Financing for Development 2025 Fact Sheet on International Trade as an Engine for Development

Confidential - Draft for Consultations

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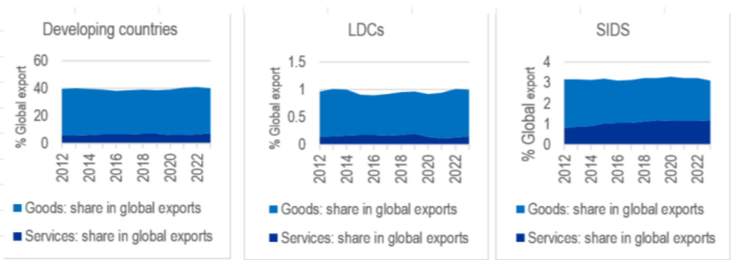
OECD

Data dashboard

Key trends

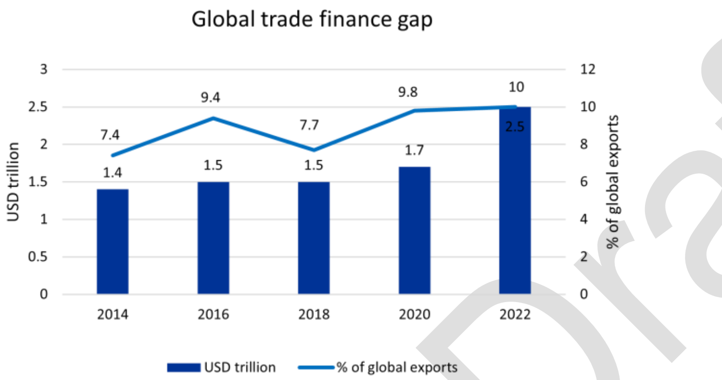
The volume of global trade has grown, but the relative share of developing countries has remained stable.



Source: UNCTAD (2024), data available at: [SDG Pulse, 2024]

Between 2015-23, total trade in goods and services increased by about 50% or USD 10 trillion, growing from USD 21 trillion in 2015 to USD 31 trillion in 2022, and declining slightly in 2023 to USD 30.4 trillion. At same time, the trade to gross domestic product ratio has remained stable at about 29.1% in 2023, comparable to the 2008 ratio of 29.6%.[1] Least developed countries (LDCs) still represent only 1.0% of global trade and small island developing states (SIDS) just 3.2%.[2]

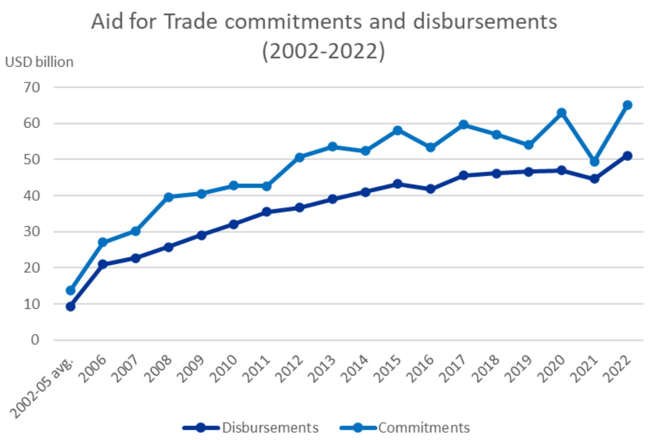
The global trade financing gap is widening.



Source: ADB (2023[1]), "2023 Trade Finance Gaps, Growth and Jobs Survey", https://www.adb.org/publications/2023-trade-finance-gaps-growth-jobs-survey and WTO (2024[2]), Trade and tariff data, https://www.wto.org/english/res_e/statis_e/statis_e.htm.

The global trade finance gap is now estimated to be USD 2.5 trillion annually, a substantial increase from 2016 and 2018 estimates of USD 1.5 trillion annually.[3]

Aid for trade is growing but support to LDCs remains insufficient.



Aid for Trade reached a record high of USD 51.1 billion of disbursements in 2022, with LDCs receiving USD 14 billion, or 29% of the total. Since the initiative was created in 2006, Aid for Trade disbursements have cumulated USD 689 billion, with 56% in economic infrastructure, 42% to build productive capacity, and 2% for trade policy and regulations. Of these, USD 189 billion in disbursements went to LDCs and other low-income countries.

Source: Author's calculations based on OECD (2024[3]), Aid for Trade at a Glance 2024, https://www.oecd.org/en/publications/aid-for-trade-at-a-glance-2024_7a4e356a-en.html

Key performance indicators

(full list in statistical annex)

- ⇩ In 2022, Aid for Trade support to LDCs reached a record USD 14 billion in disbursements but represented a smaller share of total Aid for Trade than in 2021, which was at odds with the goal of doubling Aid for Trade disbursements to LDCs from 2018 levels by 2031.[4]
- ⇔ From 2012 to 2023, LDCs' share of global trade hovered around 1% – far from the target of 2%.[5]
- ⇔ Digitally delivered services in LDCs increased by 44% since 2015 but increased by 100% in the rest of the world. As of 2024, the volume of digitally delivered services in LDCs remains 73% smaller than the global average.[6]
- ⇧ For 84 of 135 countries, the worldwide weighted average tariff under preferential status decreased over the period from 2015 to 2022.[7]

Resource mobilisation potential

- ❖ LDCs represent 1% of global trade though they are home to 14% of the world's population. Doubling their share of trade to 2% could generate USD 230 billion per year.
- ❖ It is predicted that the African Continental Free Trade Area (AfCFTA) will increase African countries' trade income by USD 450 billion by 2035 and boost intra-African trade by more than 81%.[8]
- ❖ The value of green exports from Africa such as green hydrogen, critical minerals and export credits could reach about USD 35 billion.[9]
- ❖ Trade increases women's wages and economic equality. Removing import tariffs would produce average real income gains for households headed by women that are 2.5% higher than for households headed by men. In Burkina Faso and Cameroon, for instance, such an increase for women-headed households would be equivalent to one year's spending on education or health.[10] Reduction of gender-biased or so-called pink tariffs could reduce average tariffs by 6 percentage points in some countries.[11]

Key areas of progress

Developing countries have been the main driver of global trade growth.

Trade growth has been largely driven by trade between developing countries. Their share of global trade rose from 9.8% in 1995 to 24.6% in 2022, representing up to 54% of developing country exports. Likewise, the integration of developing countries into GVCs, with backward and forward GVC participation rates increasing from 25.2% of total exports in 1995 to 44.6% in 2015 and 48.7% in 2022, translated into a tripling of trade in intermediary goods since 2000.[12] Services trade has become a source of strong growth for developing countries in combination with digital trade opportunities: for instance digitally delivered services exports doubled between 2005-15 and doubled again between 2015-23.After two decades of strong growth, however, the developing country share of world trade remained flat in the 2010s and early 2020s at about 40% and at 30% for services.[13]

Regional trade integration between and with developing countries has progressed along with trade flows. South-South trade increased from USD 600 billion in 1995 to USD 5.3 trillion in 2021, and its volume is now higher than that of North-South trade and growing faster than the world average.[14] By eliminating barriers to trade in Africa, the AfCFTA could lift 30 million people out of extreme poverty and another 68 million people out of moderate poverty.[15] Yet, interregional trade today, especially in developing countries, is often underestimated by traditional data sources. Recent estimates find that interregional trade in West Africa, for example, is 2.5 billion USD per year, twice higher than traditional estimates, and this could be up to 10 billion USD per year.

Helped by improved trade facilitation, tariffs and trade costs continue to decline.

The WTO TFA entered into force in 2017. Estimates suggest that full implementation of the TFA could reduce trade costs by an average of 14.3% and boost global trade by up to USD 1 trillion per year, with the biggest gains in the poorest countries.[16] As of 2024, global implementation of TFA commitments stands at 80.2%, with 74.1% for developing countries and LDCs and 49% for LDCs alone.[17]

After two decades of decreases from the mid-1990's to the mid-2010's, when tariffs fell from 13.1% in 1996 to 9.1% in 2015, the simple average most-favoured nation tariff applied by WTO members stood at 8.8% in 2022. In 2022, LDCs had duty-free access on 62.9% of tariff lines, a level that has been stable since 2015. SIDS enjoyed duty-free access on 74.3% of product lines in 2022, a 12% increase from 2015.[18] Tariffs applied in LDCs (included preferences) are seven times higher than those in developed regions[19] (SDG 17.10.1).

Trade costs have been generally declining. Between 2008-20, they fell by 2% for manufacturing goods but increased by 1.5% and 0.5%, respectively, in agriculture and services after sharp declines of -8.1% for manufacturing goods, -8.3% for agriculture and -6.5% for services.

The WTO's 2022 Agreement on Fisheries Subsidies aims to reduce the approximately USD 22 billion spent annually on harmful subsidies, thereby showcasing the potential of trade reform to redirect resources effectively.[20] In 2023 and 2024, 52 WTO members ratified the agreement.[21]

Persistent challenging areas

Developing countries have been increasingly marginalised in global trade amid the turmoil following the global financial crisis and the COVID-19 pandemic.

The 2008-09 global financial crisis and COVID-19-related trade tensions have put an end to the rapid growth of the developing country share of global trade that occurred in the early 2000s, driven by the extension of GVCs and trade in intermediate goods. Since the COVID-19 crisis, risks of decoupling have increased, with blocks experiencing 4%-6% lower growth in trade than internal trade within blocks.[22] Friend-shoring has risen by 6% since 2021. Near-shoring has shown stability with no clear trend observed, but trade concentration has increased by 5% over 2021.[23]

Technical barriers are on the rise and affect 70% of all trade.[24] Potentially trade-distortive state interventions surged after the COVID-19 pandemic and added to historical forms of subsidies. For example, agricultural support measures peaked at USD 851 billion in 2022 in high-income and emerging countries, hindering the competitiveness of LDCs and their global trade participation.[25] The growing use of government subsidies by large (OECD and non-OECD) economies to promote strategic industries will likely undermine the trade competitiveness of most developing (and non-developing) countries who do not have the same fiscal space to compete subsidy with subsidy. More international co-operation is needed to have a co-ordinated approach toward subsidies.[26] In addition, while new norms in advanced countries aim to achieve legitimate environmental objectives, developing countries need additional support to cope with the adjustment cost and avoid negative impacts on export capacities.

Certain groups remain marginalised in international trade.

Fast-growing developing countries have driven the expansion of both trade and investment, but this growth has largely bypassed the poorest countries.[27] In 2021, the value of LDCs' services exports was 32% below pre-pandemic levels, reflecting the ongoing impacts of the crisis.[28] Disparities in trade persist: male entrepreneurs are almost twice as likely as females to internationalise[29] and tariffs continue to disproportionately affect sectors employing women and products consumed by women.[30]

Developing countries' exports remain poorly diversified and with low value-added.

In 2022, the exports concentration index of developing economies stood at 0.10 (and at 0.22 for LDCs and 0.26 for landlocked developing countries), notably higher than that of developed economies (0.07). On average, about 65%% of the exports of LDCs and SIDS were directed to their top ten trading partners compared with 55% for developing countries as a group. In 2022, manufactured goods accounted for 65.5% of total merchandise exports from developing economies, up from 57.8%% in 2012. Although the share of manufactured goods in total exports of LDCs increased from 22% in 2012 to 35.1% in 2022, LDCs' merchandise exports are largely focused on simple manufactured products such as textiles and clothing.[31]

The reform of the multilateral trading system is still ongoing.

WTO members committed at the 2022 Ministerial Conference and reaffirmed the commitment in the Abu Dhabi Ministerial Declaration in 2024, to work towards necessary reform of the WTO to improve all its functions and acknowledge the progress made in this regard. The General Council will report progress at the 2025 Ministerial Conference on the work done to date to improve the daily functioning of WTO councils, committees and negotiating groups with a view to enhancing the WTO's efficiency, effectiveness and facilitation of members' participation in WTO work. WTO members also conduct discussions aimed at having a fully and well-functioning dispute settlement system accessible to all members.

New and emerging areas

Trade is a driver of the triple transition (digital, environmental and social) and has an increasing role to play in sustainable development.

Trade and digital transformation: Digital connectivity has been crucial in cutting trade costs. A 1% increase in digital connectivity lowers domestic trade costs by 0.3% and international trade costs by 0.1%. Aid for Trade has significantly boosted information and communication technology support, with disbursements up 31% since 2020 and commitments nearly doubling over five years.[32] Globally, exports of digitally delivered services nearly quadrupled since 2005, hitting USD 3.9 trillion in 2022 to represent 54% of total global services exports and surpassing growth in goods and other services export.[33]

Trade and environmental transformation: In 2021-22, bilateral donors committed USD 20 billion to climate-related Aid for Trade, which accounted for 67% of total pledges. Pledges for mitigation projects increased by 18% but slightly declined for adaptation efforts. In 2021-22, 80% of Aid for Trade focuses on mitigation, suggesting room for more adaptation funding.[34] Demand for critical minerals for clean energy is increasing and could potentially cause shortages. African countries, with 30% of global mineral reserves, aim to use the AfCFTA to build regional value chains and boost economic development.[35] Trade agreements increasingly include sustainability considerations – for instance the 2024 Agreement on Climate Change, Trade and Sustainability – although the harmonisation of standards and carbon border adjustment mechanisms remains a challenging issue.

Trade and social transformation: In the Abu Dhabi Ministerial Declaration, WTO members reiterated the centrality of the development dimension in the work of the WTO and the role that the multilateral trading system could play in contributing to achievement of the SDGs. Aid for Trade projects target all SDGs: SDG 9 (industry, innovation and infrastructure) attracted the largest amount of Aid for Trade disbursements, followed by SDG 7 (affordable and clean energy), SDG 2 (zero hunger), SDG 11 (sustainable cities and communities), and SDG 8 (decent work and economic growth).[36] A number of social and technological innovations can take place in GVCs, which could be made more resilient through adequate policies.[37]

ENDNOTES

[1] Thirty years of trade growth and poverty reduction (WTO Blog, 2024)
[2]Attaining the SDGs through trade (UNCTAD SDG Pulse, 2024)
[3] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads. (New York: United Nations, 2024), available at: Financing for Sustainable Development Report 2024 | DESA Publications (un.org)
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[9]Climate finance solutions for developing countries | McKinsey
[10] Trade Drives Gender Equality and Development (imf.org)
[11] https://www.wto.org/english/res_e/publications_e/wto_wbjointpublication_e.htm
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[16] World Trade Report (WTO,2015)
[17] Trade Facilitation Agreement Database (WTO,2024) https://tfadatabase.org/en/notifications/categorization-by-measure
[18] Tariff trends mostly downwards, but non-tariff measures increasingly used (UNCTAD SDG Pulse, 2024)
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[22] World Trade Report (WTO,2023)
[23] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads. (New York: United Nations, 2024), available at: Financing for Sustainable Development Report 2024 | DESA Publications (un.org)
[24] Tariff trends mostly downwards, but non-tariff measures increasingly used (UNCTAD SDG Pulse, 2024)
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[26] https://doi.org/10.1787/a4f01ddb-en
[27] OECD (2023), *Agricultural Policy Monitoring and Evaluation 2023: Adapting Agriculture to Climate Change*, OECD Publishing, Paris, https://doi.org/10.1787/b14de474-en.
[28] The Least Developed Countries, Key Facts and Figures (UN-OCHRRL,2024)
[29] Women are less engaged in trade: Why, and what to do about it | CEPR
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[34] Aid for Trade | OECD
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