FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS
Report of the Inter-agency Task Force on Financing for Development 2017
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Chapter III.D
International trade as an engine for development

1. Key messages and recommendations

As noted in the Addis Ababa Action Agenda, international trade is an engine for inclusive economic growth and poverty reduction, and is a means of implementation for the Sustainable Development Goals (SDGs). It has been a significant source of public and private finance in developing countries. The decades before the 2008 global financial and economic crisis saw significant expansion in world trade. During this period, rapid trade growth contributed to a steady improvement in many countries’ income generating capacity, which helped reduce extreme poverty. More recently, however, trade growth has slowed significantly, as outlined in chapter I. Faced with the current challenging scenario in international trade, the trade-related commitments in the Addis Agenda—which include measures to strengthen the multilateral trading system, facilitate international trade, and promote policy coherence in trade—take on new importance.

It is important to recognize that trade has distributional effects. To contribute to the SDGs, trade must become more inclusive and beneficial to all, and create wealth and decent jobs, especially for the poor. Governments should work together to resist inward-looking and protectionist pressures, and to ensure that the benefits of trade are spread more widely and equitably. International institutions should work with Governments to address any distributional effects of international trade and trade agreements and promote world trade growth that is consistent with the SDGs.

Increased uncertainty in world trade disproportionately harms least developed countries (LDCs) and small economies. Governments should work towards improving market access conditions for the exports of LDCs, landlocked developing countries (LLDCs) and small island developing States (SIDS) by reducing the trade costs facing them and simplifying and harmonizing preferential rules of origin. In addition, increasing Aid for Trade aimed at value addition and economic diversification can contribute.

Higher wages for female employees are likely to have knock-on effects on the wider economy. Women’s participation in international trade supports several SDGs, but has been constrained by a number of challenges. To further efforts to address the constraints on women’s participation in trade, the international community should work collaboratively to enhance the availability of gender-disaggregated economic and social data in this field.

Non-regulated trade can undermine the livelihoods of people, species and ecosystems. Governments should collectively reduce non-regulated trade such as poaching and trafficking of protected species and hazardous waste, among others.

The Eleventh World Trade Organization (WTO) Ministerial Conference will be held in Bue-
nos Aires, Argentina, in December 2017. A positive outcome will help affirm the importance of the multilateral trading system. Discussions on the issues that can inform the ministerial decisions of the conference are ongoing. **WTO members should take action on issues that are linked with the implementation of the SDGs, including public stockholding for food security, reductions on domestic support in agriculture, and the prohibition of certain fishery subsidies that cause overfishing and overcapacity as called for in the Addis Agenda. The outcome of the United Nations Oceans Conference in June 2017 should provide impetus towards agreement on fishery subsidy disciplines at the WTO.**

An enabling environment for inclusive trade growth calls for policy coherence at all levels. In the Addis Agenda, Member States committed to strengthen the coherence and consistency among bilateral and regional trade and investment agreements, and to ensure they are compatible with WTO rules. Regulatory harmonization, often sought through free trade agreements (FTAs), can offer benefits. **Governments should reduce the potential for regulatory measures in the areas of food, health, environment, and labour policies to inadvertently act as non-tariff barriers to exports from developing countries.** The Addis Agenda also commits to strengthen the role of the United Nations Conference on Trade and Development (UNCTAD) as the focal point within the United Nations system for the integrated treatment of trade and development, and interrelated issues in the areas of finance, technology, investment and sustainable development.

### 2. Strengthening the multilateral trading system

The Addis Agenda states that increasing trade’s contribution to economic growth and poverty reduction requires a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system. The members of the WTO have delivered a range of important agreements in this context in the last few years.

#### 2.1 Multilateral actions that support the SDGs

At the Tenth WTO Ministerial Conference in Nairobi in December 2015, WTO members agreed to abolish export subsidies on farm products, which is highly relevant to SDG 2, Zero Hunger.

In support of SDG 3, Good Health and Well-Being, an amendment to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) entered into force on 23 January 2017, as called for in the Addis Agenda. This amendment makes it easier for poor countries to obtain less expensive generic versions of patented medicines. Developing countries and LDCs who have accepted the amendment now benefit from a secure legal pathway to access affordable medicines according to WTO rules.

At the end of February 2017, the Trade Facilitation Agreement (TFA), agreed at the Ninth WTO Ministerial Conference in Bali in December 2013, also entered into force. This agreement aims to cut trade costs; expedite the movement, release and clearance of goods; and promote effective cooperation among members on trade facilitation and customs compliance, as discussed in more detail in the next section.

#### 2.2 Trade-restrictive and trade-facilitating measures

Recent global policy uncertainty surrounding international trade has not yet increased the level of trade protection under the multilateral trading system. The number of new trade-restrictive measures initiated during the first 10 months of 2016 was more or less the same as in the previous years (figure 1). According to the November 2016 overview of developments in the international trading environment, WTO members introduced 182 new trade-restrictive measures for the period between mid-October 2015 to mid-October 2016, or an average of about 15 measures per month.\(^1\) While this represents a reduction in the monthly figure compared to the recent peak in 2015, it is actually a return to the trend level for new trade restrictions since 2009.

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Of the 2,978 trade-restrictive measures recorded for WTO members since 2008, only 740 had been removed by mid-October 2016. The overall stock of measures has increased by almost 17 per cent compared to the previous annual overview, with the total number of restrictive measures still in place now standing at 2,238. The rollback of trade-restrictive measures recorded since 2008 remains slow, and continues to hover just below 25 per cent, while the recorded monthly average of trade-remedy (i.e., anti-dumping, countervailing duty measures, and safeguard actions) investigations by WTO members was the highest since 2009. Nonetheless, WTO members also continued to adopt trade-facilitating measures, implementing an average of 18 measures per month, slightly above the average in the period 2009-2015. These include a number of import-liberalizing measures implemented in the context of the expanded Information Technology Agreement.

### 2.3 Market access conditions facing LDCs

Market access conditions facing exports of LDCs have remained steady. LDCs receive full or significant duty-free and quota-free market access conditions from most developed countries (figure 2). A total of six other WTO member countries have also notified the WTO secretariat that they grant preferential market access to LDCs, although the scope and coverage of such preferences vary.

In reality, not all exports from LDCs take advantage of the preferences being accorded, largely due to the complexity associated with compliance with strict rules-of-origin requirements. The Nairobi Ministerial Decision on Preferential Rules of Origin for LDCs builds on the earlier 2013 Bali Ministerial Decision by providing more detailed directions on specific issues, such as methods for determining when a product qualifies as “made in an LDC”, and when inputs from other sources can be cumulated—or combined together—into the consideration of origin. The provisions also call on preference-granting members to consider simplifying documentary and procedural requirements related to origin as well as other measures to further streamline customs procedures.

In March 2017, the WTO secretariat presented to the Committee on Rules of Origin a preliminary estimate of prefer-
ence utilization granted to products exported from LDCs in the year 2015. The estimate was made on the basis of data from the WTO notifications of nine preference-granting countries, both developed countries and other WTO members. The estimate was made using a methodology proposed by the WTO secretariat to the Committee, in which “the share of those imports that have reportedly benefited from a preferential duty scheme [is] compared to those imports on tariff lines eligible for preferential duty treatment”. The preliminary estimate suggests that the average rate of preference utilization ranges from 8 per cent to 88 per cent across preference-granting countries, and between 12 per cent and 55 per cent across 19 productive sectors.

Another potential hindrance to the real value of preferences granted to LDCs arises from the fact that a large share of international trade today takes place under bilateral, regional or inter-regional FTAs. The real value of preferential tariff margins enjoyed by LDCs should be assessed against market access conditions provided to other exporting countries through bilateral or regional FTAs.

In 2015, the relative preferential margin LDCs enjoyed in developed-country markets was, on average, 3 percentage points vis-à-vis tariff rates applied to non-LDC exporters (figure 3). As regards developing-country markets, the relative preferential margins vary considerably among LDCs, ranging from 3.6 per cent in sub-Saharan Africa to -4.4 per cent in Latin America and the Caribbean, indicating that LDC exports to this region face a tariff rate that is, on average, 4.0 per cent higher than other competing exporters to the region.

3. Facilitating international trade
The Addis Agenda calls for actions by the international community towards increasing developing countries’ participation in international trade in a manner consistent with sustainable development objectives. Key areas of action suggested by the Addis Agenda include support to increasing developing countries’ value addition in trade, and measures to enhance inclusive trade growth such as increasing trade finance, Aid for Trade and trade-facilitation measures.

Figure 2
Duty-free coverage in generalized schemes of preferences, 2016 (Number of WTO members)

Source: WTO secretariat.
Note: The European Union is considered a single market by the WTO. Switzerland and Liechtenstein form a customs union.

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4 G/RO/W/168.
5 G/RO/W/161.
3.1 Growth and diversification of developing countries’ exports

Developing countries’ share in world merchandise trade steadily increased in the past couple of decades, rising from 29 per cent in 2001 to 42 per cent in 2015, always maintaining an overall trade surplus vis-à-vis the world. In the recent global trade slow-down described in chapter I, however, developing countries’ year-to-year merchandise export growth declined to about 0.1 per cent, compared to 3.0 per cent between 2006 and 2010, and 1.9 per cent between 2010 and 2013. In world services trade, developing countries’ share continues to grow, reaching 31 per cent of world services exports—or 39 per cent of world imports—in 2015.

As regards LDCs, the 2011-2020 Istanbul Programme of Action for LDCs, the Addis Agenda and SDG target 17.11 pledged to double the LDC share in global exports by 2020. However, the LDC share in world merchandise exports actually decreased from 1.1 per cent to 0.9 per cent between 2011 and 2015. Much of this change may be explained by a recent fall in the commodity prices, as many LDC exports are concentrated in a small number of primary commodities such as minerals, ores and fuels.

Beyond the quantitative trade growth, the Addis Agenda pays particular attention to developing countries’ need to increase value addition in their exports—that is, to diversify from the commodity sectors to the manufacturing and processing sectors. There is not much positive news on this front. Between the years 2000 and 2014, the degree of export concentration in developing countries remained at about 0.2 (figure 4). The export concentration index of LDCs and LLDCs was much higher and moved in tandem with the changes in the world commodity prices; during the period of rising commodity prices (between 2003 and 2008), the rate of export concentration of these countries significantly increased, from 0.3 to 0.5 in the case of LDCs and from 0.2 to 0.4 for LLDCs.

3.2 Actions to enhance inclusiveness in trade

The Addis Agenda also recognizes the importance of inclusiveness in trade growth. This requires increased participation of SMEs in world trade. According to the World Bank Enterprise Surveys, SMEs accounted for over 60 per cent of formal
non-agricultural private employment, yet their participation in international trade is still limited. The WTO World Trade Report 2016 estimates that, in developing countries, exports account for less than 8 per cent of total sales of SMEs in the manufacturing sector, compared to 14 per cent for large enterprises. As essential global actions towards enhancing the effective participation of SMEs in international trade, the Addis Agenda encourages actions by the international community on measures such as trade finance, Aid for Trade, and trade facilitation.

The 2016 edition of the Global Survey on Trade Finance by the International Chamber of Commerce indicates that trade finance is one of the main impediments for SMEs in developing countries trying to participate in international trade. Access to finance is a general problem for SMEs, as discussed in chapter III.B. It is estimated that up to 80 per cent of global trade is supported by some sort of financing or credit insurance. However, the 2008 world financial and economic crisis reduced the availability and accessibility of trade finance to SMEs. The lack of adequate trade finance is particularly acute in Africa and developing Asia. The global excess demand for trade finance is estimated to be as high as $1.6 trillion in 2015. The 2016 report by the WTO, Trade Finance and SMEs: Bridging the gaps in provision, emphasizes the importance of multilateral agencies working together in response and provides a set of recommendations for addressing the gap in trade finance provision.

The Aid for Trade initiative, launched at the Sixth WTO Ministerial Conference in Hong Kong in 2005, focuses on supporting developing countries, particularly LDCs, in building trade capacity, enhancing their infrastructure and improving their ability to benefit from trade opening opportunities. Figures from the Organization for Economic Cooperation and Development indicate that export concentration is high for LDCs. It is estimated that up to 80 per cent of global trade is supported by some sort of financing or credit insurance. However, the 2008 world financial and economic crisis reduced the availability and accessibility of trade finance to SMEs. The lack of adequate trade finance is particularly acute in Africa and developing Asia. The global excess demand for trade finance is estimated to be as high as $1.6 trillion in 2015. The 2016 report by the WTO, Trade Finance and SMEs: Bridging the gaps in provision, emphasizes the importance of multilateral agencies working together in response and provides a set of recommendations for addressing the gap in trade finance provision.

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Cooperation and Development (OECD) suggest that Aid for Trade disbursements totalled $333.1 billion for the period 2006-2015. A little more than half of this total ($174.7 billion) has been disbursed for projects related to infrastructure development. Disbursements to LDCs have grown steadily, starting from $5.4 billion annually in 2006 and reaching $11.7 billion in 2015, an increase of $1.2 billion on 2014.

The 2015 Fifth Global Review of Aid for Trade found that high trade costs, including tariffs, transport costs and regulatory costs notably related to border clearance, are a significant barrier to many developing countries and LDCs, and in particular LLDCs and SIDS. The burden of trade costs also falls disproportionately on the agriculture sector and micro, small and medium enterprises.

The 2016-2017 Aid for Trade work programme aims to expand this analysis of physical trade costs to consider how digital connectivity can promote the inclusion of developing countries and their firms in international markets, and how it intertwines with other forms of physical connectivity. The 2017 Global Review of Aid for Trade is scheduled for 11-13 July 2017, with the theme of “Promoting Connectivity”. It will showcase the results of an extensive monitoring and evaluation exercise that includes more than 300 replies from a diverse range of different stakeholders.

The Enhanced Integrated Framework (EIF) is the only global Aid for Trade programme dedicated to addressing the trade capacity needs of LDCs. Based on partnership among LDCs, the donor community and international agencies, the EIF provides a global framework for the coordination and delivery of Aid for Trade to LDCs. The EIF Phase Two started in January 2016. So far, the multi-donor trust fund of the EIF Phase Two has received pledges of $90 million from 15 donors, which accounts for one third of the required budget for the full duration of the programme (2016-2022).

### 3.3 Trade Facilitation Agreement

The Addis Agenda calls on WTO members to fully and expeditiously implement the Ministerial Declarations and Decisions agreed at the Ninth WTO Ministerial Conference in Bali in 2013. One of the major components of the Bali Package is the TFA. Having obtained the necessary number of acceptance instruments, the TFA entered into force on 22 February 2017. The TFA prescribes measures to improve transparency and predictability of trading across borders and create a less discriminatory business environment. The agreement also contains measures for effective cooperation on trade facilitation and customs compliance issues between customs and other authorities.

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**Figure 5**

**Aid for Trade commitments and disbursements, 2002 – 2015 (Billions of constant 2014 United States dollars)**

![Aid for Trade commitments and disbursements, 2002 – 2015](chart)

**Source:** OECD, Creditor Reporting System.
The *World Trade Report 2015* of the WTO estimated that, once the TFA is fully implemented, developing countries would increase the number of products exported by as much as 20 per cent (35 per cent for LDCs). Recognizing capacity constraints faced by developing countries, the TFA allows developing countries to set their own timetables for implementation, and allows them to designate certain provisions as requiring acquisition of capacity through technical assistance and capacity building. A Trade Facilitation Agreement Facility was created at the request of developing and least developed countries to help ensure they receive the assistance needed to reap the full benefits of the TFA, and to support the ultimate goal of full implementation of the new agreement by all members.

4. **Promoting policy coherence in trade**

International trade provides developing countries with opportunities for economic growth. Maximizing trade’s contribution to sustainable development in all three dimensions of sustainable development—economic, environmental and social—requires complementary actions at the national level, and policy coordination at the regional and international levels.

4.1 National level actions

At the national level, the Addis Agenda calls for policy actions that are complementary to trade policy changes, with a view to supporting households and businesses to capture economic opportunities arising from trade. Trade policy per se will not effectively address socioeconomic challenges, such as those arising from trade liberalization. Far-reaching and cross-cutting policy responses are needed, touching on aspects of education, skill development, and improved adjustment support for the unemployed. Domestic policies play a key role in creating a better, more inclusive economic model, including by ensuring that the gains of trade are better shared across society.

Gender equality and women’s socioeconomic empowerment also requires coordinated policy actions at the national level. The Addis Agenda calls for gender mainstreaming in the formulation and implementation of all financial, economic, environmental and social policies, including facilitating women’s equal and active participation in domestic, regional and international trade. The NTM Business Survey conducted by the International Trade Centre indicates that the share of firms owned or managed by women range between 10 per cent and 30 per cent across productive sectors, with female employment skewed towards the textile and clothing sectors (figure 6).

Increasing export participation by women-owned businesses can help address gender-based wage gaps and reduce inequalities. The average wage paid by exporting women-owned businesses is approximately 1.6 times higher than the average wage at non-exporting women-owned businesses. This “exporter premium” is larger than the equivalent premium for male-owned businesses. Higher wages for female employees are likely to have knock-on effects on the wider economy, given that women in developing countries tend to have a higher propensity than men to invest in their families and in the community at large.

4.2 Regional level actions

The Addis Agenda highlights the importance of regional economic integration to the promotion of inclusive growth and sustainable development via, inter alia, strengthening regional economic cooperation. Several initiatives have been taken to assess the degree of regional integration. An excellent example is the Africa Regional Integration Index, a joint initiative by the African Union, the African Development Bank and the United Nations Economic Commission for Africa, which provides an online tool for assessing regional integration in Africa. According to the 2016 report on the Index, the trade dimension demonstrates the highest integration score while the financial and macroeconomic dimension shows the
Figure 6

**Share of women in exporting companies, by economic sectors, 2010–2015 (Percentage)**

lowest, partly due to the current limitation in ensuring the convertibility of currencies in some countries (figure 7). The Economic and Social Commission for West Asia (ESCWA) secretariat proposed an Arab Common Citizens Economic Security Space (ACCESS) to further regional integration.\textsuperscript{16} ESCWA Member States stressed the importance of efforts and initiatives to enhance regional integration by developing an Arab customs union and promoting a common Arab market to establish an Arab development space that employs Arab economic security in facing sustainable development financing challenges.\textsuperscript{17}

4.3 International level actions

The current downturn in global trade and investment is also taking place amid a rise in anti-globalization discourse in some countries and communities, some of whom do not benefit from trade or fear economic disruption from it. It is important for the international community to acknowledge this sentiment and address its causes. Trade is an enormous force for development and economic empowerment, but the case for this has to be made coherently by Governments and international institutions.

International cooperation in international trade is also required when non-regulated trade can undermine the livelihoods of people, species and ecosystems. In this respect, the Addis Agenda encourages global support for efforts to combat poaching and trafficking of protected species, trafficking in hazardous waste, and trafficking in minerals, and for increasing the capacity of local communities to pursue sustainable livelihood opportunities, among others. The Convention on International Trade in Endangered Species (CITES) collects baseline data

Figure 7

\textbf{African regional integration (Index)}

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\caption{African regional integration (Index)}
\end{figure}

\textbf{Source:} The Africa Regional Integration Index.

\textsuperscript{16} ESCWA (2016). \textit{Arab Development Outlook: Vision 2030 Report}.
\textsuperscript{17} E/ESCWA/29/12/Report.
on legal trade transactions in CITES-listed species (figure 8) in the 183 Parties of CITES.\textsuperscript{18} CITES Parties will also begin the submission of annual illegal trade reports from 2017. Data on illegal trade (seizures) is currently compiled by the United Nations Office on Drugs and Crime (UNODC) in World WISE, a new data platform that contains seizures related to wildlife crime, including illegal logging, from 120 countries.

The Donor Roundtable on Wildlife and Forest Crime—established in 2015 and comprising CITES, the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), UNODC, and the World Bank Group, among others—commissioned a study to analyse multilateral, bilateral and other international funds committed by donors to directly address the illegal wildlife trade crisis.\textsuperscript{19} It found that a total of $1.3 billion was committed by 24 international donors between 2010 and June 2016, funding 1,105 projects in 60 different countries and various regional and global projects, with 63 per cent of the funds going towards efforts in Africa and 29 per cent to Asia.

At UNCTAD14 (July 2015), 90 countries granted support to the UNCTAD-FAO-UNEP Joint Statement that called for increased transparency on all fishery subsidies and prohibition of subsidies that contribute to overfishing and overcapacity, among other concerns.\textsuperscript{20} At the WTO, there has been an increasing debate over whether control over fishery subsidies could be a potential deliverable of the Eleventh WTO Ministerial Conference in Buenos Aires. The United Nations Oceans Conference, planned for June 2017, which will discuss implementation of SDG 14 on life below water, may also provide impetus towards an agreement on fishery subsidy disciplines.

Figure 8

\textit{Total number of recorded legal trade transactions in CITES-listed species, 1975 – 2013}

\[0\,000\,000 \quad 200\,000 \quad 400\,000 \quad 600\,000 \quad 800\,000 \quad 1\,000\,000 \quad 1\,200\,000\]

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\textit{Source:} CITES trade database.

\textsuperscript{18} See https://trade.cites.org/.