Financing for Sustainable Development Report 2019

Inter-agency Task Force on Financing for Development

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This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (a full list of members can be found on page x). The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective and should thus be read in conjunction with the online annex.

The online annex also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals:

- Delivering social protection and essential public services
- Ending hunger and malnutrition
- Closing the infrastructure gap
- Promoting inclusive and sustainable industrialization
- Generating full and productive employment for all
- Protecting ecosystems
- Promoting peaceful and inclusive societies
- Gender equality
- Investing in children and youth
- Addressing the diverse needs and challenges faced by countries in special situations
- Global partnership

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INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT

Chapter III.D

International trade as an engine for development

1. Key messages and recommendations

The multilateral trading system has made a significant contribution to economic growth and development. Despite this contribution, the system is facing serious challenges. Following the positive trade momentum over the last two years, 2018 saw growing trade tensions and increasing threats to the functioning of the World Trade Organization (WTO) and its dispute settlement system. Trade growth is expected to slow in 2019 with significant downside risks associated with escalating trade tensions. These challenges present an opportunity to make the system work better, by finding solutions within the multilateral trading system, updating the WTO and revamping the trading system for a new century. In their communiqué at the Group of Twenty (G20) summit in Argentina, G20 leaders recognized the contribution of the multilateral trading system and committed to support the necessary reform of the WTO to improve its functioning. ***Governments can use appropriate intergovernmental meetings to accelerate progress on WTO reform.*** In addition, it is hoped that WTO members will complete long-standing work on the development agenda.

Strengthening trade's contribution as an engine for inclusive economic growth and poverty reduction is particularly important to least developed countries (LDCs), which remain far below the target of doubling their share of global exports by 2020. With a view to continually improving market access for LDC exports, ***WTO members should expeditiously implement the Ministerial Decisions on preferential rules of origin for LDCs and on preferential treatment of LDC services exports***.

Trade has income distributional effects, underscoring the importance of trade and supporting policies aimed at reducing inequality and empowering women, in both developed and developing countries. For example, trade patterns and challenges tend to present gender-based differences. ***New and existing trade and investment agreements are encouraged to address synergistic linkages between trade, investment and socio-economic and environmental policy (e.g., finance, taxation, competition, labour, gender, and technology) in order to enhance trade's contribution to the Sustainable Development Goals (SDGs).***

Actions are also required to allow micro, small and medium-sized enterprises (MSMEs) to better tap trade opportunities and integrate into international value chains. The persisting trade finance gap continues to affect them disproportionally. The increase in multilateral development bank (MDBs) provision of trade financing and guarantees is timely, but would need to be complemented by greater private finance, as well as potentially by national development banks. ***A greater focus needs to be placed on financial techniques that are less document intensive as well as on digital platforms and fintech that can help strengthen trade financing for MSMEs***, including by reversing the decline in correspondent banking, which is partly responsible for the trade finance gap.

E-commerce opens new trade opportunities for MSMEs. However, many developing countries, particularly in Africa, remain relatively under-connected to the internet and thus to e-commerce platforms. This underlines the importance of increasing investment in information and communication technology (ICT). ***The upcoming plurilateral negotiations on e-commerce at WTO should address the need for resources to enhance e-commerce readiness of MSMEs in developing countries.***

Improving trade facilitation, including improving efficiency in customs revenue collection and sustainable and climate-resilient transport, presents immense potential in reducing trade cost and increasing pubic revenue. ***International assistance remains critical to making progress in these areas, notably through Aid for Trade***.

2. Developments in international trade

2.1 Trends in world trade

The value of total merchandise trade in 2017 increased by 10.4 per cent to $17.7 trillion, following two years of negative trade growth in 2015 and 2016.[1] The value in 2018 is estimated to have reached $19.6 trillion. This trade growth exceeded global output growth, bringing the export-to-output ratio back on an upward trend (figure 1). Key drivers included a rise in commodity prices particularly of fuel, minerals and non-precious metals. South-South trade remained strong, accounting for 28 per cent of global trade, particularly in East Asia. Following a slight increase in 2017, developing countries accounted for 45 per cent of world merchandise exports and 42 per cent of imports. Trade growth, however, is expected to decelerate in 2019, influenced by escalating trade tensions and slow growth in global demand.

World services trade in 2017 increased by 7.8 per cent to $5.4 trillion. Developed economies supply over two thirds of services traded internationally. Across country groups, particularly high growth in service trade was recorded in transition economies and African developing economies, which had a relatively low base.

2.2 Least developed countries in international trade

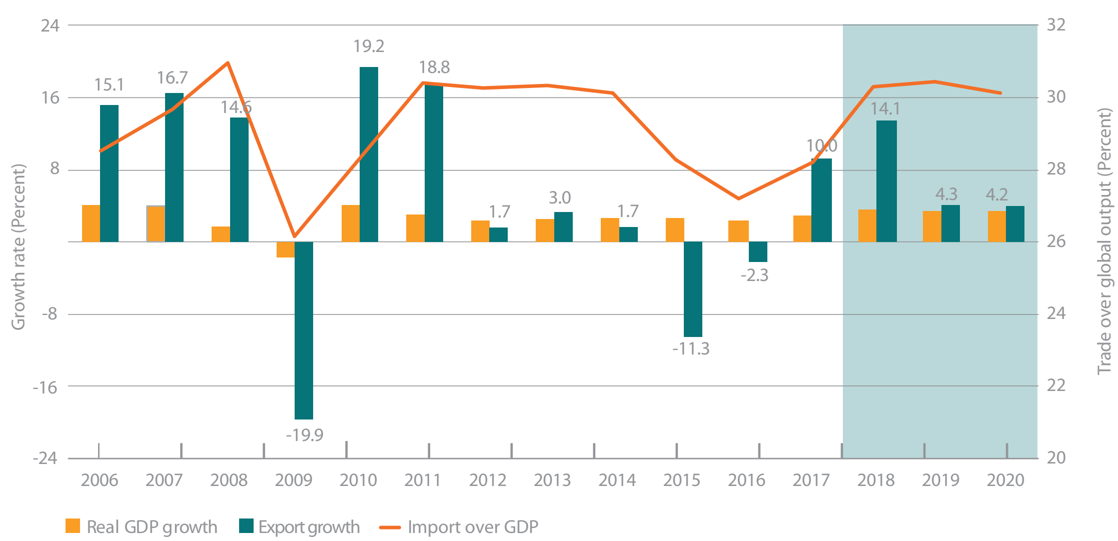
Merchandise exports of LDCs increased by 13 per cent in 2017 after three years of decline, on the back of higher commodity prices with fuels and mining products representing a high proportion of these exports.[2] Nonetheless, the share of LDCs in world exports in 2017 remained less than 1 per cent. This makes doubling the 2011 LDC share of global exports (1.1 per cent) by 2020—one of the targets in the Addis Ababa Action Agenda and the SDGs—highly unlikely. As regards services exports, the LDCs share has remained at just over 0.7 per cent since 2013, with tourism accounting for about half of their services exports (figure 2).[3]

Providing good market access conditions to LDC exports is essential to meeting the above target. In 2017, almost 66 per cent of LDC exports to the world (in terms of tariff lines) were admitted duty free, with an increase of 5.5 percentage points from the previous year (figure 3.a). This increase reflected an expansion of duty-free treatment to more industrial products and agricultural products. Duty-free treatment is rather limited in the clothing sector, despite improvements recorded since 2016. This may hamper the chance for LDCs to further participate in global value chains (GVCs) in this sector (figure 3.b).

The boost to LDC export competitiveness that is granted by duty-free treatment can be in part measured by the magnitude of the preferential tariff margin (i.e., the difference between the preferential tariff rate for LDCs and the non-preferential tariff rate (figure 4).

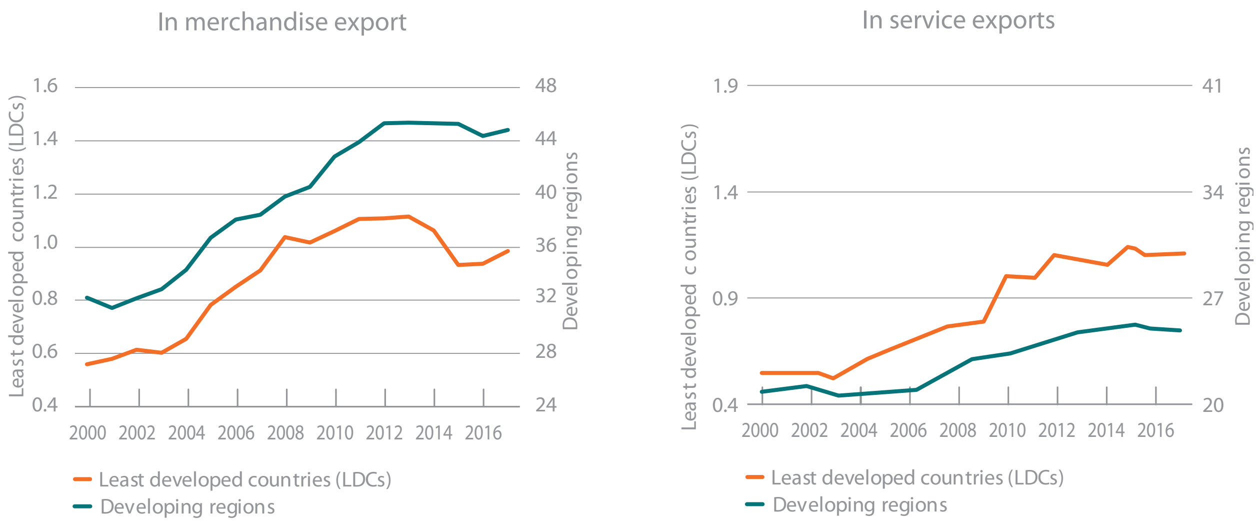
The effectiveness of preferential market access depends also on the rules of origin conferred to LDC exports (i.e., the criteria needed to prove that the prod-

Figure 1
World export growth (merchandise and services) versus output growth
(Percentage)



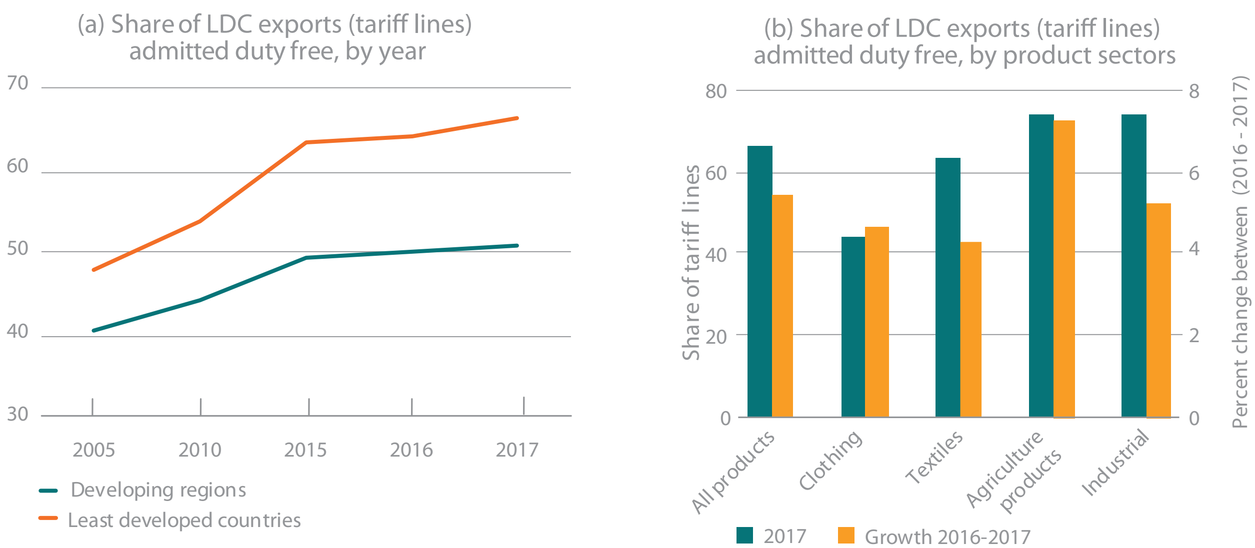
Source: UNCTAD (forthcoming), Key Statistics and Trends in International Trade 2018
Note: Remark: the blue-shaded area represents UNCTAD estimates for the years 2018-2020.

Figure 2
Share of LDCs and developing countries in World Trade, 2017
(Percentage)



Source: ITC/UNCTAD/WTO.

Figure 3
Share of least developed countries exports receiving duty-free treatment
(Percentage)

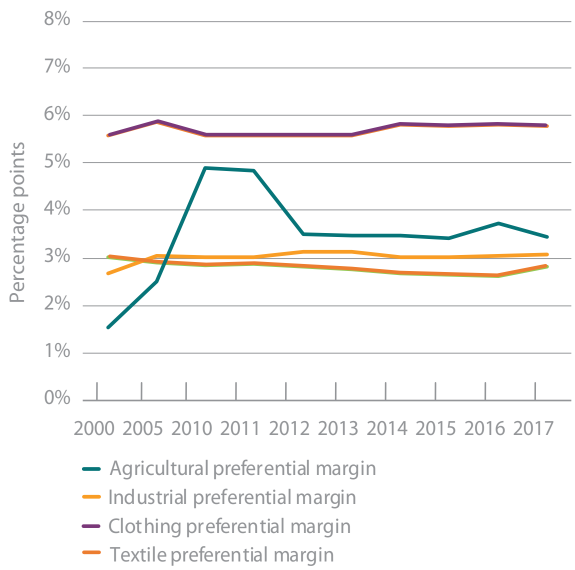


Source: ITC/UNCTAD/WTO.

ucts were sourced in LDCs). Certain preferential rules of origin remain restrictive by requiring a "substantial" degree of transformation of a product to take place within an LDCs. This may reduce the usefulness of preferential market access, particularly for products manufactured by LDCs. According to International Trade Centre (ITC) studies on non-tariff measures (NTMs) in over 60 countries, rules of origin and related certification requirements remain among the most recurring obstacles to trade faced by MSMEs.[4] With a view to improving transparency in preferential rules of origin, ITC, World Customs Organization and WTO launched the Rules of Origin Facilitator, which provides information on product-specific criteria, origin certification, cumulation, and other provisions that can allow businesses to reap the benefits of preferential treatment. [5]

In addition to preferential tariff treatment, NTMs such as product-labelling standards and sanitary and phytosanitary (SPS) measures exert a significant impact upon market access conditions facing LDCs. Technical assistance from development partners and value-chain managers to improve infrastructural, organizational, administrative and technical capabilities of LDCs would help them overcome the market restrictive impact of NTMs on their exports.

Figure 4
Preferential tariff margins for LDC exports in developed-country markets
(Percentage)



Source: ITC.

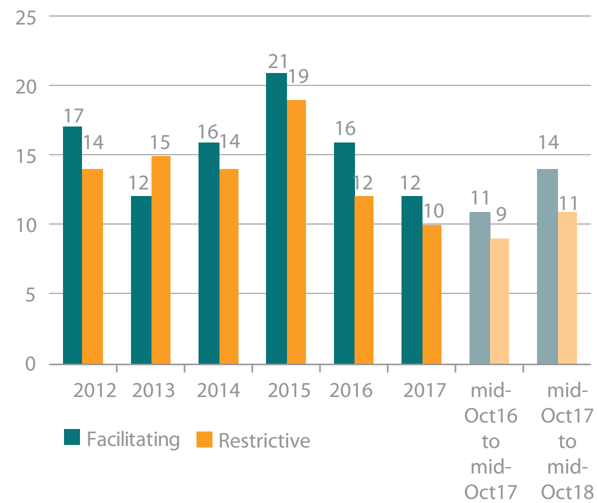
2.3 Trade restricting and facilitating measures

WTO members implemented an increasing number of trade restrictive measures (totaling 137 new measures, equating to 11 new measures a month) from October 2017 to October 2018.[6] Restrictive measures include tariff increases, quotas, import taxes and stricter customs regulations. The proliferation of trade-restrictive actions and the uncertainty created by such actions could place economic recovery in jeopardy. Further escalation would carry potentially large risks for global trade, with knock-on effects for economic growth, jobs and consumer prices around the world.

While WTO members implemented 162 measures aimed at facilitating trade during the period, the estimated trade coverage of import-facilitating measures ($295.6 billion) is half that of trade-restrictive measures, which amounts to US$ 588.3 billion—more than seven times larger than that recorded a year ago.

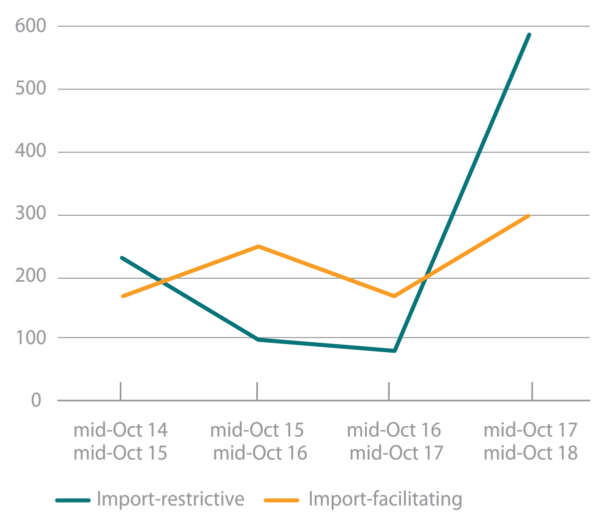
There is a similar trend in initiations and terminations of trade remedy investigations by WTO members. Trade remedy measures cover (i) actions taken against dumping; (ii) subsidies and "countervailing" measures to offset subsidies; and (iii) emergency measures to limit imports temporarily, designed to "safeguard" domestic industries.[7] They continued to be an important trade policy tool for members accounting for about 63 per cent of all trade measures captured in the annual report by the WTO Director General.[8] Initiations of anti-dumping investigations continue to be the most frequent trade remedy action. The recorded trade coverage of trade remedy initiations and terminations is estimated at $93.6 billion ($17 billion more than a year ago) and $18.3 billion ($6 billion more), respectively.

Figure 5
Trade-restrictive and trade-facilitating measures, excluding trade remedies 2012-2018
(Average number per month)



Source: WTO Secretariat.
Note: Values are rounded. Changes to averages of previous years reflect continuing fine tuning of, and update to, the Trade Monitoring Database.

Figure 6
Trade coverage of import-restrictive and import-facilitating measures
(Billions of United States dollars)



Source: WTO Secretariat.
Note: Values are rounded. Changes to averages of previous years reflect continuing fine tuning of, and update to, the Trade Monitoring Database.

3. The multilateral trading system

The multilateral trading system provides the constitution for global trade, establishing shared principles which underpin trading practices around the world. It provides a global forum for discussion and debate on trade issues, along with mechanisms for countries to monitor and review each other's trade policies and the means to settle disputes when they arise. Its current crisis put trade prospects at risk but presents an opportunity to emerge with a strengthened and reinforced system.

3.1 The multilateral trading system in crisis

The year 2018 cast doubt over the future of a sound multilateral trading system under WTO. The world faces a potential trade war among large economies. The fact that China and the United States of America agreed in December 2018 to halt their reciprocal tariff increase for 90 days is good news but falls short of eliminating the risk of a trade war. A continued escalation would risk a major economic impact, threatening jobs and growth in all countries, as well as the attainment of the SDGs. Just for Asia and the Pacific alone, estimates of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) show that, at a minimum, the region will face a net loss of 2.7 million jobs if the trade tensions are not resolved, with employment losses 66 per cent higher for unskilled workers than for skilled workers.[9]

Nonetheless, the current situation is putting a new focus on the multilateral trading system as a place where solutions may be found. Business associations are calling on Governments to refrain from putting up new barriers. A high-level conversation about WTO reform or modernization is beginning to emerge, which can address some of the trade problems that some members have identified. However, a conversation focused on technical issues is not going to provide a way out of the current political crises. A solution would require a political commitment and may require hard compromises.

As WTO members discuss these challenges, they will also have to address the threat to the dispute settlement system of the WTO. This system is the mechanism through which members hold each other to account for perceived infractions, and preventing trade disputes from escalating into more serious confrontations. Many disputes are resolved before they reach the litigation stage, in part because the rules and precedents of the dispute settlement system provide a framework within which parties can shape agreements. When disputes do proceed to the settlement system, compliance with rulings is very high, with about 90 per cent of the rulings already fully implemented.

Despite being effective and in high demand, the dispute settlement system may soon be paralyzed. The appointment process for the Appellate Body—the body of adjudicators which hears appeals to dispute cases—is currently blocked. As some of the Appellate Body judge's terms come to an end, the number of judges will soon fall below the minimum of three judges needed to hear an appeal.

These threads must come together in the conversations ahead about improving the WTO. The world needs the WTO and the multilateral trading system that it underpins. Members must use this moment of crisis to strengthen global cooperation on trade, which ultimately is in the interest of all and remains a crucial element in the attainment of the 2030 Agenda for Sustainable Development.

3.2 Progress on multilateral trade negotiations

While progress in many areas of trade negotiations has been slow, some major deals have been reached in recent years under the WTO, including the Trade Facilitation Agreement; the abolition of agricultural export subsidies; and the expansion of the Information Technology Agreement to cover additional products, for which trade is valued at over $1.3 trillion per year.[10] Acknowledging the importance of gender-responsive policies, WTO members and observers also endorsed in 2017 a collective initiative to increase the participation of women in trade - the Buenos Aires Declaration on Trade and Women's Economic Empowerment, which expresses ways of collaborating among countries to make trade and development policies more gender-responsive.

Nonetheless, the WTO Ministerial Conference in Buenos Aires in 2017 highlighted fundamental differences and divisions among the members, notably on certain issues under the agricultural negotiation pillar. Renewed efforts are required to move beyond these differences and make progress on a range of issues vital for growth and development.

In agriculture, a new model for advancing negotiations has been proposed, following a series of thematic sessions held in the second half of 2018, with the establishment of seven working groups for a trial period from January to April 2019. These working groups are expected to address Domestic Support, Public Stockholding for Food Security purposes, Cotton, Market Access, Special Safeguard Mechanism, Export Competition and Export Restrictions. An outcome in agriculture negotiations would notably contribute to SDG 2 (zero hunger) and SDG 17 (partnerships for the goals).

In negotiations on fisheries subsidies, three consecutive work programmes covering work from May 2018 to July 2019 were established. These aim at putting members in a position to meet the deadline of end-2019 as set out in target 14.6 of the SDGs and reaffirmed at the Ministerial Conference in Buenos Aires. This will require full engagement of all delegations and should contribute to SDG 14 (life below water) by reaching an agreement that prohibits certain forms of fisheries subsidies that contribute to overcapacity and overfishing and eliminates subsidies that contribute to illegal, unreported and unregulated-fishing with appropriate and effective special and differential treatment for developing-country members and LDC members.

4. Bilateral and regional trade and investment agreements

4.1 Regional trade agreements

The slow progress in multilateral negotiations is partly responsible for the proliferation of bilateral, regional and interregional free trade and investment agreements, which have increased since the early 1990s. As of January 2019, 291 regional trade agreements are in force.[11]

Trade tensions and uncertainties about the multilateral system have given a new impetus to regional integration initiatives. For example, there is a clear trend in China and other Asian economies that appear to speed up the negotiation and implementation of trade deals with each other.[12] A number of trade agreements among major economies recently entered into force, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (on 30 December 2018), the EU-Canada Comprehensive Trade Agreement (CETA) (provisionally on 21 September 2017), and the EU-Japan Economic Partnership Agreement (1 February 2019). Recently concluded negotiations include the African Continental Free Trade Area (AfCFTA) (21 March 2018) and the United States-Mexico-Canada Agreement (USMCA) (30 November 2018).

Regional and bilateral trade agreements can be aligned with sustainable development, including the environment, climate change, labour rights and gender (box 1).

Box 1

Gender and regional trade agreements

Regional trade agreements (RTAs) may ignite new trade flows, which can affect women's well-being and empowerment in their various economic roles as workers, producers, entrepreneurs, consumers and taxpayers. Recent United Nations Conference on Trade and Development (UNCTAD) studies on South-South RTAs found that the reduction of intraregional tariffs led to a "feminization of labour", i.e., an overall increase in women's employment share in manufacturing firms, but only for production (or manufacturing) workers, which tend to be lower-skilled and lower-paid than workers performing administrative or managerial tasks.[a]

These findings reconfirm the need to reflect gender specific impacts in RTAs. Today, an increasing number of RTAs contain chapters addressing the importance of gender mainstreaming in trade policy and the scope of gender-related provisions has expanded significantly (e.g., Chile-Uruguay and Chile-Canada free trade agreement). In 2018, the European Parliament adopted a resolution aimed at better accounting for gender equality in its trade agreements. It is also important to ensure the enforcement of gender-related provisions. The Canada-Israel Free Trade Amending Protocol, signed in 2018, makes the gender chapter subject to a dispute settlement mechanism, which increases its enforceability.

a UNCTAD country case studies include Angola, Bhutan, Cape Verde, Gambia, Lesotho, Rwanda and Uruguay. Regional studies include the Common Market for Eastern and Southern Africa (COMESA), EAC, SADC and Mercosur in Latin America. See East African Community Regional Integration: Trade and Gender Implications (UNCTAD/DITC/2017/2) and Teaching Material on Trade and Gender Volume 1: Unfolding the links, Module 4b: Trade and Gender Linkages: An Analysis of Southern African Development Community (UNCTAD/DITC/2018/1) for more detail.

4.2 Investment agreements

International investment agreements (IIAs) are originally meant to promote investment by reinforcing investor confidence through increased stability, predictability and transparency of host country regulatory actions.

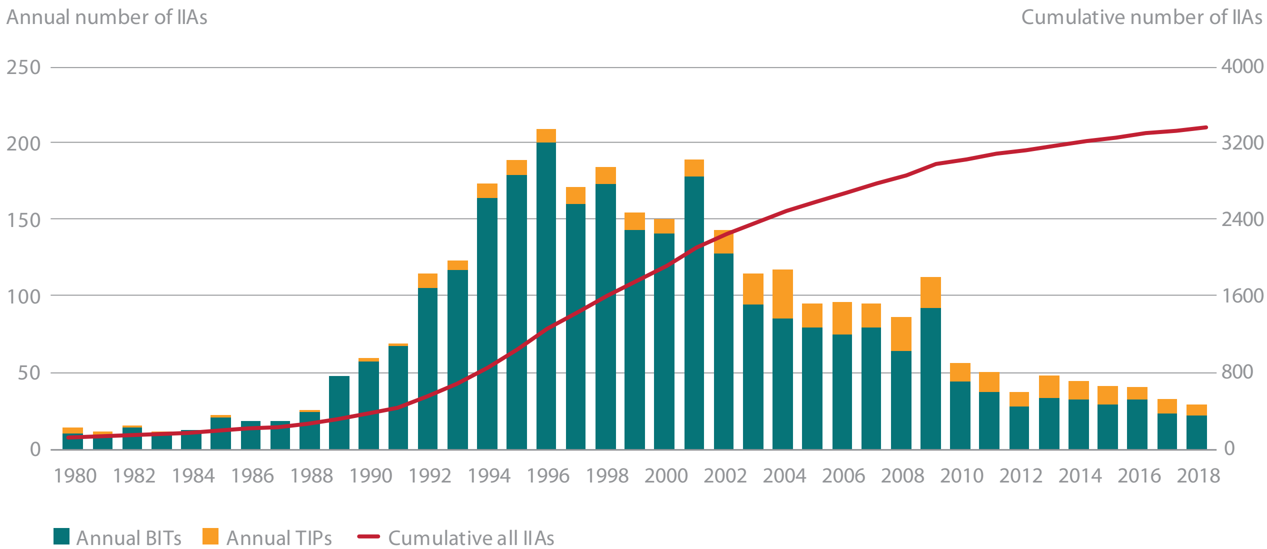
By reducing investors' risks—for example by offering international arbitration for the purpose of investor-State dispute settlement (ISDS)—IIAs aim to increase investment, especially in countries without strong rule of law. The most common type of these agreements is bilateral investment treaty (BIT), with close to 3,000 signed so far.[13]

As the increase in the number of ISDS cases during the last 15 years shows, there has been a concern that IIAs could restrict the regulatory space of Governments, including social and environmental regulation necessary to achieve the SDGs. Against this background, in the Addis Agenda, Member States committed to "…endeavour to craft trade and investment agreements with appropriate safeguards so as not to constrain domestic policies and regulation in the public interest".[14]

Recently, the pace of agreeing on a new investment treaty has been reduced, which may signal a period of reflection and review of international investment policies.[15]

Change is also underway regarding the treaty content. Since 2012, over 150 countries have undertaken at least one action in the pursuit of sustainable development–oriented treaty making, as set out in the UNCTAD Investment Policy Framework for Sustainable Development and its updated Reform Package for the International Investment Regime.[16] The Reform Package proposes three phases of reforms.

Figure 7
Number of signed international investment agreements (IIAs), 1980-2018
(Number of IIAs)



Source: IIA Navigator, UNCTAD (2018) (BIT stands for Bilateral investment treaties and TIPs for Treaties with investment provisions).
Note: Preliminary data for 2018. The cumulative number of all signed IIAs, independently of whether they have entered into force, is 3,339. IIAs for which termination has entered into effect are not included.

Phase I: Improving approaches to new IIAs

Countries have started to negotiate new and modern IIAs. These agreements typically include a sustainable development orientation (e.g., clarifying that IIAs should also aim to foster investment for sustainable development), preservation of regulatory space (e.g., including public policy exceptions) and improvements to or omissions of ISDS. This is in striking contrast to treaty making at the turn of the millennium. A comparison between 13 IIAs concluded in 2017 and a sample of 13 IIAs concluded in 2000 shows remarkable differences, as seen in figure 8.

In addition to the reform-oriented elements presented in figure 8, some recent IIAs contain innovative features that were rarely encountered before. These new features can help strengthen the SDG contribution of the investment protected under the treaty. These include

- *Conditioning treaty coverage on investors' contribution to sustainable development*, requiring that covered investment contribute to the host state's economy or sustainable development;[17]
- *Fostering responsible investment*, including a "best efforts" obligation for investors to respect the human rights of the people involved in investment activities and promote the building of local capacity and human capital (e.g., Intra-MERCOSUR Investment Facilitation Protocol 2017);
- *Facilitating counterclaims by the respondent party against the claimant investor*, for instance by requesting the investor's consent for counterclaims when it submits a claim for dispute resolution (e.g., Colombia-United Arab Emirates BIT 2017).

Phase II: Modernizing the existing stock of IIAs

An increasing number of countries have also embarked on the second phase of IIA reform, shifting policy attention towards comprehensively modernizing the stock of outdated first-generation treaties. The UNCTAD Reform Package sets out 10 policy actions to this end. Examples include

- *Jointly interpreting treaty provisions* to clarify the content and narrow the scope of interpretative discretion of tribunals. Countries have not only developed and sometimes adopted joint interpretative statements of existing IIAs (e.g., Bangladesh and India Joint Interpretative Notes 2017), but have also strengthened the basis for binding interpretations in recently concluded treaties;[18]
- *Amending treaty provisions*: Although amendments were used relatively sparingly in the bilateral context, they were used in important regional IIAs. For example, in the CPTPP, individual parties agreed through bilateral side letters to terminate existing BITs, exclude the application of ISDS provisions or provide for tailored ISDS provisions;
- *Replacing outdated treaties*: Since 2012, some 30 outdated IIAs have been replaced by more modern treaties (e.g., in 2018, Turkey replaced three outdated BITs

Figure 8
Reform-oriented provisions in IIAs concluded in 2000 and in 2017

2000

	1	2	3	4	5	6	7	8	9	10	11
Austria–Bangladesh BIT	No	No	No	No	Yes	No	No	No	No	Yes	Yes
Belarus–Singapore BIT	No	No	No	No	No	No	Yes	No	No	No	Yes
Brunei Darussalam–China BIT	No	No	No	No	No	No	No	No	No	No	Yes
Chile–Dominican Republic BIT	No	No	No	No	No	Yes	No	No	No	No	No
Cuba–Paraguay BIT	No	No	No	No	Yes	No	No	No	No	No	No
Ethiopia–Turkey BIT	No	No	No	No	No	Yes	No	No	No	No	No
Greece–Mexico BIT	No	Yes	No	No	Yes	No	No	No	No	Yes	No
India–Lao People's Democratic Republic BIT	No	No	No	No	No	Yes	No	No	No	No	Yes
Italy–Libya BIT	No	No	Not applicable	No	No	Yes	No	No	No	No	No
Malaysia–Saudi Arabia BIT	No	No	Not applicable	No	No	Yes	No	No	No	No	No
Mongolia–Philippines BIT	No	No	No	No	No	No	No	No	No	No	Yes
Nigeria–Switzerland BIT	No	No	No	No	No	No	No	No	No	No	Yes
Rwanda–South Africa BIT	No	No	No	No	No	No	No	No	No	No	Yes

Yes No Not applicable

2017

	1	2	3	4	5	6	7	8	9	10	11
Argentina–Chile FTA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ASEAN–Hong-Kong, China Investment Agreement	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Burundi–Turkey BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
China–Hong Kong, China Investment Agreement	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Colombia–United Arab Emirates BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Intra-MERCOSUR Investment Facilitation Protocol	Yes	Yes	Not applicable	Not applicable	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Israel–Japan BIT	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No
Jordan–Saudi Arabia BIT	Yes	No	Yes	No	Yes	Yes	No	Yes	No	No	Yes
Mozambique–Turkey BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Pacific Agreement on Closer Economic Relations Plus	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rwanda–United Arab Emirates BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Turkey–Ukraine BIT	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Turkey–Uzbekistan BIT	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No

Yes No Not applicable

Selected aspects of IIAs

The scope and depth of commitments in each provision varies from one IIA to another.

1. References to the protection of health and safety, labour rights, environment or sustainable development in the treaty preamble
2. Refined definition of investment (e.g. reference to charcter of investment; exclusion of portfolio investment, sovereign debt obligations or claims to money arising solely from commercial contracts)
3. Circumscribed fair and equitable treatment (with reference to customary international law (CIL), equated to the minimum standard of treatment of aliens under CIL or clarified with a list State obligations
4. Clarification of what does and does not constitute an indirect expropriation
5. Detailed exceptions from the free-transfer-of-funds obligation, including balance-of-payments difficulties and /or enforcement of national laws
6. Omission of the so-called "umbrella" clause
7. General exceptions, e.g. for the protection of human, animal or plant life or health; or the conservation of exhaustible natural resources
8. Explicit recognition that parties should not relax health, safety or environmental standards to attract investment
9. Promotion of corporate and social responsibility standards by incorporating a separate provision into the IIA or as a general reference in the treaty preamble
10. Limiting access to ISDS (e.g. limiting treaty provisions subject to ISDS, excluding policy areas from ISDS, limiting time period to submit claims, omitting an ISDS mechanism)
11. Specific proactive provisions on investment promotion and/or facilitation.

Source: UNCTAD.
Note: BITs listed for 2000 are a sample of IIAs signed in that year. IIAs listed for 2017 are those concluded in that year for which texts are available; this list does not include "framework agreements" that lack substantive investment provisions. Available IIA texts can be accessed at UNCTAD's IIA Navigator at http://investmentpolicyhub.unctad.org/IIA.

with Kyrgyzstan, Lithuania and Serbia). A prominent example is the USMCA, replacing the North American Free Trade Agreement (NAFTA) with some changes (e.g., ISDS will be available only between Mexico and the United States with limited grounds for bringing claims and the necessity to resort first to local remedies and with time limitations applicable to it) and additions (e.g., a corporate social responsibility clause that recognizes the importance of promoting responsible business conduct);

- *Referencing global standards:* At least nine recent IIAs refer to specific global standards such as the SDGs (e.g., Morocco-Nigeria BIT 2016). Such referencing can help shape the spirit of the treaty and influence interpretation by arbitral tribunals. However, this does not necessarily create legal clarity;
- *Engaging multilaterally*: There are several multilateral discussions on investment ongoing. Some have an IIA reform dimension, including the International Centre for Settlement of Investment Disputes (ICSID) proposal for amendment of its Rules,[19] the United Nations Commission on International Trade and Law (UNCITRAL) Working Group III Discussions on Possible Reform of ISDS,[20] and the Fourth Open-Ended Intergovernmental Working Group on Transnational Corporations and the Business Enterprises with Respect to Human Rights.

Phase III: Ensuring investment policy coherence and synergies

Striving for policy coherence does not necessarily imply legal uniformity. Inconsistencies and divergence may be intended. However, different policy areas and legal instruments should work in synergy. The UNCTAD Reform Package offers three prongs of action for improving overall policy coherence:

- Enhancing coherence within national IIA networks;
- Maximizing synergies between the IIA regime and the national legal framework for investment;
- Managing the interaction between IIAs and other bodies of international law that affect investment.

Investment policy makers have been sharing experiences and building consensus on sustainable development-oriented IIA reform at the UNCTAD Annual High-level IIA Conferences.

5. Facilitating international trade

5.1 Trade finance

Access to trade finance is a key enabler of international trade, with about 80 per cent of trade requiring short-term credit or a guarantee. This would imply that $14 trillion in trade finance is needed to finance $18 trillion in annual trade flows. The most well-known instrument, the letter of credit, typically serves to mitigate risks for both exporter and importer—for example, by guaranteeing that goods are shipped before the payment is processed. However, there has been a gradual shift in the conduct of international trade finance activity away from using paper-intensive products to payment and financing on open account terms. In this context, buyer and seller agree to payment at a specific stage in the trade transaction without verification of the documents involved in a documentary credit transaction. This has led to the development of what is referred as supply chain finance solutions. According to a survey of market participants, traditional trade finance, such as letters of credit, still represents the lion's share of respondent activities in this area—85 per cent versus 15 per cent in supply chain finance.[21]

Among supply chain finance solutions, the fastest-growing techniques is payables finance, whereby suppliers, often strategic, are asked to accept extended payment terms. At the same time, they are invited to participate in a payables finance programme and offered the option to secure immediate payment by discounting outstanding invoices at rates based on the credit standing of the large buyer; therefore the cost of finance is significantly less expensive than what the supplier could normally arrange. Payable finance is thus a promising option for making affordable trade financing available to small and medium-sized enterprises (SMEs).

Technology has facilitated the transformation in trade financing away from paper-intensive products, through data analytics and platform-based auctioning for instance. However, technology has yet to deliver its full potential to digitalize trade finance operations. For example, only 9 per cent of banks reported that the technology solutions implemented have so far led to a reduction of time and costs in trade finance transactions.[22]

The evolution of trade finance is timely. It is estimated that, as of 2017, the global trade finance gap is about $1.5 trillion.[23] This represents the amount of trade finance that was requested by importers and exporters but rejected. A significant share of existing trade finance is served by banks (about $9 trillion) the remainder is intercompany lending. In many developing countries, the alternatives to bank financing are scarce, so when rejected by banks, trade transactions are often abandoned.

The gap in trade finance has increased since the global financial crisis, as large banks traditionally active in trade finance reduced lending after the crisis and also cut their networks of correspondent bank relationships, particularly in developing countries (due in part to anti-money laundering regulations in a phenomenon called de-risking, discussed in chapter III.F). This severely affects the provision of trade finance in certain regions, such as some sub-regions of Africa, the Caribbean, Central and developing East Asia, the Middle East, and the Pacific Islands.

Table 1
Overview of the main trade facilitation programs (end 2017)

	EBRD	IFC	IDB Invest	ADB	ITFC	AfDB
Program title	Trade Facilitation Program (TFP)	Global Trade Finance program (GTFP)+other programs	Trade Finance Facilitation Program (TFFP)	Trade Finance Program (TFP)	Trade Finance Program (TFP)	Trade Finance Program (TFP)
Number of countries in operation	26	85	21	22	51	49
Program commencement	1999	2005	2005	2004	2008	2013
Number of transactions since commencement	21,000	57,000	1,770	16,700	602	1,650
Value of transactions/Trade Supported in 2017	$ 2.3 billion	$14 billion	$1 billion	$4.5 billion	$4.9 billion	$ 1.8 billion
Number of confirming banks	800+	1,400	100+	240	NA	14
Claims to date	2 – no losses	Zero	zero	zero	zero	1

Source: Information collected by the WTO from partner institutions and from reports of the International Chamber of Commerce (notably the 2017 ICC Global Survey on Trade and Finance, ICC Banking Commission, Geneva).
Note: ADB = Asian Development Bank, AfDB = African Development Bank, EBRD= European Bank for Reconstruction and Development, IDB = Inter-American Development Bank, IFC = International Finance Corporation, ITFC = International Islamic Trade Finance Corporation.

Trade finance gaps also disproportionately affect SMEs: 60 per cent of trade finance requests by SMEs are rejected, against only 7 per cent for multinational companies. Similarly, woman-owned firms face more frequent rejection for their trade finance proposals.[24] A survey of nearly 15,000 business executives in 141 economies indicates that lack of trade finance is among the top three obstacles to exporting for half of the countries in the world.[25]

To fill these gaps, WTO has led multilateral efforts to mobilize resources for trade finance and advocated in favour of larger support by MDBs, which have increased their activity in trade finance by almost 50 per cent in two years—up to $30 billion. However, this amount remains small relative to the estimated financing gap of $1.5 trillion. These efforts have benefited SMEs; for example, the Asian Development Bank supported trade transactions from more than 2,800 SMEs in 2017.

Trade finance facilitation programmes mostly provide risk mitigation capacity (guarantees) to both issuing and confirming banks, and allow for rapid endorsement of letters of credit. The MDB guarantee ensures that the bank (typically the bank of the exporter) agreeing to confirm a letter of credit (typically issued by the bank of the importer) will be paid even if the issuer defaults. Such guarantees are rarely activated but are valuable because they reduce the risk of conducting trade operations in low-income countries.

However, the long-term solution to filling trade finance gaps is to bring the private sector back into more challenging markets. One barrier to increased trade finance is the relatively high cost of capital on trade finance in Basel capital requirements for commercial banks. This in part reflects incomplete and limited data in the asset class, particularly for some countries in Africa, Central and South America, and the Middle East. Nonetheless, available data shows that default rates on trade finance are generally below defaults in other asset classes. Available data shows that the default rate on letters of credit is relatively stable over time, at 0.2 per cent, the majority of which is recovered through the sale of the underlying asset. Such a default rate is one of the lowest in the financial industry. While the average default rate on short-term import and export loans was 0.8 per cent, about four times as high as letters of credit, this rate is still lower than the average default rate on corporate loans. Further improving data on trade finance credit risks could help make it possible to lower the capital charge for these products.

Table 2
Risk characteristics of short-term trade finance products, 2008-2017

CATEGORY	Default Rate	Implied maturity (days)	Recovery Rate
Import and export letters of credit	0.22%	80	71%
Loans for import/export	0.8%	120	45%
Performance guarantees	0.36%	110	18%
Total	0.46%	90	52%

Source: WTO based on ICC Trade Register Reports' averages (2013, 2015, 2017)

To address capital requirement issues, one option that is also gaining traction is for trade finance banks to sell off assets, including trade loans, to create capacity to underwrite new business. Although this asset distribution market has historically been a bank-to-bank market, with financial institutions selling their loans or loan portfolios to other banks, recent years have reflected a steadily growing interest among non-banks in buying or investing in trade finance assets. Some non-banks, like hedge funds, have created pools of capital specifically aimed at investing in trade financing activity, thus creating new global capacity to finance international commerce. However, the evolution of trade finance as an asset class is still in a relatively nascent state.

A second impediment to trade finance is the collapse in correspondent banking due to global de-risking, which can be attributed in part to the cost of know-thy-customer (KYC) and other anti-money laundering rules. For example, failure to complete adequate KYC and KYCC (know your customer's customer) checks was quoted as the reason for a drop in the provision of trade financing by 18 per cent of respondents to an international survey, while about 90 per cent of them mentioned regulatory and compliance requirements as a major obstacle to trade finance growth.[26]

Improving the capacity of local banks to comply with international norms could help address this and fill the trade finance gap. MDBs are committed to this objective, and trained nearly 2,600 professionals in 2017 across 85 countries. Efforts are also underway to see how to promote the standardization of KYC information in the trade finance space. Trade financing can be furthered with digitization and automation of transactions and due diligence. Electronic transactions can infuse efficiency, promote transparency, support better data collection, and enhance efforts to build security around data. Digital platforms and fintech can also reduce costs of due diligence and KYC processes, thus helping to reverse the decline in correspondent banking. WTO, the International Finance Corporation and the Financial Stability Board are working together to promote the use of tools, at the national level, to reduce the cost of compliance for trade finance providers and minimize negative effects—particularly those impacting developing and least developed countries and SMEs.

5.2 Implementation of WTO Agreement on Trade Facilitation

In December 2013, WTO members concluded negotiations on a Trade Facilitation Agreement (TFA) at the Bali Ministerial Conference. The Agreement entered into force in February 2017 following its ratification by two thirds of the WTO membership. It contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs.

The Agreement includes unique special and differential treatment measures that link implementation modalities for developing and least developed countries to their respective capacities. As such, these countries have the possibility to self-select implementation dates and to indicate needs for technical assistance support for capacity-building.

The Agreement also recognizes the need for donor members to provide assistance and support for capacity-building to help developing and least developed countries comply with their commitments. Examples of such assistance include the World Bank Trade Facilitation Support Program and UNCTAD support for setting up Trade Information Portals and for building the capacity of National Trade Facilitation Committees (NTFCs), which are responsible for monitoring the implementation of TFA provisions. Gender consideration could be further mainstreamed into initiatives and structures related to TFA implementation as the intensity of trade barriers differs between men and women.

To date, there is a 60.5 per cent rate of implementation of commitments under the TFA. This figure represents all developed-country members commitments as well as commitments from developing-country members and LDCs already due for implementation.

Box 2

Reducing trade costs through digital trade facilitation in Asia and the Pacific

In Asia and the Pacific, trade facilitation and the digitalization of trade procedures have gained traction. There has been progress in the implementation of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), as well as a growing number of regional and subregional initiatives for facilitating the electronic exchange of information along international supply chains, including the ASEAN Single Window initiative and the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific.

Studies have found that full implementation of binding provisions under the WTO TFA would result in a trade cost reduction of about 9 per cent, while implementation of both binding and non-binding TFA measures would reduce trade costs by about 15 per cent. When digital trade facilitation is fully implemented, covering all measures of TFA and those concerning paperless trade, the average trade costs reduction across countries in Asia and the Pacific increases to 26.2 per cent. This highlights the need for countries to be as ambitious as possible in trade facilitation reform.[a]

Cross-border paperless trade offers immense potential for enhancing trade facilitation and further reduction of trade costs. Digitizing trade processes towards paperless trade would not only improve transparency, streamline formalities, support trade finance, and facilitate institutional cooperation and coordination among different domestic government agencies, but would also build the foundation for effecting cross-border paperless trade within the region and beyond.

Source: ESCAP.

a United Nations Economic and Social Commission for Asia and the Pacific, "Digital Trade Facilitation in Asia and the Pacific", Studies in Trade, Investment and Innovation No. 87 (Bangkok, 2017).

5.3 Information and Communication Technology and E-commerce

Information and communications technology (ICT) have been rapidly changing the way firms do business. E-commerce (i.e., commercial transactions conducted electronically on the Internet) has been growing as part of the broader digital economy. Worldwide e-commerce sales in 2016 reached $25.7 trillion, about 90 per cent of which were in the form of business-to-business (B2B) e-commerce and 10 per cent in the form of business-to-consumer (B2C) sales.[27] Cross-border B2C e-commerce in 2015 amounted to $189 billion, with some 380 million consumers making purchases on overseas websites.[28]

While these figures point to broad trends, e-commerce remains hard to measure, and few developing countries collect relevant e-commerce statistics. One tool for monitoring the evolution of e-commerce is the UNCTAD B2C E-commerce Index. The Index, which measures an economy's preparedness to engage in e-commerce,[29] finds that all but one of the top ten developing countries are from East or West Asia, and all are upper-middle-income or high-income economies. In Africa, the highest ranked country was Mauritius (fifty-fourth in the Index). Nine of the bottom ten countries in the ranking are African countries, reflecting the relative weakness of Africa in terms of e-commerce readiness.[30] UNCTAD e-trade readiness assessments of seven African countries finds that the main challenges for these countries are (i) the persisting infrastructure gap and digital divide; (ii) inadequate regulatory and institutional frameworks; (iii) a weak enabling environment; and (iv) limited skills of both producers and consumers of digital products. These challenges particularly affect the ability of MSMEs to effectively participate in international trade. Research by ITC in 2018 highlighted the need for an ecosystem with institutions that provide business support and skills training that allow MSMEs to benefit from technological changes.[31]

External support is needed to address these challenges. Currently, only 1 per cent of all funding provided by Aid for Trade is allocated to ICT solutions. MDBs are investing just 1 per cent of their total spending on ICT projects, with only about 4 per cent of this limited investment being spent on policy development.[32] Improving e-commerce readiness could attract additional investments. Several of the top ten developing countries in the Index saw inflows of foreign direct investment into their e-commerce sectors in 2017, amounting to at least $1.7 billion.

On 25 January 2019, forty-nine WTO members, including many developing countries, declared that they would start a plurilateral negotiation on e-commerce.[33] It is hoped that the negotiation, expected to commence in March 2019, will address issues important for enhancing equitable participation of developing-country businesses, particularly MSMEs, and woman to global e-commerce.[34]

5.4 Aid for Trade

In 2016, the most recent year for which data is available, Aid for Trade showed a slight decrease both in disbursements and in commitments, although the level is still significantly above the level in the base year of 2006. As called for in SDG (target 8.a), it is important to increase Aid for Trade support.for developing countries, in particular least developed countries.

The objective of the Aid for Trade initiative is to help developing countries, and in particular LDCs, build the supply-side capacity and trade-related infrastructure they need to implement and benefit from WTO agreements, and to expand their trade.

The Aid for Trade Work Programme for 2018-2019 seeks to further develop analysis on how trade can contribute to economic diversification and empowerment, with a focus on eliminating extreme poverty, particularly through the effective participation of women and youth. It addresses how Aid for Trade can contribute to these objectives by addressing supply-side capacity and trade-related infrastructure constraints, including for MSMEs, particularly in rural areas. Other issues to be developed during the Work Programme will include

Box 3

Sustainable and climate-resilient infrastructure for maritime transport

Rising sea levels and extreme weather will affect maritime transport, an artery of international trade carrying over 80 per cent of merchandise trade volume. Small island developing States are at immediate risk.[a] Coastal transport infrastructure are critical lifelines to them, facilitating imports of essential goods and tourism. According to a survey conducted by UNCTAD, hazardous impact of climate change has already been felt by many ports.[b] With respect to adaptation measures, many ports identified hard engineering measures rather than soft adaptation responses as the main course of action. But the cost of developing measures for 'climate proofing' a port could be as high as $500 million. Few respondents to the survey had received any financial assistance in the implementation of adaptation measures. This suggests a need for more external assistance in this area.

Source: UNCTAD.

a Isavela Monioudi and others, "Climate change impacts on critical international transportation assets of Caribbean SIDS: The case of Jamaica and Saint Lucia", *Regional Environmental Change,* 18:2211–2225 (2018).

b United Nations Conference on Trade and Development, "Port Industry Survey on Climate Change Impacts and Adaptation", UNCTAD Research Paper No. 18 UNCTAD/SER.RP/2017/18 (Geneva, 2017).

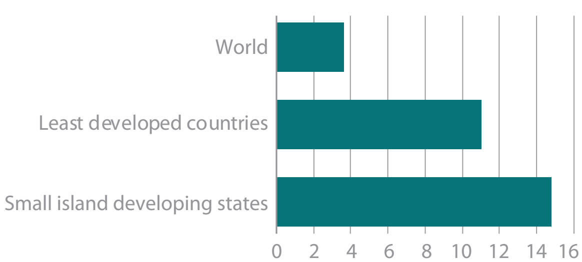
industrialization and structural transformation, digital connectivity and skills, as well as sustainable development and access to energy. In addition to addressing persistent challenges, aid for trade needs to address emerging challenges to developing countries, such as strengthening climate-resilient infrastructure for maritime transport (box 3).

The centrepiece of the Work Programme will be the Aid for Trade Global Review in July 2019, the results of which will be reported to the General Council and later on to the WTO Ministerial Conference.[35]

5.5 Trade as a source of public revenue

Taxes on international trade, such as customs duties and export taxes, are a direct linkage between trade and a country's development financing capacity. Income from trade taxes remains an important contributor to public revenue in countries such as LDCs and small island developing States (SIDS). Figure 9 presents a three-year average of taxes on international trade as a share of public revenue between 2014 and 2016. While taxes on international trade on average account for less than 4 per cent of public revenue globally, they account for 10 per cent in LDCs and about 15 per cent in SIDS. Trade taxes are most significant in some SIDS. For the Caribbean States, for example, trade-related taxes accounted for well over 25 per cent of total public revenue.

Figure 9
Taxes on international trade (3-year average, 2014-2016)
(Percentage of revenue)



Source: UNCTAD calculation based on World Bank Databank.
Note: World (2-year average: 2014-2015). Taxes on international trade include import duties, export duties, profits of export or import monopolies, exchange profits, and exchange taxes.

Raising taxes on trade to increase public revenue however can be distortional to domestic economies. Higher import tax, for example, lowers consumer welfare and export competitiveness. The focus thus has been placed not on raising trade taxes but on improving efficiency in customs duty collection. Many countries have improved custom efficiency by using the UNCTAD Automated System for Customs Data, or ASYCUDA. For example, Jamaica collected 17 per cent more revenues from the previous year, upon the full ins talment of ASYCUDA in 2016.[36] The customs revenue of Solomon Islands exceeded $1 billion for the first time in 2017, three years after installing ASYCUDA.[37] After 13 years of gradual roll-out of ASYCUDA in Afghan customs, the system covered more than 90 percent of international trade in 2018, and contributed to the increase in Afghanistan's annual customs revenue from $50 million in 2005 to almost $1 billion by 2018. Over 100 developing countries have installed ASYCUDA, which has brought transparency in customs management information, increased customs revenues and reduced trade costs facing the private sector (see box 3 on ASYCUDA in chapter III.G for more detail).

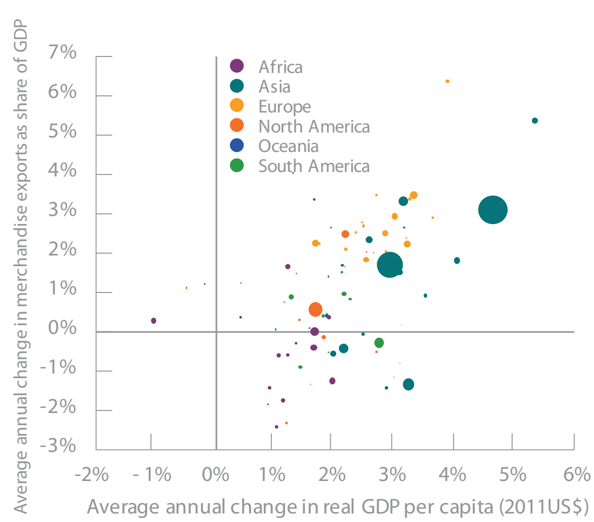
6. Promoting trade and investment in a manner consistent with the SDGs

Trade is an important means to achieving a range of SDGs.

6.1 Trade, economic growth, labour markets and poverty reduction

Over the last decades, economic growth has been accompanied by even faster growth in global trade, which enables more efficient resources allocation and supports the exchange of ideas and innovation. Countries with faster GDP per capita growth tend to have a high average annual growth in merchandise exports as a share of GDP (figure 10).[38] However, the correlation is less significant in countries whose average export growth as a percentage of GDP was below 2 per cent, including most countries in Africa and many in South America.

Figure 10
Growth of GDP and trade, 1945 to 2014
(Average annual change in merchandise exports as share of GDP versus average annual change in real GDP per capita)



Source: UN/DESA calculations based on data from the Maddison Project Database.

Historically, trade has proven to be an engine for developing countries' economic growth, development and poverty reduction. Higher demand for commodities, such as minerals, ores and fuels, resulted in higher prices in the 2000s, consequently boosting incomes in resource-exporting developing countries, including many LDCs. This rapid growth, fuelled in part by trade, contributed to an unprecedented reduction of poverty levels. Similarly, participating in apparel and textile GVCs has driven trade growth and job creation in many developing countries, including a number of LDCs such as Bangladesh, Cambodia and Lesotho.

Changes in trade and trade policy generate significant impact upon labour market and gender. There have been numerous efforts to delineate such impacts and to recommend policy option. The UNCTAD diagnostic tool is designed for assessing the impact of trade policy upon labour markets, while accounting for informal employment, a common and important phenomenon in developing countries that particularly affects women. ITC and the International Labour Organization (ILO) have used the ITC export potential assessment methodology to estimate the job-creating impact of a country's untapped export potential. Preliminary findings from five countries (i.e., Ethiopia, Jordan, Morocco, Lao People's Democratic Republic and the Untied Republic of Tanzania) showed that for $22.7 billion of additional exports, 25.3 million of new jobs could be created. UNCTAD has developed the Trade and Gender Toolbox for an ex-ante gender impact assessment of trade reforms, which has been adopted in Sustainable Impact Assessment of the European Commission (box 4). Gender equality and women's empowerment are critical for economic growth and development.

6.2 Trade and inequality

While trade and economic growth have followed similar trajectories, there is a growing perception that benefits from international trade have not been shared equitably and have required costly adjustments from some groups of workers. While manufacturing jobs in developed countries grew in aggregate, specific sectors or regions lost jobs without sufficient policies to speed adjustment and cushion shocks, as some manufacturing facilities and jobs moved away from some regions and other jobs were created in other regions. This was perceived as leading to higher inequality in some developed countries and fuelled criticism against the current multilateral trading system. Evidence on the impact of trade on a country's aggregate labour markets indicates that trade tends to increase real wages and overall employment, though the impact varies according to country specific factors.[39] Trade has also been shown to disproportionately benefit high-skilled employment and high-wage earners. For example, one study found that globalization has induced changes in labour income tax in developed countries that benefited the top 1 per cent of workers but resulted in higher tax burden for the relatively less mobile middle class.[40] However, data shows that trade only explains a small portion of the growth in wage inequality.[41]

The dominance of global value chains (GVCs) in international trade, which distribute production of a final good across countries, and the way the revenue is distributed within value chains, may have deepened within-country income inequality, in both developed and developing countries.[42] Figure 11 shows that, among high-income countries, the share of workers' income at the fabrication stage in 2014 fell by 3.7 percentage points from the level in 2000. On the other hand, the share of income received by professionals with the "headquarter" functions such as management, research and development and marketing, increased by 1.7 percentage points.

This deepening inequality across different tasks and functions, and the declining of labour income share—increasingly observed in middle-income countries as well—has in part been facilitated by growing market concentration, which has strengthened the bargaining

Box 4

Gender impact assessment and trade

Carrying out ex-ante and ex-post gender impact assessments of trade reforms makes trade policy more gender-responsive. Ex-ante gender impact studies, which analyse the gender effects of trade reforms before the reform takes place, allows policymakers to design compensatory measures for expected negative impacts, or introduce complementary measures to scale up expected positive impacts.

The European Commission has been carrying out Sustainability Impact Assessments (SIAs) of trade agreements under negotiation since 1999. In most cases, the gender assessment was limited to possible employment effects in specific sectors that traditionally attract a large female work force.[a] Recently, the European Commission started to apply the United Nations Conference on Trade and Development's Trade and Gender Toolbox methodology in the SIA. For example, the SIA in support of the Modernization of the European Union-Chile Trade Agreement includes an assessment of the possible impact of the agreement on women in their different roles as employees, entrepreneurs, traders and consumers.[a]

a BKP Development Research & Consulting, Sustainability Impact Assessment in Support of the Negotiations for the Modernisation of the Trade Part of the Association Agreement with Chile: Interim Report (Brussels, European Commission, 2018).

power of a limited number of large firms that dominate trade. For example, the top 1 per cent of exporters accounted for 57 per cent of country exports on average in 2014, up from about 52 per cent in 2000.[43] This growing market concentration has also exacerbated downward pressure on labour costs and effective corporate tax rates, as well as weakening of regulation and competition policies in some countries (see chapter III.B).[44]

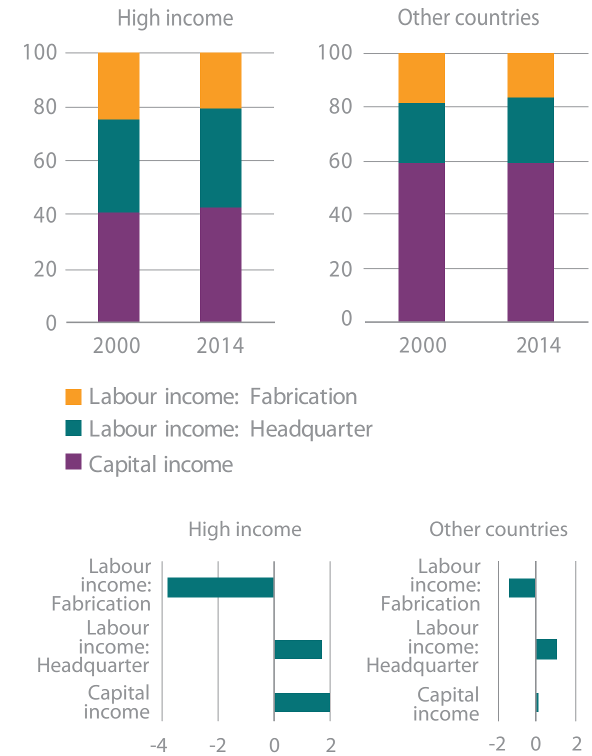
To increase trade's contribution to sustainable development, and ensure it does not deepen inequality, trade policies and agreements should be crafted with global goals in mind. Trade and investment policies should not only align with the 2030 Agenda for Sustainable Development but should also be designed to be synergistic with policies related to finance, taxation, competition, labour, gender, and technology (see chapter III.F).

The issue of trade and inequality is compounded by the transformation that technology is bringing to the labour market (see chapter III.G). For example, evidence suggests that trade may explain up to 20–25 per cent of the recent decline in US manufacturing jobs, while other factors such as technological change accounts for the rest.[45] Through policy responses, Government can influence how these changes ultimately impact inequality. This requires, for instance, investment in education and training to provide workers with skills that are in high demand. It also necessitates social protection policies to financially support those who have lost their jobs and ensure minimum wages. Investment in transport, telecommunications and energy also allow countries and people to better participate in international trade while rural infrastructure development creates more inclusive economic opportunities. This broad set of policies required to address inequality needs to be incorporated into national sustainable development strategies.

Figure 11

Changes in the share of income in exported value added in manufacturing GVCs

(Percentage points)



Source: UNCTAD, Trade and Development Report 2018.
Note: "High income" covers 34 countries, including the high-income developing economies of the Republic of Korea and Taiwan, Province of China. "Other countries" includes two developed countries (Bulgaria and Romania) and six developing countries and transition economies (Brazil, India, Indonesia, Mexico, the Russian Federation and Turkey). All manufacturing sectors are included.

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18 For example, see Rwanda–United Arab Emirates BIT (2017); Australia–Peru FTA (2018); Republic of Korea–Republics of Central America FTA (2018); and Lithuania-Turkey BIT (2018).
19 Objectives of the process include modernizing the rules based on case experience, streamlining the process and making it more efficient, enhancing the contracting parties' control over the interpretation of their treaties and enhancing the legitimacy of the ISDS system. Topics under consideration include the appointment and disqualification of arbitrators, third-party funding, consolidation of cases, transparency and non-disputing party participation. See webpage on ICSID Amendments and statement by the SG of ICSID at the UNCTAD High-level International Investment Agreements Conference 2018 for more details.
20 Delegates at the UNCITRAL WG III meetings discussed three broad categories of concerns with respect to ISDS: 1) inconsistency and incorrectness of arbitral rulings; 2) concerns about arbitrators and decision makers who currently resolve disputes; and 3) concerns about the cost and duration of the process. Delegates agreed on the desirability of development reforms in UNCTIRAL with respect to those concerns. On 18 January 2019, the EU and its Member States submitted a paper to the working group, which sets out the EU's proposal of establishing a permanent multilateral investment court.
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43 Ibid.

44 Ibid.

45 World Trade Organization, *World Trade Report 2017: Trade, Technology and Job*s (Geneva, 2017).