RE-GLOBALIZATION FOR INCLUSIVE TRADE: ADDRESSING FINANCE AND POLICY GAPS FOR SUSTAINABLE DEVELOPMENT

Key messages

- Geopolitical tensions and crises like COVID-19 have exposed vulnerabilities in the global trade system, leading to increased fragmentation, higher trade costs, and barriers for low- and middle-income countries to access global markets and technologies.
- Many developing countries, particularly in Africa, Latin America, and the Middle East, struggle with economic integration due to high trade costs, insufficient infrastructure, and limited diversification, resulting in them being left behind in global trade benefits.
- Key policy solutions include reducing trade costs by simplifying tariffs, investing in critical infrastructure, and promoting economic diversification. Additionally, fostering digital trade and enhancing governance in global trade institutions are crucial to re-globalization efforts.
- For the FFD4 outcome document, specific recommendations include increasing financing for trade infrastructure, supporting digital inclusion, enhancing access to finance for trade diversification, and committing to global efforts to reduce trade costs through trade facilitation programs. These steps aim to foster inclusivity and sustainability in global trade.

Problem statement

The global economic system has long been shaped by the forces of globalization, which have helped reduce poverty and foster economic growth. However, recent geopolitical tensions, crises such as the COVID-19 pandemic, and the ongoing war in Ukraine have exposed vulnerabilities within this system, challenging the benefits of global trade and pushing some policymakers toward economic fragmentation.

The rise of trade protectionism, the reshuffling of trade relationships due to security concerns, and the growing number of unilateral trade measures are contributing to the fragmentation of the global trade landscape. This is leading to higher trade costs, diminished cooperation, and increased barriers to accessing technology and affordable inputs, especially for low- and middle-income economies. As a result, many countries, particularly in Africa, Latin America, and the Middle East, risk to remain on the margins of global trade and fail to capture gains from trade.

RELEVANT ACTION AREAS

International Trade Engine Development

ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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Moreover, trade has not always been inclusive. Despite the overall growth in global GDP, many individuals and regions have been left behind. Economic inequality remains a significant issue, at times exacerbated by the uneven distribution of the benefits of trade. Many low-income economies continue to struggle with integrating into global value chains (GVCs) and accessing foreign markets due to high trade costs, insufficient infrastructure, and weak institutions. These barriers limit their capacity to diversify exports and to absorb new technologies, preventing them from fully reaping the benefits of globalization.

One of the key challenges is the need for re-globalization—a strategy to deepen and broaden international trade integration, bringing more economies and individuals into the fold of global commerce. However, achieving this requires addressing several financing and policy gaps. For instance, infrastructure development, particularly in digital connectivity, is essential to bridge the digital divide that prevents many developing economies from capitalizing on opportunities in digital trade and services. Furthermore, international cooperation is critical to reduce tariffs, simplify trade regulations, and foster an environment that encourages foreign direct investment (FDI), technology transfer, and innovation.

Inadequate support for structural transformation, such as the lack of policies to facilitate the shift from traditional industries to more productive and technology-driven sectors, also hampers economic convergence. Without such policies, many developing countries risk being excluded from the benefits of re-globalization. Additionally, the risks posed by climate change and technological shifts, such as automation, further complicate the economic landscape, disproportionately affecting economies that are least equipped to adapt to these challenges.

To ensure that re-globalization is inclusive and sustainable, there is a pressing need to strengthen the international financial architecture, provide better access to financing for infrastructure, and adopt policies that facilitate economic diversification. This will not only help countries recover from current crises but also foster long-term resilience and inclusiveness in global trade.

Policy solutions

To address the challenges of trade fragmentation, inequality, and the exclusion of low- and middle-income economies from global trade benefits, several targeted policy solutions are required. These solutions must focus on reducing trade costs, enhancing infrastructure, fostering economic diversification, and ensuring that trade policies are complemented by domestic reforms. The following policy interventions aim to close the identified gaps and make re-globalization more inclusive.

1. Reducing Trade Costs and Enhancing Market Access

One of the most pressing challenges for low- and middle-income economies is high trade costs, which limit their ability to compete in global markets. Reducing these costs can be achieved through:

- **Simplifying Tariff Structures, Removing Trade Barriers and implementing Trade Facilitation Measures:** High tariffs, particularly on processed goods, can make it difficult for some developing countries to move up the value chain. Policy reforms aiming at removing tariff escalation through multilateral agreements and targeted negotiations, particularly in sectors where low-income economies have a competitive advantage, can prove beneficial. This can be complemented by easing non-tariff barriers such as complicated customs procedures and implementing trade facilitation measures, ensuring that export and import processes are streamlined.
- **Enhancing Trade in Services and Digital Goods:** Trade in services, especially digitally delivered services, presents significant potential for developing economies. Effective strategies include removing regulatory barriers, developing digital infrastructure, harmonizing digital trade rules, and creating supportive ecosystems for digital entrepreneurship. These approaches can help developing economies leverage digital services as a pathway for economic growth and inclusive development, transforming traditional economic limitations into opportunities for innovation and global market participation. The recently launched Women Exporters in the Digital Economy (WEIDE) Fund by the WTO and ITC exemplifies innovative policy solutions supporting women entrepreneurs in international digital trade by bridging digital

and gender divides, building digital business capabilities, and expanding participation in global digital markets.

2. Investment in Infrastructure and Connectivity

Poor infrastructure, both physical and digital, hampers many developing economies' ability to integrate into global value chains (GVCs). Policymakers should prioritize:

- **Building Critical Infrastructure:** International financial institutions and governments must collaborate to finance and implement large-scale infrastructure projects, including transport networks, energy grids, and broadband connectivity. Initiatives like the Enhanced Integrated Framework (EIF), which supports trade-related infrastructure in least-developed countries (LDCs), should be leveraged to ensure that countries can access international markets more effectively.
- **Developing Trade Facilitation Frameworks:** Building on the success of the WTO's Trade Facilitation Agreement (TFA), further reforms should aim at reducing red tape, improving transparency, simplifying cross-border procedures, and supporting transit corridors. This can significantly lower trade costs for agricultural and manufactured goods, sectors critical to the economies of many developing nations.

3. Promoting Economic Diversification and Value Addition

Many economies, especially in Africa and Latin America, remain heavily reliant on commodity exports, which exposes them to market volatility. Policy interventions should focus on:

- **Fostering Diversification:** Governments need to create favourable environments for industries beyond primary commodities, to take advantage of novel trade opportunities and trends. This requires implementing policies that encourage value addition and processing of raw materials domestically before exporting. Keeping market open, fostering skills development and attracting FDI are key factors to enable countries to move up the value chain and reduce their dependence on volatile commodity markets.
- **Encouraging Green Trade and Investment:** The transition to a low-carbon economy presents an opportunity for developing countries to diversify into green industries taking advantage of their geographical advantages. Africa, for example, holds over 40 per cent of global reserves of cobalt, manganese, and platinum, all crucial for green technologies. Additionally, the continent has enormous renewable potential – solar, wind, and geothermal - offering African economies the chance to leapfrog into green industries. Countries like Morocco and Egypt are leading with major solar projects, Kenya is attracting investment in artificial intelligence with its geothermal energy. Capitalizing on these opportunities requires investment. Policies that promote investment, including policies to attract foreign direct investment, in renewable energy, sustainable agriculture, and green technology can position these countries as critical players in the global effort to combat climate change. Incentives for adopting sustainable practices and engaging in the trade of environmental goods should be provided through international trade agreements.

4. Strengthening Global Trade Institutions and Governance

A robust multilateral trading system is essential to ensuring that global trade remains inclusive and beneficial to all. Reforms to the WTO and other institutions should aim to:

- **Ensure Representation in Global Trade Negotiations**: Developing countries need a stronger voice in global trade governance. This requires capacity-building initiatives that empower these nations to actively participate in trade negotiations and shape the global trade agenda. Multilateral Institutions should continue to advocate for special and differential treatment (S&DT) provisions that recognize the unique challenges faced by low-income economies and vulnerable economies.
- **Promote Regional Trade Agreements:** Encouraging regional integration through trade agreements can help reduce trade costs and increase market access. Regional trade pacts like the African Continental Free Trade Area (AfCFTA) should be supported as they allow smaller

economies to pool resources, reduce intra-regional trade costs, and increase their collective bargaining power in global markets.

These policy solutions aim to address the gaps identified in trade participation, market access, and economic diversification. By implementing these reforms, the international community can foster a more inclusive re-globalization process that benefits all economies,

Specific considerations for FFD4

particularly those currently left behind in global trade. The Fourth Conference on Financing for Development (FFD4) presents a critical opportunity to address the financing gaps and policy challenges outlined in this brief. The FFD4 outcome document should emphasize concrete commitments to foster trade inclusiveness and support re-globalization by ensuring that developing economies, particularly low-income and LDCs, are able to access financing for trade-related infrastructure, capacity building, and digital transformation. The following specific recommendations are proposed for inclusion in the FFD4 outcome document:

1. Increased Financing for Trade Infrastructure Development

- FFD4 should prioritize the establishment of a dedicated financing mechanism, potentially through partnerships with international financial institutions (e.g., World Bank, African Development Bank), aimed at improving trade-related infrastructure in developing countries. This includes investments in transport, energy, and digital connectivity, which are critical for enabling access to global markets and reducing trade costs.
- The outcome document should set measurable targets for infrastructure investments by 2030, aligned with the Sustainable Development Goals (SDGs), and ensure funding streams are accessible through public-private partnerships (PPPs).

2. Commitment to Digital Inclusion and Capacity Building

- A central recommendation for the FFD4 outcome document should be a global initiative to bridge the digital divide, with a focus on digital infrastructure and skills development in low- and middle-income economies. This will enable these economies to participate in the rapidly growing digital trade sector.
- FFD4 should propose a multi-stakeholder fund dedicated to financing digital skills training, regulatory frameworks, and e-commerce platforms to boost trade in digitally delivered services, especially for micro, small, and medium-sized enterprises (MSMEs) and women entrepreneurs.

3. Enhancing Access to Finance for Trade Diversification

- The outcome document must emphasize the need for financial inclusion and access to affordable credit for businesses in developing countries to enable economic diversification. This can be achieved through innovative financing mechanisms, such as blended finance or impact investment funds, that provide credit for sectors like sustainable agriculture, manufacturing, and green technologies.
- FFD4 should advocate for reforms to international financial institutions that enhance their capacity to support trade diversification projects in low-income economies.

4. Global Commitments to Reduce Trade Costs

- The FFD4 outcome document should call for the expansion of trade facilitation programs, particularly in agricultural and manufacturing sectors, to reduce non-tariff barriers, customs delays, and red tape. Expanding initiatives like the WTO's Trade Facilitation Agreement (TFA) will be crucial in helping developing countries reduce trade costs and improve market access.

These recommendations will help close critical financing gaps, support infrastructure development, and ensure that low-income economies can participate more fully in global trade. The FFD4 outcome document should serve as a roadmap for mobilizing the resources necessary to achieve these goals, advancing both inclusiveness and sustainable development.