

Trade: engine of development

Cross-border trade has been expanding at a pace roughly twice that of economic growth worldwide – in both developed and developing countries. And although starting from a relatively small base, South-South trade (between developing countries) is expanding at an even faster rate than that of world trade overall.

International trade is inextricably linked with financing for development, and makes a strategic contribution to economic growth:

- Export growth accounts for about 40 per cent of the increase in gross domestic product (GDP) of both developing and developed countries, except the United States.
- Export-led economic growth has enabled developing countries to amass over \$4.4 trillion in international currency reserves, about three-quarters of the world total.
- The faster growth on average in output and trade in developing and transition economies, compared with the developed world, is matched by their increasing share of world trade, from 35 per cent in 2000 to over 40 per cent in 2007.

But trade is vulnerable to economic slowdown. In the current global environment, many developing countries are exposed to declining demand for their exports.

- Despite increasing South-South trade, the large developed economies – and especially the United States – remain the major market for world exports.
- Demand in these developed economies has been adversely affected by the current economic downturn. Already in 2007, when extended robust economic growth was just beginning to slow, the rate of increase in import volumes in the developed world had dropped to only 4.7 per cent, down from 7.8 per cent in 2006.
- Slowing economic growth has caused a mid-2008 reversal of the boom in commodity prices. This boom was closely aligned with widespread economic expansion in the developing countries from 2003 through to 2007.
- The impact of the financial crisis and economic slowdown that originated in the major economies is being transmitted to the rest of the world in 2008, and one of the major transmission belts is declining trade.

Moreover, protectionism historically increases during periods of falling growth and economic turmoil. Indications of nationalistic sentiment with regard to trade issues have been apparent during this year.

21st century policy issues

Even in times of strong economic growth, trade and its benefits have not been evenly distributed across the developing world. In all years since 2001, for example, the share of growth in world merchandise trade held by East and South Asia has outpaced that of all other developing countries combined, and a similar proportion prevails in trade of services.

Among the countries most at a disadvantage in the trading arena are the least developed countries (LDCs), with small and vulnerable economies, and nations that are landlocked. The World Bank has estimated that a lack of



domestic seaports raises the transport costs of a country's foreign trade by around 50 per cent, and reduces a country's trade volume by 30 - 60 per cent. Thirty-one out of 45 sub-Saharan African nations are LDCs (about two-thirds), and 11 are landlocked (about one quarter), with 10 classified as both least developed and landlocked.

In discussions at the United Nations in preparation for the 2008 Financing for Development Conference, there has been general agreement that many developing countries need to:

- develop productive capabilities to take advantage of the opportunities for market access that have been opening up since the 1990s, while also compensating for the loss of preferential access to markets, and for other challenges associated with trade reform and liberalization;
- gain access to technology, infrastructure investment and human resource development; and
- establish an enabling domestic environment for private investment and innovation and for supportive social safety nets.

Aid for Trade (AfT) is seen as an important mechanism to help developing countries benefit fully from their participation in international trade, through technical cooperation, investment in infrastructure and capacity building.

Many developing countries are asserting their prerogative to determine trade policies, along with related finance and social policies, that are aligned with nationally determined development priorities and strategies. Across-the-board liberalization should not be imposed or adhered to as a blanket policy imperative, they contend.

Support among proponents of expanded trade opportunities for regional and bilateral agreements is mixed with concern that they should advance development, promote and support regional integration in developing countries and maintain conformity with World Trade Organization (WTO) rules. There is endorsement of the agreement at the Twelfth UN Conference on Trade and Development (UNCTAD), held in Accra, Ghana, in April 2008, on support for the continued negotiation of a Global System of Trade Preferences.

Doha Development Round of trade talks

Negotiations within the WTO with the objectives of maintaining the expansion of rules-based international trade and gearing trade policies to support development were launched in 2001 in Doha, Qatar. This initiative broadly correlated, in the assessments of many observers and international policy-makers, with the convening of the International Conference on Financing for Development in early 2002 in Monterrey, Mexico.

Both initiatives were seen as part of an international response to the shocks resulting from the economic downturn of 2001 and the major terrorist attacks in the same year. More hopefully, they also were launched with objectives of making globalization work better and to broader benefit, and of achieving the Millennium Development Goals.

During review discussions at the United Nations, the successful conclusion of the Doha round was cited as critical to fulfilling the Monterrey Consensus commitment to "trade as an engine for development." Speakers cited the potential of the omnibus trade agreement to increase market access for agricultural commodities from developing countries and reduce levels of distorting agricultural subsidies, especially in developed countries. Such changes could remove impediments to investment and productivity growth in agriculture in developing countries and support agriculture-based development that could bolster food security and rural incomes. Developing countries are also seeking significant opening of market access for their manufactured goods and services.

Speakers from some countries cautioned that without meaningful market-opening commitments by emerging economies, the full development potential of the Doha round would not be achieved.

Also under discussion is the possibility of special and differential treatment for developing countries, in particular for least developed, landlocked, small-island and low-income African countries.

All statistics, unless otherwise noted, are from World Economic Situation and Prospects 2008, published jointly by the UN Department for Economic and Social Affairs (UN DESA), the UN Conference on Trade and Development (UNCTAD) and the five UN regional commissions.