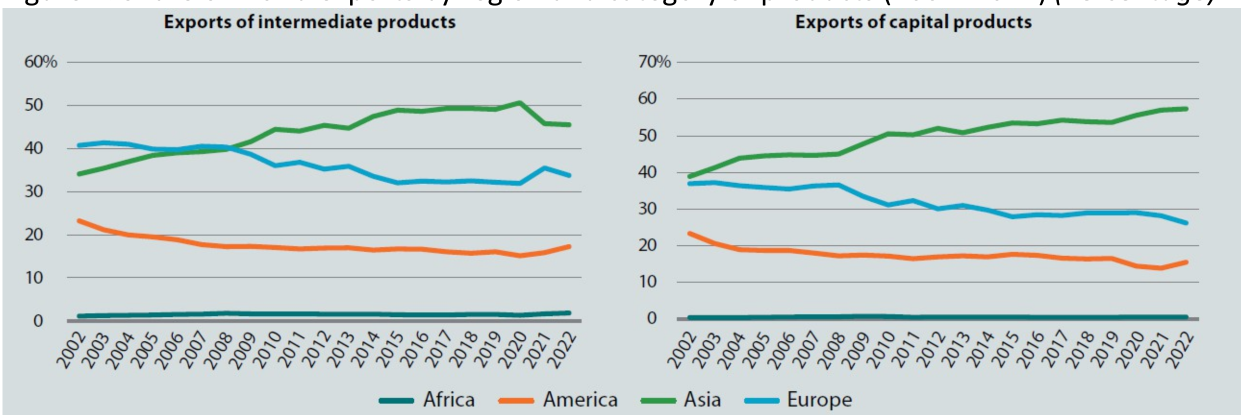
Figure 1. Average export growth rate before and after the 2008 world financial and economic crisis by development status *(Percentage)*



Since 2000, many developing countries, particularly in Asia, have increased their participation in global trade. The growth of South-South trade has been a significant driver of this increased participation. South-South trade now accounts for 54% of total developing country exports, nearly doubling its share in world exports from 2000 to 2022. Nonetheless, trade growth continues to be very uneven, with some developing countries seeing rapid trade growth while many vulnerable countries remained largely marginalized (figure 2).

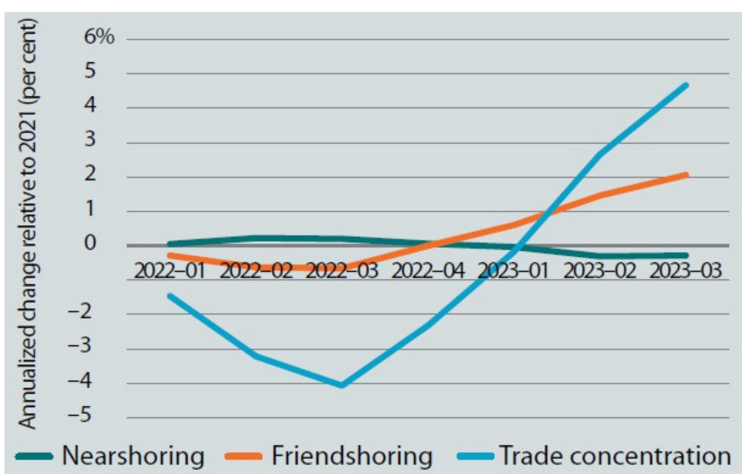
Trade in services, especially digitally delivered services, has seen substantial growth. From 2015 to 2022, trade in digitally delivered services more than doubled, highlighting the increasing importance of digital trade in the global economy. This trend has created new opportunities for developing countries to participate in the global economy, especially those that can leverage digital technologies.

Figure 2. Share of world exports by region and category of products (2002–2022) *(Percentage)*



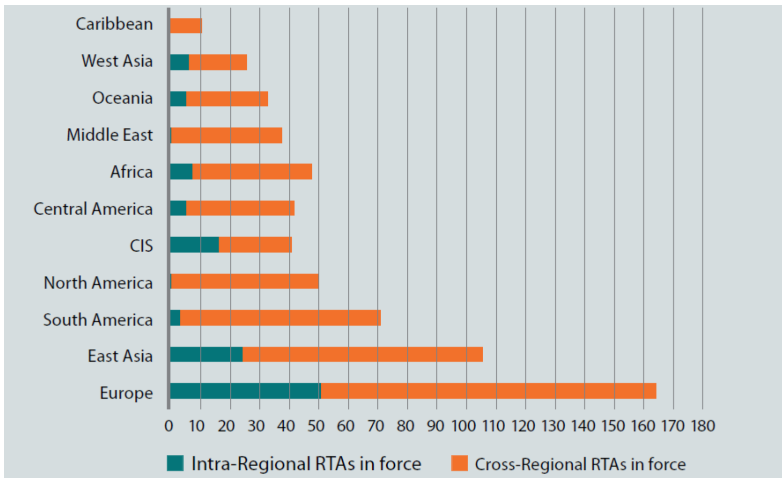
Developing country trade growth over the past two decades was driven largely by their increased participation in global value chains (GVCs). However, trade growth deceleration in recent years has been in part driven by the shift towards de-risking supply chains, including through "friendshoring" and "nearshoring" (figure 3). This change is driven by heightened trade policy tensions, the disruption caused by COVID-19 and geopolitical events. Supply chain configuration has become a primary concern for policymakers and industries, especially in the context of building resilience and self-sufficiency.

Figure 3. Recent trends in trade concentration, friendshoring and nearshoring *(Percentage annual change relative to 2021)*



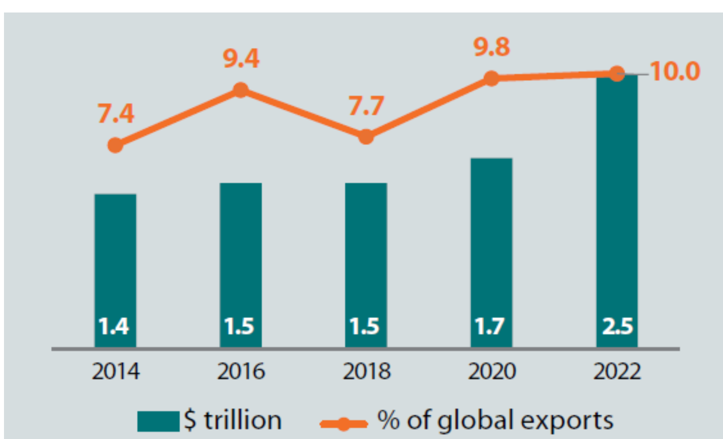
In the absence of a comprehensive multilateral agreement on certain trade issues, countries turned to bilateral and regional trade agreements and in some cases plurilateral negotiations, resulting in a complex web of overlapping arrangements (figure 4). At the start of 2024 there were 361 RTAs in force. Over the years RTAs have become more complex, including not just tariff liberalization but also commitments to liberalize trade in services and regulatory rules on other behind the border provisions. There has also been notable progress and renewed interest in deepening and reinvigorating South-South trade integration and cooperation frameworks, including initiatives such as the African Continental Free Trade Area (AfCFTA).

Figure 4. RTAs in force, by region *(Number of agreements)*



Trade finance plays a crucial role in facilitating international trade, but the global trade financing gap has increased sharply in recent years (figure 5). The estimated global trade finance gap is estimated to be as high as $2.5 trillion annually, with SMEs in developing countries facing the brunt of this shortfall. Moreover, current trade finance disproportionately favours established commodity exporters and bulk importers. SMEs, especially those led by women, struggle with rejection rates exceeding 50 per cent.

Figure 5. Global trade finance gap *(United States dollars, percentage of global exports)*



Actions and Challenges

While trade had recovered after the COVID-19 pandemic, this recovery has been uneven, with poor and vulnerable countries in Africa and Latin America and the Caribbean remaining largely marginalized. Preserving an open international trading system underpinned by international cooperation is critical to achieving the SDGs, but is under threat.

In this challenging context and amidst rising protectionism and threats to the multilateral trading system, traditional export-based development models have become harder to pursue. Many developing countries remain reliant on exports of commodities and low value-added goods, with no positive effect on employment and wages.

Enhancing market access and integration

There have been efforts to improve market access for developing countries, particularly least developed countries (LDCs). Several developed countries have expanded duty-free and quota-free market access for LDC products, helping to increase their export opportunities.

Nonetheless, profound challenges remain in integrating vulnerable developing economies, such as Least Developed Countries (LDCs), Small Island Developing States (SIDS), and Landlocked Developing Countries (LLDCs), into the global trade of goods and services, threatening to exacerbate inequalities. The participation of many developing countries in international markets in the last decades has been mainly through unskilled labor and low-value-added goods. Most vulnerable groups of countries remain dependent on raw commodities exports. In 2019-2021, 73.9, 60.5, and 81.5 of LDCs, SIDs, and LLDCs respectively are classified as commodity-dependent, compared to 12.5 percent of developed countries.

Significant barriers to market access remain. Complex and restrictive rules of origin continue to hinder their ability to fully benefit from preferential trade agreements. Non-tariff measures (NTMs) pose a significant barrier to LDCs’ entry into international markets despite their preferential tariff advantages. Additionally, trade-related capacity remains uneven, with many developing countries lacking the necessary infrastructure and institutional capacity to effectively participate in global trade. The benefits of digital trade have also been unevenly distributed. Countries with weak digital infrastructure and low connectivity are particularly disadvantaged.

Strengthening the multilateral trading system

The World Trade Organization (WTO) has played a central role in facilitating multilateral trade cooperation since its establishment in 1995, in a period of rapid trade expansion. But economic shifts and divergent interests among members has led to a stalling of multilateral negotiations, with countries turning to bilateral and regional trade agreements and in some cases plurilateral negotiations, resulting in a complex web of overlapping arrangements. Challenges have also emerged in the WTO's dispute settlement mechanism. In parallel, protectionist sentiments have risen and contributed to trade tensions and restrictions. Such international trade interventions are increasingly impacting developing countries. In 2023, 70.9 percent of international trade interventions were imposed by advanced economies, with domestic and export subsidy policies more frequently used. For example, efforts to promote green transitions by developed countries, such as the carbon border adjustment mechanism (CBAM) and Deforestation Regulation (EUDR), can impact developing countries' access to important markets due to the reduced financing capacity to adapt to the required standards.

The multilateral trading system, including regional trade agreements (RTAs) and international investment agreements (IIAs), has continued to play an important role. Regional trade agreements (RTAs) have gained momentum, with initiatives such as the African Continental Free Trade Area (AfCFTA) showing promise in enhancing regional economic cooperation. Other regions have also seen progress in negotiating and implementing RTAs that align with WTO rules and support development goals. At the same time, policymaking in the space of IIAs has been a highly dynamic, as the focus of policy has shifted towards a new generation of IIAs, which now often include a sustainable development orientation, a focus on preservation of regulatory space and improvements to or omissions of investment dispute settlements.

Key issues remain unresolved. There remain many ongoing challenges in reforming trade rules and institutions to ensure they are fair and equitable. Developing countries continue to struggle with limited participation in decision-making processes, and there is a need for more inclusive reforms to address their concerns. Furthermore, protectionist measures and trade tensions have risen in recent years, undermining the stability of the multilateral trading system.

At the regional level, there are challenges in ensuring that RTAs are inclusive and supportive of sustainable development. Coordination and harmonization of trade policies across different regions remain complex, and the benefits of RTAs are often unevenly distributed. Developing countries may struggle to compete within these agreements without adequate support for capacity building and infrastructure development. Additionally, the proliferation of RTAs can create overlapping and sometimes conflicting trade rules, complicating the global trade landscape.

Trade finance

Since 2015, there has been notable progress in enhancing trade finance. MDBs have significantly scaled up their trade finance programs to support developing countries, particularly SMEs. Innovative financial instruments and insurance products have been developed to mitigate risks associated with trade finance. There has been a growth in public-private partnerships aimed at enhancing trade finance availability. Significant efforts have also been made to build the capacity of local financial institutions in developing countries.

However, persistent challenges such as trade finance gaps, regulatory and compliance issues, high transaction costs and limited data and transparency continue to hinder the full potential of trade finance as a driver of economic growth and sustainable development in developing countries. High transaction costs and inefficiencies in trade finance processes remain significant barriers. Furthermore, a lack of comprehensive data and transparency in the trade finance market hinders the ability to identify and address gaps effectively.

Leveraging trade for sustainable development

Efforts to promote inclusive and sustainable trade policies have gained traction. Trade and investment agreements are increasingly incorporating provisions related to sustainable development, including gender equality, human rights, and environmental sustainability, particularly climate actions. Programs promoting sustainable trade practices, such as certification schemes for fair trade and environmentally friendly products, have also expanded.

Despite these efforts, there is still a significant gap in fully leveraging trade for sustainable development. Many trade policies and agreements do not sufficiently address social and environmental dimensions. Ensuring that trade benefits are broadly shared and contribute to poverty reduction remains a challenge, as does aligning trade practices with climate and biodiversity goals. Additionally, there is a need for more robust mechanisms to monitor and evaluate the impact of trade policies on sustainable development outcomes.

The way forward and guiding questions for discussion

In the face of the secular slowdown in international trade, continued challenges in integrating vulnerable developing countries into global trade, the absence of a comprehensive multilateral agreement on certain trade issues, the increased trade finance gap and the ongoing task of leveraging trade for sustainable development, a number of solutions have been put forward.

These include comprehensive reforms to improve the functioning of the multilateral trading system, revisiting the agreements that govern developing countries' market access and integration, and the potential to establish multilateral trade finance mechanisms and measures to ensure the proper functioning of commodity markets.

1. Enhancing market access and integration

- What strategies can be implemented to enhance vulnerable developing countries' integration into global trade greater and ensure the inclusive sharing of trade gains among people and countries?
- How can the international community enhance trade-related capacity building in developing countries and to improve their market access and value chain upgrades?
- What innovative approaches would help commodity-dependent developing countries to benefit from a more inclusive sharing of trade gains?

2. Strengthening the multilateral trading system

- How can the international community align trade rules fully with sustainable development?
- How and through which provisions can RTAs enhance coherence between trade, investment and sustainable development?

3. Trade finance

- What kinds of trade finance instruments and mechanisms would facilitate the productive integration of developing countries into the global economy?
- How can trade finance help commodity-exporting countries unlock value from resources and promote developing countries’ participation in higher-value global value chains?
- What strategies can be implemented to improve the availability and effectiveness of risk mitigation instruments in trade finance, and how can multilateral development banks (MDBs) and other international financial institutions play a more significant role in supporting these efforts?

4. Leveraging trade for sustainable development

- What policies and initiatives can be implemented to more equally share the benefits of trade within countries?
- How can trade practices be aligned with climate and biodiversity goals to promote environmental sustainability without exacerbating inequality in trade growth?