

Report of the Inter-agency  
Task Force on Financing  
for Development

# FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS 2018



United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (members are shown on page xi). The Financing for Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Task Force 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 SDGs. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Ababa 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 of the Task Force also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals in-depth:

- 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

Inquiries about the Task Force or its report and online annex can be sent to:

Financing for Development Office  
Department of Economic and Social Affairs  
2 United Nations Plaza (DC2- 2170)  
New York, N.Y. 10017  
United States of America  
+1-212-963-4598

[developmentfinance@un.org](mailto:developmentfinance@un.org)

<http://developmentfinance.un.org>

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## Chapter III.D

# International trade as an engine for development

## 1. Key messages and recommendations

The Addis Ababa Action Agenda (hereafter, Addis Agenda) acknowledges that international trade is an engine for inclusive economic growth and poverty reduction. At the same time, if the right mix of policies is not implemented, trade may leave some individuals and communities behind. Political leaders have therefore called for policies that ensure the gains from trade are shared more widely.<sup>1</sup> Having in place overall economic policies and systems that promote job growth, decent work, social mobility and social protection can create a conducive framework within which specific policies of trade adjustment can be more successful. Well-designed and gender-responsive policies tailored to country circumstances—such as job search assistance, training programmes, and lifelong education—can augment workers' skills and facilitate employment. Complementary policies in areas across the 2030 Agenda for Sustainable Development, such as housing, financial inclusion and infrastructure, also play a role in easing adjustment. ***Collectively, World Trade Organization (WTO) members can show leadership by reiterating their commitment to open, fair and mutually beneficial trade as a key driver of economic growth and a major engine for prosperity.***

Developing countries, especially commodity-dependent countries, appreciate that increasing the economic and social benefits of trade requires diversifying their production. Appropriate investment and access to markets is necessary. The

international community has committed to supporting them through Aid for Trade, support for trade facilitation, and continued preferential market access for the exports of the least developed countries (LDCs). Targeted technical assistance and trade-related capacity-building are essential to integrating vulnerable countries into the trading system—particularly LDCs, landlocked developing countries (LLDCs) and small island developing States (SIDS)—and ensuring they are not left behind.

Emerging trends, such as global expansion of internet connectivity, have increasingly influenced international trade and enhanced trade's contribution to the Sustainable Development Goals (SDGs) in recent years. For instance, e-commerce is transforming global business, and opening international markets, including for micro, small and medium-sized enterprises (MSMEs). E-commerce may provide untapped potential for enhancing inclusive trade growth in developing countries. ***Policymakers should explore opportunities for encouraging further growth in cross-border e-commerce to harness relevant opportunities for development and create conditions, procedures and resources in the best interest of inclusive development.***

Global consumers and businesses are paying greater attention to the impact of trade upon social and environmental sustainability.<sup>2</sup> This is reflected in the inclusion of provisions that address labour conditions, empowerment of women and/or environmental sustainability in bilateral and regional free trade agreements (FTAs). At the same

<sup>1</sup> G20 Leaders' Communique Hangzhou Summit (2016).

<sup>2</sup> United Nations Conference on Trade and Development, *Trade and Environment Review 2016*, UNCTAD/DITC/TED/2016/3. Available from [http://unctad.org/en/PublicationsLibrary/ditcted2016d3\\_en.pdf](http://unctad.org/en/PublicationsLibrary/ditcted2016d3_en.pdf).

time, these measures should not inadvertently act as non-tariff barriers to exports from developing countries. *Open dialogue is warranted on aligning new trade agreements with the SDGs, including through inclusion of gender equality and core labour standards.*

Trade finance plays a key role in enabling global trade flows, creating economic value, and driving inclusion by helping developing countries participate in global trade. Easing constraints on the supply of trade finance and supply chain finance, including credit and risk mitigation in regions where trade potential is the greatest, could help MSMEs grow and support the development of the poorest countries. *Export credit agencies and multilateral development banks (MDBs) could explore further developing trade and supply chain finance programmes. Trade finance can be enhanced by promoting standardization of trade finance instruments and consistent implementation of anti-money laundering (AML), countering the financing of terrorism (CFT) and know your client (KYC) regulations across jurisdictions.*

## 2. Developments in international trade

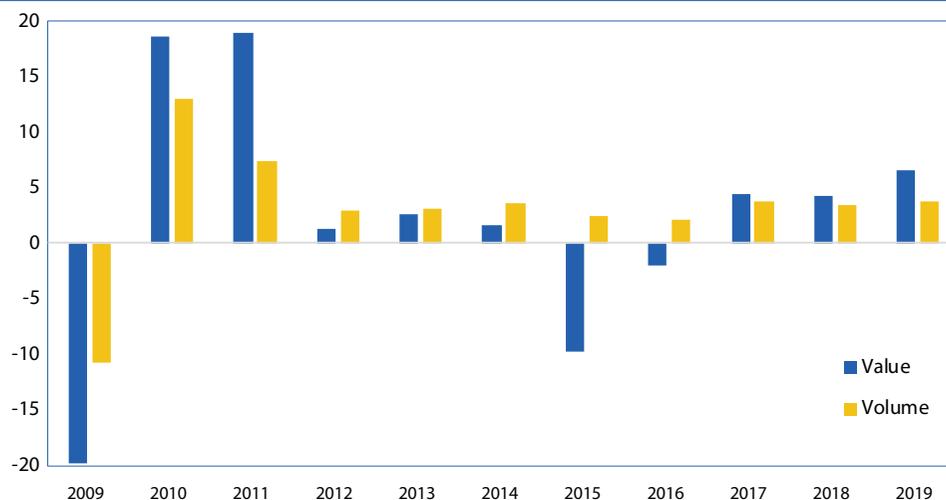
### 2.1 World trade flows

The volume of world trade grew by 3.7 per cent in 2017 and appears set to continue at a similar pace through 2019 (see figure 1). While marking a recovery from the slowdown in 2015 and 2016, global trade growth has returned to the slow-growth trend that characterized the period of the recovery from the 2008 world financial and economic crisis.

The dollar value of world trade recovered in 2017 from the two previous years of absolute decline, owing to a strengthening in commodity prices, and it appears set to accelerate in 2019. Many commodity exporters experienced a drastic fall in their export earnings in dollar terms in 2015–2016, while maintaining their export volumes. Sub-Saharan Africa’s export earnings in 2015 and 2016, for example, declined by an average of about 20 per cent per year.<sup>3</sup>

Within the overall developments in international trade, there are a number of notable trends. The Addis Agenda and SDG target 17.11 pledge to

Figure 1  
Value and volume of world exports, 2009–2019  
(Percentage change)



Source: United Nations (2017), World Economic Situation and Prospects 2018: Annex table A.13.

Note: 2017 is based on partial estimates; 2018–2019 is based on forecasts.

3 United Nations Conference on Trade and Development, “Key Statistics and Trends in International Trade 2017” (Geneva, forthcoming).

double the LDC share in global exports by 2020. Yet, exports of LDCs as a share of the global total declined in recent years, as shown in figure 2. Much of this change may be explained by the recent fall in commodity prices, and thus some recovery should be visible when data become available for 2017 and 2018. Nevertheless, it will be difficult to achieve this SDG target by 2020.

One reason for the disappointing trend in the LDC share of global trade is the high dependence of many of these countries on commodity exports, including both agricultural commodities and natural resources. As shown in figure 3, more than 40 per cent of LDCs count on commodities for over 30 per cent of their exports, and more than 20 per cent rely on them for over 50 per cent of their exports. For LLDCs, the corresponding indicators of commodity dependence are even starker. African countries, in particular, suffer from a lack of export diversification.<sup>4</sup>

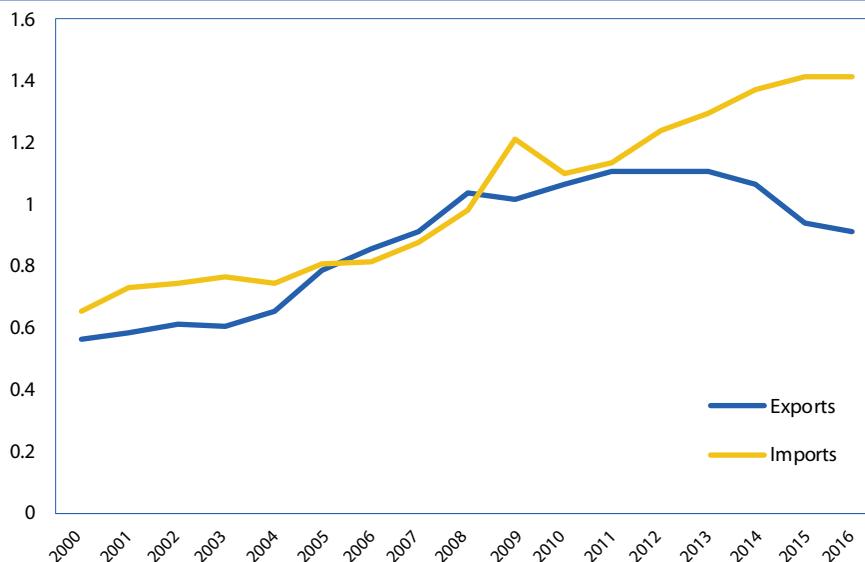
Nonetheless, LDCs and other countries have been working to diversify their exports and some results are now visible. For example, the number of international tourist arrivals in Africa has continued to grow, with an average annual increase of 6 per cent over the last two decades.<sup>5</sup> Tourism in Africa today contributes on average 8.5 per cent of gross domestic product (GDP) and supports 1 out of every 14 jobs in the region. Intraregional sustainable tourism strategies can support economic diversification, sustainable growth and development.

## 2.2 Digitalization and trade

At the same time, e-commerce, or the buying or selling of goods or services online, is transforming the global business and trade landscape at an unprecedented speed, opening international trade opportunities that most developing countries have yet to fully grasp. Cross-border e-commerce today accounts for 12 per cent of globally traded goods.<sup>6</sup>

Figure 2

**Least developed countries' share of global merchandise exports and imports, 2000–2016**  
(Percentage)



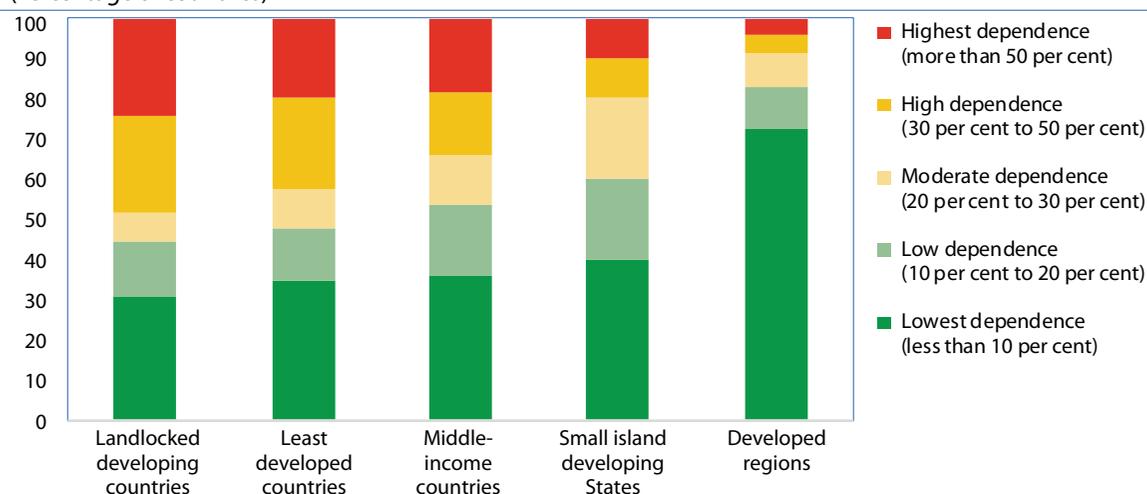
Source: UNCTADStats (2018).

<sup>4</sup> Economic development in Africa report 2017, (United Nations publications, Sales No: E.17.II.D.2).

<sup>5</sup> Ibid.

<sup>6</sup> McKinsey Global Institute, "Digital globalization: The new era of global flows", February 2016. Available from <https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/digital-globalization-the-new-era-of-global-flows>.

Figure 3  
Commodity dependency index, 2016  
(Percentage of countries)



Source: UN Comtrade database (2018).

However, there is still a gap between developed and developing countries. Companies in developed countries export to twice as many markets on average as those in developing countries, and three times as many as those in Africa.<sup>7</sup> E-commerce may help companies in developing countries to export to more markets; the highest growth of e-commerce is observed in developing regions, especially in Asia.<sup>8</sup> Future growth is expected, as more than half of companies not currently engaging in cross-border e-commerce have considered doing so, and this share is higher in developing countries (65 per cent) and Africa (68 per cent).<sup>9</sup>

A number of factors act as potential constraints on the use of e-commerce. These include inadequate information and communications technology (ICT) infrastructure; unreliable and costly power supply; underdeveloped financial systems; weak legal and regulatory frameworks; low levels of ICT literacy; and lack of knowledge related to e-commerce. Concerns also exist over competition, as network effects may lead to monopolies or oligopolies in some parts of the e-commerce value chain, leading to greater

value capture outside of developing countries. The handling of data is also a concern, both in terms of privacy and in relation to how to attribute value addition for the purposes of taxation (see chapter III.A).

Taking advantage of the opportunities from e-commerce is one possible way for policymakers to facilitate the development of MSMEs (see box 1). However, fully utilizing the opportunities of e-commerce requires capacity-building, reducing the digital divide, improving knowledge and skills, improving access to cost-efficient platforms, assuring sound payment and delivery services, as well as improving trade facilitation and streamlining customs procedures.

Cooperation and information exchange on e-commerce has taken place in the WTO under the Work Programme on Electronic Commerce, which will continue. The United Nations Commission on International Trade Law (UNCITRAL) has produced relevant legal texts for e-commerce law reform that could further support cross-border digital transactions, particularly by increasing the uniformity of countries' legal rules governing e-transactions,

7 International Trade Centre, "New Pathways to E-commerce: A Global MSME Competitiveness Survey", (Geneva, September 2017). Available from <http://www.intracen.org/publication/New-Pathways-to-E-commerce/>.

8 *Information Economy Report 2017*, (United Nations publications, Sales No: E.17.II.D.8).

9 International Trade Centre, "New Pathways to E-commerce: A Global MSME Competitiveness Survey".

## Box 1

**E-commerce: Does it contribute to inclusive growth?**

Information communications and technology (ICT) can bring down transaction costs and enable the remote delivery of more goods and services, facilitating the scaling up of micro, small and medium-sized enterprises (MSMEs). ICT use can enhance the productivity of enterprises, which remains far from being fully exploited in most developing countries.

The digital economy can offer opportunities for entrepreneurship, innovation and new job creation. New payment solutions or innovative logistics associated with e-commerce can help MSMEs overcome infrastructural barriers to their market expansion. It can also enable them to engage in peer-to-peer collaboration in innovation and to use alternative funding mechanisms such as crowdfunding.

Being online can also level the playing field for women-owned firms. The share of women-owned firms doubles when moving from traditional offline trade to cross-border e-commerce. For Africa, three out of four firms trading exclusively through e-commerce identified themselves as women-owned.

However, the digital economy also poses challenges for developing-country MSMEs, including lack of technical skills and business knowledge, expensive membership fees in e-commerce platforms, and difficulty in registering or complying with platform requirements. MSMEs, with their small consignment, face a limited choice in logistics and delivery service providers as well as challenges in finding warehouses in the destination market. The share of logistics cost over final price in developing countries is nearly double of that in developed countries.<sup>a</sup>

<sup>a</sup> ITC, "New pathways to e-commerce: a global MSME competitiveness survey", 25 September 2017. Available from <http://www.intracen.org/publication/New-Pathways-to-E-commerce/>.

e-signatures and digital authentication, and thus their interoperability to support cross-border e-commerce.

### 3. The multilateral trading system

#### 3.1 Progress on multilateral trade negotiations

The Addis Agenda recognizes the importance of multilateral trade negotiations at the WTO, yet significant challenges exist to reach consensus at the WTO as members' views on many issues diverge substantially. The Eleventh WTO Ministerial Conference (MC11), held in Buenos Aires from 10 to 13 December 2017, adopted five ministerial decisions, although substantive outcomes were not possible in most areas. Most progress was made in reducing fisheries subsidies that harm sustainable development prospects, with a commitment from members to secure a deal which delivers on SDG target 14.6 by the end of 2019.<sup>10</sup> The next two years will be critical in defining the technical ground for common disciplines on which agreement may be reached and

finding the political will needed for a final multilateral outcome.

Other MC11 decisions included extending the practice of not imposing customs duties on electronic transmissions for another two years, and continuing the moratorium on bringing non-violation and situation complaints under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). There were also decisions on the continuation of the work programme on small economies and on the creation of a working party on the accession of South Sudan.

However, despite serious efforts from all members, no agreement was possible on a number of the substantive issues under discussion, including public stockholding for food security purposes and other issues under the agricultural negotiations pillar. At the conclusion of MC11, Ministers expressed their disappointment over the lack of progress, and committed to continuing the negotiations related to all remaining relevant issues, including advancing work on the three pillars of agriculture (domestic support, market access and export competition)

<sup>10</sup> SDG 14.6 sets a target for eliminating illegal, unreported, and unregulated (IUU) fishing subsidies and for prohibiting certain forms of fisheries subsidies that contribute to overcapacity and overfishing, with special and differential treatment for developing countries and least developed countries.

as well as non-agricultural market access, services, development, TRIPS, WTO rules, and trade and environment.

Three proponent groups announced new initiatives to advance talks at the WTO on the issues of e-commerce, investment facilitation and MSMEs. Each group includes developed countries, LDCs, and other developing countries, with participation open to all WTO members. Seventy-one members, accounting for 77 per cent of global trade, initiated the exploratory work towards future WTO negotiations on trade-related aspects of e-commerce. On investment facilitation, 70 WTO members, who account for about 73 per cent of trade and 66 per cent of inward foreign direct investment (FDI), agreed to structured discussions with the aim of developing a multilateral framework. Eighty-seven WTO members, accounting for 78 per cent of world exports, issued a joint statement declaring their intention to create an informal multilateral working group on MSMEs that would address obstacles to participation of these firms in international trade. Additionally, 118 WTO members and observers agreed to support the Buenos Aires Declaration on Women and Trade, which seeks to remove barriers to, and foster, women's economic empowerment.

### 3.2 Trade restricting and facilitating measures

During the period from mid-October 2016 to mid-October 2017, WTO members applied 108 new trade-restrictive measures, including new or increased tariffs, customs procedures, quantitative restrictions and local content measures. This equates to an average of 9 measures per month compared to 15 in the previous period. However, WTO members also implemented 128 measures aimed at facilitating trade, including eliminated or reduced tariffs and simplified customs procedures. At almost 11 trade-facilitating measures per month, this remains significantly lower than the monthly average of 18 recorded in the previous annual overview report. WTO members continue to implement more trade-facilitating than trade-restrictive measures, a trend observed over the past four years. The estimated trade coverage of import-facilitating measures (\$169 billion) is more than two times larger than

that of import-restricting measures (\$79 billion), although regional differences exist.

In addition, the import-facilitating measures implemented during the review period in the context of the expansion of the Information Technology Agreement are estimated at about \$385 billion, or 2.4 per cent of the value of world merchandise imports. In the area of trade remedy measures, the review period saw a slight deceleration, both in initiations of investigations and in terminations of measures, compared to the previous annual overview and to the whole of 2016. Anti-dumping measures continue to make up the bulk of all trade remedy initiations.

### 3.3 Implementation of the Bali and Nairobi outcomes

The implementation of the agreements in the WTO Ministerial Meetings in Bali (2013) and Nairobi (2015) continues. As regards the elimination of agricultural export subsidies, three WTO members provided implementation updates on the reduction of agricultural export subsidies. On Preferential Rules of Origin for LDCs, all elements in the Ministerial Decision that required follow-up action by the Committee on Rules of Origin have been implemented. The Committee has intensified its technical work to examine members' existing practices with respect to preferential origin requirements for LDCs in order to better understand these requirements, to analyse their possible impact on the ability of LDCs to fully utilize preferences, and to encourage the adoption of best practices. It is encouraging that some preference-granting members have already informed the Committee about positive modifications to their preferential rules of origin as a result of discussions related to the Ministerial Decision.

Regarding the LDCs Services Waiver, which would provide services exports with preferential treatment, the number of notifications of preferences in favour of LDC services and service suppliers stands at 24 (on the part of 51 members). In welcoming the preferences, the LDC Group at WTO called on members to help LDC suppliers avail themselves of those preferences. Members were urged to develop projects in LDCs that built supply capacity on the ground and to raise awareness of the Waiver among their respective domestic constituencies.

The WTO Committee on Trade and Development (CTD) undertook its annual review of the steps taken to provide duty-free, quota-free (DFQF) market access to LDCs. However, due to divergent views among some members on the scope and coverage of DFQF access on offer, the WTO secretariat could not issue the report as mandated in the Bali Ministerial Decision on the issue. Regarding the Monitoring Mechanism for Special and Differential Treatment provisions, members continued their discussion on this matter at the CTD and shared their thoughts on why the Monitoring Mechanism had not yet been tested and whether or not to review the Mechanism at this stage as contemplated in the Bali Ministerial Decision.

#### 4. Promoting international trade that is consistent with the SDGs

In order to spread the benefits of international trade more widely, it is important that more individuals and firms are able to participate. This can be done by ensuring market access for LDCs by lowering tariffs; reducing the costs of trade through trade facilitation; building trade capacity through Aid for Trade; easing the supply of credit to exporters and importers through trade finance; and including women in international trade. Voluntary sustainability stand-

ards can help align international trade with the 2030 Agenda for Sustainable Development.

##### 4.1 Market access for LDCs

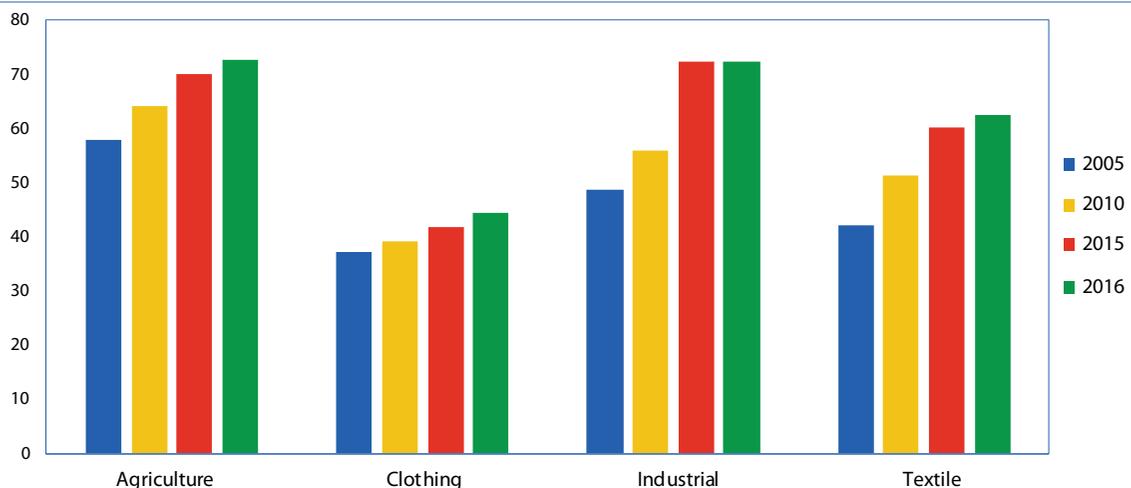
Overall, zero tariffs apply to more products exported by developing countries and LDCs. In 2016, the product coverage of duty-free treatment for LDCs increased by 10 percentage points from the level in 2010, and by 16 percentage points from 2005. For developing countries as a whole, duty-free market access was granted to 50 per cent of products that they exported in 2016. The biggest expansion of zero tariffs between 2015 and 2016 was observed in the textile and clothing sectors, although the clothing sector remains the most protected.

While average tariffs facing key exports of LDCs to developed-country markets have not shown much reduction in the past several years, the graduation of some middle-income countries from the European Union (EU) Generalised Scheme of Preferences (GSP), as of January 2015, has caused a slight increase in the tariffs applied to textile exports from developing countries in 2015 and 2016.

##### 4.2 Trade facilitation

The WTO Trade Facilitation Agreement (TFA), a key outcome of the WTO Ninth Ministerial Con-

Figure 4  
Duty-free access of least developed countries' exports, 2005–2016  
(Percentage)



Source: Elaborations from ITC Market Access Map database (2018).

ference, held in Bali from 3 to 7 December 2013, entered into force on 22 February 2017, after more than 15 years of negotiations. The agreement aims to expedite cross-border trade, improve transparency, increase possibilities for participation in global value chains, and reduce the scope for corruption. At the end of 2017, 126 out of 164 WTO members have ratified the TFA. Members also made strides on the notification front, especially regarding the submission of implementation schedules. To date, 102 developing-country and least developed country members have given notice of the provisions they considered themselves able to implement at the time the TFA entered into force and that have since taken effect. Thirty-six also indicated which provisions require additional time to be implemented (the so-called category B commitments). Twenty-seven members further notified provisions on which they consider that they need capacity-building support for implementation (category C commitments).

The agreement contains a provision (article 23.2) requiring members to “establish and/or maintain a national committee on trade facilitation or designate an existing mechanism to facilitate both domestic coordination and implementation of provisions of this Agreement”. National Trade Facilitation Committees enable the planning and implementation of successful trade facilitation reforms.<sup>11, 12, 13</sup>

Cross-border trade can also be facilitated by single-window facilities. Compressing administrative procedures related to the import or export of goods into a single portal, they integrate multiple

government agencies into a common platform. As of 2017, twelve African countries use single-window facilities. Asia-Pacific countries have continued to develop their single-window facilities, including through a United Nations treaty that was formally signed by several Asian countries in 2017. These paperless trade systems aim at enabling the electronic exchange and mutual recognition of trade data and documents. Asia-Pacific Member States are preparing for implementation of a Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific.<sup>14</sup>

Like single windows for trade, one-stop centres allow investors, including foreign investors that engage in trade, to complete all regulatory and licensing procedures necessary for business establishment. As a result, they reduce the costs and time required to establish businesses. They also aim to prevent informal trade by supporting the formalization of small-scale cross-border traders. This has important gender implications as many of them are women. In addition, these one-stop shops allow Governments to advertise sectors of high priority to investors across the globe, and screen these investors in an effective yet low-cost manner. Challenges to their effective implementation relate to technical capacity, budgetary constraints and, above all, inter-agency coordination, which calls for policy coherence at national and regional levels.

The speed of implementation of the TFA commitments and other trade-facilitating measures varies considerably across countries (see figure 5).<sup>15</sup> Developed economies have the highest implementation rate (78.5 per cent), while LDCs, LLDCs and

11 United Nations Conference on Trade and Development, International Trade Centre and United Nations Economic Commission for Europe, “Repository of NTFC cases across countries” (2018). Available from <http://unctad.org/en/DTL/TLB/Pages/TF/Committees/default.aspx>.

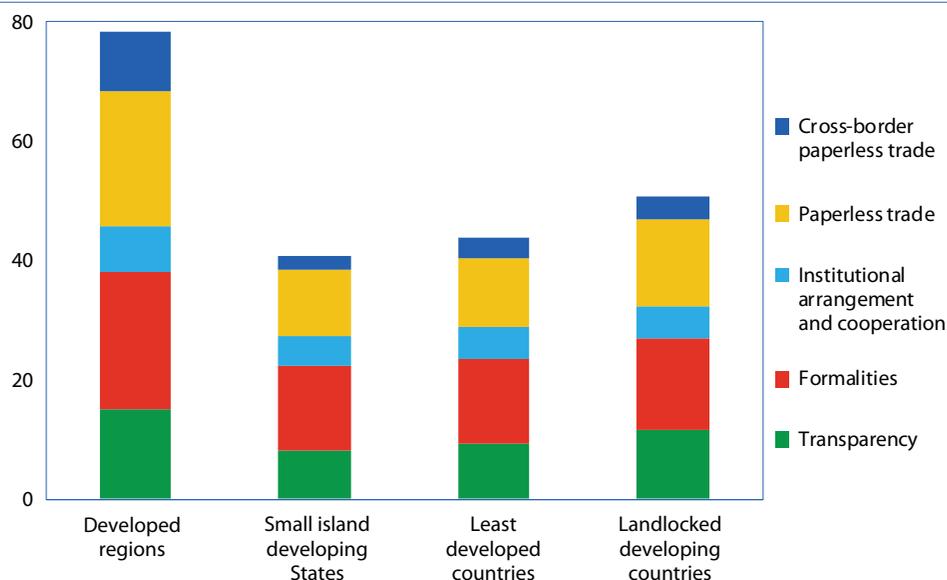
12 United Nations Conference on Trade and Development, “National Trade Facilitation Committees: Beyond compliance with the WTO Trade Facilitation Agreement” (2017). Available from [http://unctad.org/en/PublicationsLibrary/dtlb2017d3\\_en.pdf](http://unctad.org/en/PublicationsLibrary/dtlb2017d3_en.pdf).

13 International Trade Centre, United Nations Economic Commission for Europe and United Nations Conference on Trade and Development, “National Trade Facilitation Committees: Moving towards implementation”, UNCTAD/DTL/TLB/2017/3 (Geneva, 2015). Available from [http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/2014-2015-324%20-%20National%20Trade%20Facilitation%20Committees\\_Low-res.pdf](http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/2014-2015-324%20-%20National%20Trade%20Facilitation%20Committees_Low-res.pdf).

14 The Economic and Social Commission for Asia and the Pacific, *Digital Trade Facilitation in Asia and the Pacific, Studies in Trade, Investment and Innovation* (United Nations publication, Sales No. E.18.II.F.10).

15 The Economic and Social Commission for Asia and the Pacific, “Trade Facilitation and Paperless Trade Implementation - Global Report 2017” (Bangkok, November 2017). Available from <http://www.unescap.org/resources/trade-facilitation-and-paperless-trade-implementation-global-reports-2017>.

Figure 5  
Implementation of trade facilitation measures, 2017  
(Trade facilitation score)



Source: UN Global Survey on Trade Facilitation and Paperless Trade Implementation, 2017; UNESCAP (2018).

SIDS achieve implementation rates significantly below the global average (between 40 and 50 per cent), indicating that these countries may need further technical assistance and capacity-building support to help them bridge the implementation gap.

### 4.3 Aid for Trade

As of 2015, almost \$300 billion has been disbursed for Aid for Trade support, mainly in Asia (41.5 per cent) and Africa (38.7 per cent), with 27 per cent of the total going to LDCs. Regional and global programmes attracted almost 15 per cent of total disbursements. More than three quarters of total disbursements have gone to four sectors: transport and storage (28.6 per cent), energy generation and supply (21.6 per cent), agriculture (18.3 per cent), and banking and financial services (11.1 per cent).<sup>16</sup> Aid for Trade support could focus more on gender equality, by designing projects and programmes in

which women have a higher presence, including in the informal sector.

In addition, Aid for Trade in support of the implementation of the TFA is becoming a greater priority for both developing countries and donors.<sup>17</sup> Moreover, a broad range of countries at all levels of development is undertaking actions to boost digital connectivity, ranging from supply-side issues such as ICT infrastructure and network coverage availability, to the demand-side issues that affect digital connectivity such as affordability and usage.

### 4.4 Trade finance

The importance of short-term financing of international trade, known as trade finance, is explicitly recognized in the Addis Agenda as an important means of implementation of the SDGs. Estimates show that if trade financing to small and medium-sized enterprises (SMEs) increases by 10 per cent, global trade

<sup>16</sup> Organization for Economic Cooperation and Development, World Trade Organization, *Aid for Trade at a Glance 2017* (OECD Publishing, Paris, 2017). Available from [https://www.wto.org/english/res\\_e/publications\\_e/aid4trade17\\_e.htm](https://www.wto.org/english/res_e/publications_e/aid4trade17_e.htm).

<sup>17</sup> World Trade Organization, "Aid for Trade Global Review 2017 Monitoring Exercise" (2017). Available from [https://www.wto.org/english/tratop\\_e/devel\\_e/a4t\\_e/a4tmonit\\_6gr\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/a4t_e/a4tmonit_6gr_e.htm).

would grow by 1 per cent.<sup>18</sup> However, the gap in trade finance remains large, particularly in developing countries, with global unmet demand estimated at about \$1.5 trillion.<sup>19</sup> The gap is especially pronounced for SMEs, including many women entrepreneurs. While SMEs comprise 44 per cent of proposed trade finance applications, they comprise 58 per cent of all the declined trade finance proposals in 2016. This figure has increased since 2014, when 53 per cent of all declined requests were from SMEs.<sup>20</sup>

Existing data shows that default rates on trade finance have historically been very low, with typically lower default rates and expected losses than other asset classes. Nonetheless, in some areas, trade financing data is incomplete. Data for Africa, the Middle East, and Central and South America remains limited, although existing data indicates that default rates remain low. Strengthening data collection on default and recovery rates is thus important.

The Basel Committee on Banking Supervision sets standards for the capital that commercial banks must hold against liabilities (see chapter III.F), including liabilities related to trade finance. The December 2017 Basel III reforms adjusted capital charges for banks' exposures to other banks, which are relevant for trade finance exposures. The reforms incorporated the removal of the Basel II sovereign floor rule which the Basel Committee on Banking Supervision announced in October 2011. Under the sovereign floor rule, the counterparty risk weight applied to a claim on a bank could not be lower than that of the risk weight applied to the Government of the country in which the bank was incorporated, resulting in higher risk weights for banks in countries that are poorly rated or do not have credit ratings.<sup>21</sup> Improving regulatory alignment across countries, encouraging greater collaboration between financial

institutions, and promoting standardization of trade finance instruments can help combat the decline in correspondent banking and enhance the provision of trade finance.

MDBs and export credit agencies, together with local, regional and international banks, can play an important, catalytic role in the provision of trade finance. The default rate on MDB trade finance portfolios is extremely low. For example, the Asian Development Bank, as an intermediary bank, has not had a single default in its trade finance portfolio over the last nine years. The vast majority of MDB trade finance activities (98 per cent) are guarantees to banks to reduce country-level risk.

Trade financing can be furthered with digitization and automation of transactions and due diligence. Electronic transactions can infuse efficiency, promote transparency—including through providing a trail of ownership to the transaction—and enhance efforts to build security around data and its accessibility. Digital platforms and fintech can lower barriers to enter the financial markets and increase productivity, and can also reduce costs of due diligence and KYC processes, thus helping to reverse the decline in correspondent banking.

#### 4.5 Women in international trade

Women's participation in international trade supports several SDGs, but has been constrained by a number of challenges. The United Nations Conference on Trade and Development (UNCTAD) has developed the Trade and Gender Toolbox<sup>22</sup> to analyse and measure the potential impacts of trade on women and girls. Ex ante gender impact assessments of trade agreements, for instance, help Governments identify policy measures that redress anticipated negative impacts upon women, and scale up other measures that are expected to have positive impacts.

18 World Trade Organization, "Trade Finance and SMEs: Bridging the gaps in provision" (2016). Available from [https://www.wto.org/english/res\\_e/booksp\\_e/tradefinsme\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf).

19 Asian Development Bank, "2017 Trade Finance Gaps, Growth, and Jobs Survey" (September 2017). Available from <https://www.adb.org/publications/2017-trade-finance-gaps-jobs-survey>.

20 International Chamber of Commerce, *2016: Rethinking trade and finance* (October 2016). Available from <https://cdn.iccwbo.org/content/uploads/sites/3/2016/10/ICC-Global-Trade-and-Finance-Survey-2016.pdf>.

21 Basel Committee on Banking Supervision, *High Level Summary of Basel III reforms* (December 2017). Available from [https://www.bis.org/bcbs/publ/d424\\_hlsummary.pdf](https://www.bis.org/bcbs/publ/d424_hlsummary.pdf).

22 United Nations Conference on Trade and Development, "Trade and gender toolbox", UNCTAD/DITC/2017/1 (2017). Available from [http://unctad.org/en/PublicationsLibrary/ditc2017d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/ditc2017d1_en.pdf).

The Toolbox methodology has already been applied to assess the impact on the well-being of women and gender equality in Kenya from the Economic Partnership Agreement between the EU and the East African Community.

Gender equality issues started to feature more strongly in recent FTAs than before. First, gender considerations were introduced in the preambles of some of the earlier trade agreements or addressed as cross-cutting issues. Gender-related capacity-building mechanisms were already in place in some of the FTAs as well. In more recent FTAs, gender equality issues are addressed in specific chapters devoted to gender, which greatly increase the visibility of such issues in trade instruments. Both the Canada-Chile FTA and the Chile-Uruguay FTA acknowledge the importance of gender mainstreaming and equality policies in fostering sustainable economic development. These FTAs include provisions for cooperation activities that benefit women in numerous areas—such as skills enhancement, financial inclusion, agency and leadership, entrepreneurship, and access to science, technology and innovation—and for the setting up of trade and gender committees to operationalize the relevant chapters of the agreements.<sup>23</sup> To date, gender provisions do not include aspects such as gender-related standards, application of dispute settlement mechanisms to trade and gender chapters, and harmonization of gender-related legislation between the parties.

The ITC-led SheTrades<sup>24</sup> initiative seeks to connect 1 million women-owned businesses to markets by 2020 and has identified seven global actions needed to unlock markets for women: (i) quality gender-disaggregated data on economic participation; (ii) integrating gender awareness into trade policies and trade agreements; (iii) opening up government procurement to women entrepreneurs; (iv) supporting supplier diversity in the private sector; (v) enabling market access for women in a wider array of sectors; (vi) enabling access to financial services; and (vii) overturning legal impediments to women's

economic participation, including access and ownership of resources.

#### 4.6 Voluntary sustainability standards

Voluntary sustainability standards (VSS) provide norms and metrics relating to production practices that reduce the negative impact of production upon environmental, social, ethical and food safety conditions in the producing countries. Reflecting the rapid growth of global demand for green and sustainable products, VSS-certified production has significantly expanded, particularly in the last decade. In 2015, about a quarter of the global coffee production was certified as complying with one or more VSS, such as Fairtrade International and UTZ, among others. Similarly, more than 16 per cent of global cocoa, 15 per cent of global palm oil and 14 per cent of global tea production in 2015 were certified as compliant with one or more VSS. Complying with VSS can reinforce the transformative impact of trade; for example, it enhances the marketability of agricultural, forestry and fishery exports of developing countries, and transforms on-the-ground production methods to more sustainable ones. It may also have gender impacts. For trade to play its full role in supporting markets for sustainable goods, however, it is important to ensure that VSS themselves do not become disguised forms of non-tariff barriers restricting trade. Ensuring that such standards are transparent, that they do not discriminate or restrict trade unnecessarily, and that they are based on relevant international standards, in line with WTO principles, can go a long way towards opening new trade opportunities, especially for small and medium-sized producers in developing and least developed countries.<sup>25</sup>

### 5. Bilateral and regional trade and investment arrangements

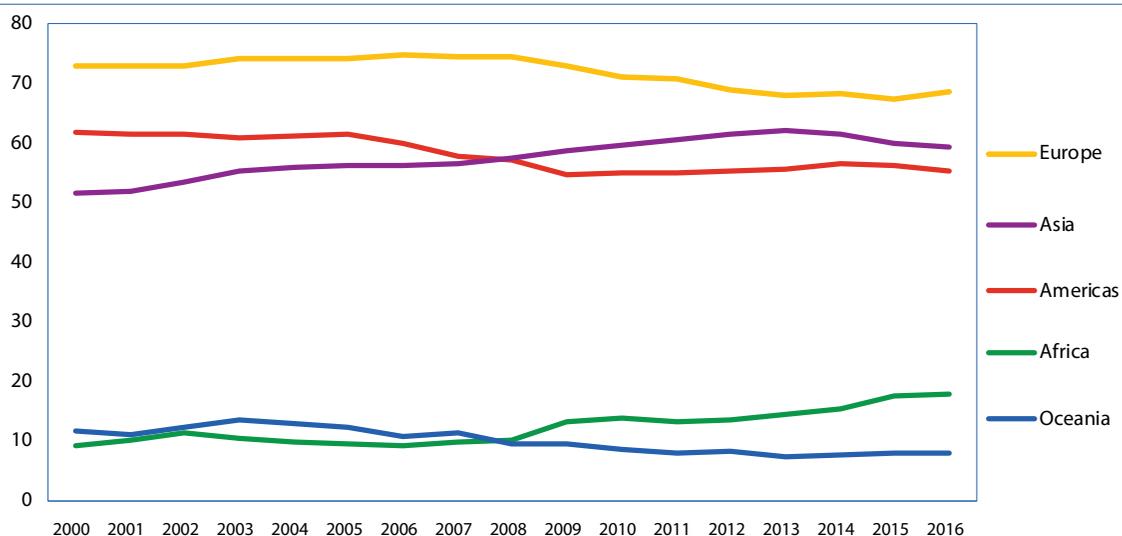
A large share of international trade today takes place under bilateral, regional or interregional FTAs. Thus,

<sup>23</sup> United Nations Conference on Trade and Development, "The new way of addressing gender equality issues in trade agreements: Is it a true revolution?" UNCTAD Policy Brief No. 53, (October 2017). Available from [http://unctad.org/en/PublicationsLibrary/presspb2017d2\\_en.pdf](http://unctad.org/en/PublicationsLibrary/presspb2017d2_en.pdf).

<sup>24</sup> See <https://shetrades.com>.

<sup>25</sup> The Economic and Social Commission for Asia and the Pacific, "Handbook on negotiating sustainability development provisions in preferential trade agreements" (Bangkok, forthcoming).

Figure 6  
**Intraregional goods trade, 2000–2016**  
 (Percentage of exports)



Source: UNCTADStat (2018).

trade in the Americas, Asia and Europe mainly takes place regionally, while in Africa, intraregional trade is lower than 20 per cent, with some growth (see figure 6).

### 5.1 Regional trade agreements

The process of harmonizing trade policy at the regional level is gaining momentum. In Africa, the African Continental Free Trade Area (AfCFTA) is scheduled for agreement in March 2018. There has been growing consensus that regional integration reduces trade costs within Africa and boosts regional value chains, and ultimately contributes to the achievement of the SDGs.<sup>26,27</sup> AfCFTA negotiations have largely completed a framework agreement and protocols on trade in goods, trade in services and dispute settlement, with a signing of the agreement by the African Union Heads of State and Government scheduled for 21 March 2018. The AfCFTA includes modalities to eliminate tariffs on

90 per cent of products over five years for non-LDCs and 10 years for LDCs. The remaining 10 per cent of products comprises sensitive products whose tariffs are to be liberalized over a longer period and excluded products, which will not initially be subject to liberalization. The AfCFTA is estimated to have the potential to increase intra-African trade by approximately 50 per cent in 2022 compared to the 2010 level.<sup>28</sup>

In other regional agreements, following the withdrawal of the United States of America from the Trans-Pacific Partnership, the 11 remaining member countries continued the negotiation process on the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Covering 13 per cent of world gross product (WGP), the CPTPP was signed in March 2018. Negotiations on the Regional Comprehensive Economic Partnership (comprising 30 per cent of WGP)<sup>29</sup> of the Association of Southeast Asian Nations (ASEAN)

<sup>26</sup> *Economic Report on Africa 2015*, (United Nations publications, Sales No: E.15.II.K.2).

<sup>27</sup> Ibid.

<sup>28</sup> United Nations Economic Commission for Africa, “ECA urges Africa to push ahead with Continental Free Trade Area”, 1 December 2016. Available from <https://www.uneca.org/stories/eca-urges-africa-push-ahead-continental-free-trade-area>.

<sup>29</sup> The Economic and Social Commission for Asia and the Pacific, “The Asia-Pacific trade and investment agreement database”, Briefing note 10, (2018). Available from <https://artnet.unescap.org/databases/aptiad-briefing-notes>.

countries with Australia, China, India, Japan, New Zealand and the Republic of Korea, and are ongoing, as are negotiations between the European Union and Mercosur.

An increasing number of regional trade agreements have started to include provisions on social development (e.g., gender equality), but more generally on core labour standards. Labour provisions figure in about 30 per cent of all trade agreements made in 2017, compared to only 7 per cent two decades ago. Today, 70 per cent of trade agreements between developed and developing countries contain labour provisions. Recent research finds that trade-related labour provisions may help ease labour market access for women and reduce the gender wage gap. Research suggests that such provisions have not been used for protectionism, nor do they distort trade flows.<sup>30</sup> Others argue that labour provisions undermine the comparative advantage of lower-wage trading partners and could undermine their ability to raise standards through economic development, particularly if it hampers their ability to trade.<sup>31</sup> Further analysis suggests that there is no unambiguous evidence that trade agreements with labour provisions cause better labour market outcomes, although the two may be correlated.<sup>32</sup>

## 5.2 Investment agreements

The number of international investment agreements (IIAs) continues to grow amid greater complexity, albeit at a lower speed. In 2017, countries concluded 14 new IIAs, out of which there were 8 bilateral investment treaties (BITs) and 6 treaties with investment provisions (TIPs).<sup>33</sup> Three main types

of TIPs can be distinguished: (i) TIPs that include obligations commonly found in BITs, including substantive standards of investment protection and investor-state dispute settlement (ISDS) provisions; (ii) TIPs that include limited investment provisions; and (iii) TIPs that establish an institutional framework between the parties to promote and cooperate on investment.<sup>34</sup>

Countries terminated at least 16 BITs in an attempt to renegotiate their treaties to recalibrate the balance between the State and foreign investors. These terminations reflect a recent debate on how trade and investment can be made more inclusive and sustainable to ensure a more direct contribution to achieving the SDGs.<sup>35</sup> By end-2017, the cumulative number of IIAs stood at 3,326 treaties.

The number of new treaty-based ISDS cases continues to expand. The disputes can be costly for countries. In the Addis Agenda, Member States of the United Nations recognized that the goal of protecting and encouraging investment should not affect their ability to pursue public policy objectives. Member States further committed “to craft trade and investment agreements with appropriate safeguards so as not to constrain domestic policies and regulation in the public interest”.<sup>36</sup>

To align IIAs with the SDGs, countries have embarked on a reform process to create a new generation of IIAs. Their focus concentrates on five areas: (i) safeguarding the right to regulate; (ii) reforming investment dispute settlement; (iii) promoting and facilitating investment; (iv) ensuring responsible investment; and (v) enhancing systemic consistency and modernizing existing stock of old

<sup>30</sup> Celine Carrère, Marcelo Olarreaga and Damian Raess, “Labor Clauses in Trade Agreements: Worker protection or protectionism?” Development Policies, Working Paper No. 200 (FERDI, 2016). Available from [http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p200-ferdi\\_c.carrere-m.olarreaga-d.raess\\_.pdf](http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p200-ferdi_c.carrere-m.olarreaga-d.raess_.pdf).

<sup>31</sup> World Trade Organization, “Labour standards: consensus, coherence and controversy”. Available from [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/bey5\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/bey5_e.htm), (accessed 15 March 2018).

<sup>32</sup> Alberto Posso, “Preferential Trade Agreements with labour provisions and labour market outcomes: evidence from Asia and the Pacific - Labour Provisions in Asia-Pacific free trade agreements Part II”, Background Paper No.2/2017 (The Economic and Social Commission for Asia and the Pacific, 2017). Available from <http://www.unescap.org/sites/default/files/DA9-02-2017%20Labour%20provisions%20in%20PTAs%2020-%20Alberto%20Posso.pdf>.

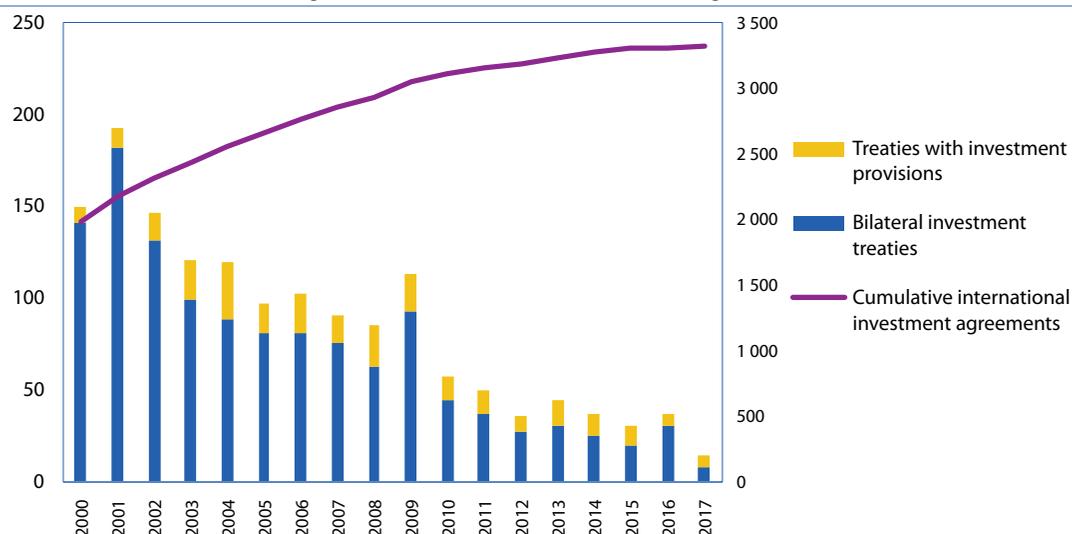
<sup>33</sup> Examples of TIPs are investment chapters in economic partnership agreements and free trade agreements, regional investment agreements and framework agreements on economic cooperation.

<sup>34</sup> *World Investment Report 2016* (United Nations publication, Sales No. E.16.II.D.4).

<sup>35</sup> *Asia-Pacific Trade and Investment Report 2017* (United Nations publication, Sales No. E.17.II.F.22).

<sup>36</sup> *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)* (United Nations publication, Sales. E.16.I.7), para. 91.

Figure 7

**International investment agreements signed, 2000–2017***(Number of new BITs and TIPs signed and cumulative number of IIAs signed, minus those discontinued)*

Source: International Investment Agreements Navigator, UNCTAD (2018).

generation treaties.<sup>37</sup> The African Union is finalizing a sustainable-development-oriented Pan African Investment Code, which aims to bring more regulatory coherence to intra-African investment. It would include standards—including on corporate social responsibility, human rights, natural resources and corruption—and structures—including ISDS and counterclaims by the State.

The impact of IIAs on investment flows is unclear. While IIAs cannot compensate for an otherwise substandard business and investment environment, they aim to send a positive signal to the investors that host countries party to IIAs are serious about attracting and protecting investments. Still some studies suggest that investors consider determinants of FDI—such as rapid economic growth potential, a minimum level of development, stable

political and economic climate, and an overall conducive business climate—to be more important than IIAs.<sup>38, 39</sup>

## 6. Domestic enabling environment for trade

At the domestic level, the Addis Agenda calls for policy actions that are complementary to trade policy changes and support households and businesses in capturing economic opportunities arising from trade. Strengthening the network of trade and investment supportive institutions (TISIs) that facilitate international business transactions can contribute to improving the international competitiveness of MSMEs, which in turn can help address the challenges facing equitable distribution of trade gains. These TISIs, such as chambers of commerce,

<sup>37</sup> United Nations Conference on Trade and Development, “UNCTAD’s Reform Package for the International Investment Regime”, 18 December 2017. Available from <http://investmentpolicyhub.unctad.org/Publications/Details/1183>.

<sup>38</sup> The Economic and Social Commission for Asia and the Pacific, *Handbook on policies, promotion and facilitation of FDI for sustainable development in Asia and the Pacific*, ST/ESCAP/2786 (Thailand, 6 November 2017). Available from <http://www.unescap.org/sites/default/files/FDI%20Handbook-low.pdf>.

<sup>39</sup> United Nations Conference on Trade and Development, “The Impact of International Investment Agreements on Foreign Direct Investment: An Overview of Empirical Studies 1998–2014”, Working Draft of IIA Issues Note (September 2014). Available from <http://investmentpolicyhub.unctad.org/Upload/Documents/unctad-web-diae-pcb-2014-Sep%2024.pdf>.

business associations and export promotion agencies, play a critical role in enabling MSMEs to access market information and networks and to improve their capacity to comply with international standards—necessary aspects of conducting business in international markets. It is estimated that each additional dollar invested in a national trade promotion organization would generate \$87 worth of exports and \$384 of additional GDP per capita.<sup>40</sup>

## 7. Trade, technology and incomes

The WTO World Trade Report 2017<sup>41</sup> states that while the overall effects of trade on the volume of employment tend to be positive but minor, trade can offer opportunities for better paying jobs in many cases. While trade does play a role in increasing wage inequality, other factors, such as technological progress, are important determinants as well (see chapter III.G).<sup>42</sup>

Empirical evidence shows that international trade induces increases in the skill premium (the ratio of the wages of high-skilled workers to the wages of low-skilled workers), as well as skills upgrading in both developed and developing economies. The available evidence from developing economies also shows that trade affects

employment composition through the adoption of new technologies. This comes about both by giving exporters incentives to invest in more productive technology and by making imports of technology-intensive capital goods cheaper. New technologies are complementary with high-skilled labour and often replace low-skilled labour.

However, the gains from trade are not shared equally within countries, leading to widespread economic and social disparities in some countries (see also section 4.5 on trade and gender). Removing trade barriers will change the distribution of gains and losses from trade, as firms and individuals adjust to new competitive pressures. In this process, the economy may experience aggregate net gains from trade, but the costs are often highly concentrated by sector, job type or geographic region. Shifts to the production structure—for example, by importing more technology-intensive capital goods—may also affect a country's terms-of-trade and ability to economically diversify in the long run. Overall, a broad set of policies would be needed to address these impacts, including in trade, education, training, housing, and regional development strategies. In other words, the requirements are part and parcel of sustainable development strategies.

<sup>40</sup> International Trade Centre, “Investing in Trade Promotion Generates Revenue” Doc. No. TS-2016-4.E (Geneva, 4 February 2016). Available from <http://www.intracen.org/publication/Investing-in-Trade-Promotion-Generates-Revenue/>.

<sup>41</sup> World Trade Organization, “World Trade Report 2017: Trade, technology and jobs” (2017). Available from [https://www.wto.org/english/res\\_e/publications\\_e/wtr17\\_e.htm](https://www.wto.org/english/res_e/publications_e/wtr17_e.htm).

<sup>42</sup> International Monetary Fund, World Bank and World Trade Organization, “Making trade an engine of growth for all: The case for trade and for policies to facilitate adjustment” (2017). Available from [https://www.wto.org/english/news\\_e/news17\\_e/wto\\_imf\\_report\\_07042017.pdf](https://www.wto.org/english/news_e/news17_e/wto_imf_report_07042017.pdf).