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PRESS RELEASE

WTO helps developing countries adjust to major shifts in trading environment

The WTO has played a key role in helping countries adjust to four recent trends that have considerably altered the relationship between trade and development, according to the latest edition of the WTO's flagship publication released on 20 October 2014 in Geneva. Director-General Roberto Azevêdo, in marking the launch of the report, said that "the emerging trends highlighted in this report suggest that trade will be a major force for development in the 21st century".

> WTO Director-General Roberto Azevêdo Opening Remarks

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The World Trade Report 2014 argues that the WTO has enabled developing countries to take advantage of, adapt to and mitigate risks arising from these trends. It has done so by ensuring that countries take binding commitments which increase certainty over their trade policies, by providing flexibilities that better allow developing countries to undertake such commitments, and by facilitating technical assistance to build trading capacity within those economies.

In addition, countries undertaking substantial reforms related to WTO accession were found to grow around 2.5 per cent faster for several years afterwards, the report notes.

The World Trade Report 2014 identifies these four trends as:

— the rise of the developing world;
— the expansion of global value chains;
— the higher prices of commodities; and
— the increasingly global nature of macroeconomic shocks.

“We have entered a new era in the link between trade and development,” Director-General Roberto Azevêdo said in marking the launch of the report. “Driven in large part by trade, some developing economies have made remarkable progress in recent years, but much still needs to be done to close the gap for many poor economies.”

“The potential of trade in supporting development has not yet been fully realized,” he continued. “However, the emerging trends highlighted in this report suggest that trade will be a major force for development in the 21st century. The WTO’s work is therefore more important than ever. We must continue to deepen our understanding of these issues to ensure that developing countries can reap the benefits of trade more fully in the years to come.”

The report shows how trade contributed significantly to the unprecedented economic development that has taken place since 2000. Trade has allowed many developing countries to benefit from the opportunities created by emerging new markets, to integrate into the world market through global value chains at lower costs, and to reap the rewards from higher world commodity prices.

The WTO has underpinned this progress by providing certainty, thereby creating the predictable environment that allowed economic activity to flourish. In addition, it helped contain protectionism in the face of the greatest economic crisis in 70 years, thus helping to safeguard the economic gains made by developing countries in the recent past.

Director-General Roberto Azevêdo says in his foreword to the report:

“In December 2013, WTO members took a series of decisions in Bali that, when implemented, will help poor countries realize their export potential and sustain the development momentum created in the past decade. In addition, trade ministers tasked WTO members to develop a post-Bali work programme on the remaining Doha Development Agenda issues by the end of 2014. In highlighting how the relationship between trade and development has changed since the start of the millennium, this Report provides food for thought for WTO members. It shows again the importance of our work in updating the WTO's rules, disciplines and flexibilities, and it illustrates some of the challenges that we will need to address if we are to ensure that all countries are able to participate fully in the global economy in the years to come, and that people all over the world are able to feel the benefits of trade in improving their lives and the prospects of their families and communities."

Main points of the Report

Rise of the developing world

Incomes in developing countries have been converging with those of rich countries. Since 2000, GDP per capita of developing countries has grown by 4.7 per cent, with developing country G-20 members performing particularly strongly. Meanwhile developed countries only grew by 0.9 per cent. As a result, developing countries now account for more than half of world output (in purchasing power parity terms).

Higher GDP per capita helps to achieve other societal objectives, such as reducing poverty and protecting the environment. Given that more trade is associated with faster growth, trade can make it easier to achieve these goals.

Expanding trade underpinned these gains in income. The share of developing countries in global trade rose from 33 per cent to 48 per cent since 2000.

Over the last couple of decades, developing countries as a whole have reduced MFN tariffs, enabling this trade expansion. Average reductions of MFN tariffs have been greater in G-20 developing countries.

Increasing participation of developing countries in global value chains

Developing countries are increasingly involved in international production networks, including through services exports. More than half of their total exports in value-added terms are now related to global value chains (GVCs). South-South global value chain linkages are becoming more important with the share of GVC-based trade between developing countries quadrupling over the last 25 years.

GVCs offer an opportunity to integrate in the world economy at lower costs. GVC participation can lead to productivity enhancements through technology and knowledge transfers. Countries with high greater GVC participation have experienced higher growth rates.

But gains from GVC participation are not automatic. Many developing countries join GVCs by performing low-skill tasks where value capture is low and achieving upgrading to higher value tasks can be challenging.

Countries with a favourable business environment and low tariffs participate to a greater extent in GVCs. In addition, GVCs are associated with "deep integration" agreements: more than 40 per cent of free trade agreements in force today include provisions related to competition policy, investment, standards and intellectual property rights.

Obstacles for developing countries seeking to participate in GVCs include infrastructure and customs barriers. Directing Aid for Trade resources toward these objectives should therefore remain a priority.

Higher commodity prices

Prices for food, energy, metals and minerals roughly doubled since 2000. Although prices have eased back from these historical highs, strong demand from large developing countries provides a strong reason to believe that the highprice environment is likely to stay.

The challenges and opportunities arising from high prices differ significantly across countries. In many developing countries the agricultural sector is important in terms of employment, production and consumption. This suggests an important role for agriculture in development strategies in the developing world. But higher prices pose challenges for net importers of these goods.

Developing countries increased their market share in global agricultural exports from 27 to 36 per cent since 2000. But traditional market access barriers such as tariffs and subsidies continue to affect their exports and non-tariff measures are playing an increasingly important role.

Trade in natural resources has also grown strongly, not only in value terms but also in terms of volume. Several resource-rich countries have achieved high growth as a result, but the social and environmental impacts of natural resource extraction as well as economic diversification remain significant challenges.

Increased synchronization in and globalization of macroeconomic shocks

Global trade value fell by over 30 per cent within only a few months in face of the global economic crisis. This 2008-09 trade collapse and quick subsequent recovery revealed the dependency of developing economies on cyclical developments originating in large developed economies. The synchronization of downswings and upswings across the world illustrated the strong inter-connectedness of economies through trade and financial links, in particular the role of supply chains in the propagation of shocks, and the importance of trade finance, which had dried up.

Despite suffering the greatest economic downturn since the 1930s, the world did not see a repeat of the wholesale protectionism which marked that previous era. Explanations for this include the existence of a set of multilateral trade rules, the effectiveness of monitoring efforts by the WTO, countries' anticipation of the self-harming impacts of protectionism in light of their participation in global value chains, and the internationally coordinated macroeconomic response in light of the crisis.

WTO and development

The WTO has underpinned the progress made by many developing countries by allowing them to take advantage of, adapt to and mitigate risks arising from the four trends identified in this report. It has done so through binding commitments, flexibilities, technical assistance, and its institutional infrastructure.

Commitments under the WTO are important for developing countries to promote their trade and development. Countries undertaking substantial reforms in the context of WTO accession were found to grow 2.5 per cent faster for several years thereafter. At the same time, developing countries need flexibilities because their economic circumstances can hamper their ability to implement obligations.

Development is a fundamental objective of the WTO. The agreement reached in the Bali Ministerial Conference in December 2013 is a positive step in advancing this objective and offers many opportunities for developing countries. To make trade work more effectively for development, further progress on the Post-Bali Agenda would be important.

The four trends show that trade is one of the key enablers of development. Trade has played a central role in lifting millions of people out of poverty in recent years and helped to achieve many of the UN millennium development goals (MDGs). The WTO and its rules should be seen as an integral part of the enabling environment for realizing any post-2015 development agenda.

WTO Director-General Roberto Azevêdo Opening Remarks

Good morning everybody. Welcome to the WTO. Thank you for being here this morning.

I am delighted to officially launch the 2014 World Trade Report.

I'd like to start by thanking Robert Teh and his team for their hard work. I followed the process closely and saw the degree of effort and commitment that they put into it. So thank you, and congratulations on this excellent report.

I think this is a very important document.

It contributes significant further evidence of the essential role that trade plays in supporting economic growth and development.

Indeed, I think we have entered a new era in the link between trade and development.

There is a much greater appreciation today of just how important trade can be in economic strategic planning.

We see it here in Geneva, as developing countries are now among the biggest advocates for this organization.

And I see it when I visit those countries and see the work that is being done in so many places to integrate further into the global trading system.

I think it was very telling that a recent study of public opinion found that, across the globe, it is the African people who have the most positive view of trade today.

So with this report, we have gone beyond simply making the argument that trade supports development.

We have taken the opportunity to delve a little deeper and look at how the relationship between trade and development is evolving over time. More than that, we look into how we trade today.

The report identifies four major trends since the turn of the millennium which we think have considerably altered the relationship between trade and development, and the way we do business across borders.

First, is the rise of the developing world in the global economy.

Deeper integration of many developing countries into the global trading system has gone hand in hand with rapid economic growth. This has allowed them to reduce levels of absolute poverty for millions of their citizens and improve the quality of so many peoples' lives.

The second trend that we looked into is the growing role of developing countries in global value chains, providing them with easier entry to international trade flows and at much lower cost.

Developing countries now account for half of intermediate goods trade — which is a standard measure of global value chains. And south-south trade accounts for a quarter.

The evidence shows that participation in GVCs is associated with higher levels of productivity and income.

But of course access to GVCs is not automatic.

Unlocking their development potential can pose a series of challenges for many countries — and I will come back to this in a few moments.

The third trend is the higher prices of agricultural and natural resources.

This has bestowed significant benefits on commodity exporting developing countries.

Higher prices for agricultural goods bring broad-based development benefits because the sector employs more than half of the labour force in developing countries.

The final trend that the report discusses is the increasingly global nature of macroeconomic shocks as a result of this greater interconnectedness.

Trade can be a transmitter of shocks, but it is also a source of diversification. And the existence of multilateral trade rules provides an important safeguard.

In 2008, despite suffering the greatest economic downturn since the 1930s, the world did not see a repeat of the wholesale protectionism which was experienced during the Great Depression.

Such a response could have wiped out much of the economic gains achieved by developing countries since the beginning of the millennium.

But, of course, this did not occur. Disaster was averted.

The WTO's rules-based system and its monitoring of members' trade policies acted as a bulwark against an outbreak of protectionism.

Indeed, the existence of the WTO has allowed developing countries to take advantage of, adapt to, and mitigate risks arising from each of these four major trends.

It has done so by:

- enabling countries to take binding commitments which increase certainty over their trade policies,
- applying rules which offer a more equitable playing field (although improvements can still be made) and also a predictable global trade environment,
- providing flexibilities that better allow developing countries to undertake such commitments,
- facilitating technical assistance to build trading capacity within those economies,
- providing a way to settle disputes in a fair, open manner, and
- providing a forum to negotiate further commitments and updated rules.

One very important finding is that countries undertaking substantial reforms related to WTO accession were found to grow around 2.5 per cent faster for several years afterwards.

So the economic changes we have seen since the late 1990s underline the fact that an open, non-discriminatory, rules-based multilateral trading system is a necessary tool to make trade work more effectively for development.

However, the story of development is a never-ending one and significant challenges remain.

Average per capita income in LDCs is 4% — just 4% — of that in developed countries.

So while many poor economies have made significant progress during the period surveyed by the Report, much still needs to be done to close the development gap. The gains from trade and from the trends I have outlined cannot be taken for granted.

For example, while global value chains have a largely positive effect, they also present real challenges for developing countries. Moving up the chain is difficult even for middle income countries — giving rise to the idea of what some call the "middle income trap". Even more fundamentally, a large number of LDCs still have a very long way to go before they can meaningfully participate in these value chains.

Turning to high commodity prices, while they are a boon to exporters, they pose a real challenge for net food importers, many of which are LDCs.

Much more remains to be done, especially in the poorest countries, to leverage their agricultural potential.

The state of global demand — bolstered by strong demand from emerging economies — suggests that prices of agricultural goods and natural resources will remain strong in the foreseeable future. But there are always risks of a reversal — and we are seeing some of that already in the energy sector.

One way the agriculture and commodity exporting countries in the developing world could continue to make progress would be if levels of agricultural protection and subsidies were reduced.

Over the past two decades a lot of the energy on trade negotiations has been focused on bilateral and regional trade initiatives.

But — though they are welcome — these initiatives cannot meaningfully address the problem of agricultural subsidies, not to mention numerous other horizontal issues.

In our view, the multilateral approach is the preferred approach. It is the best approach we have.

And this is why our breakthrough in Bali last December was so important.

Ministers from every WTO member finally took a major step in updating multilateral rules by unanimously agreeing to the so-called Bali Package.

The 10 decisions which make up the package have economic significance by themselves — particularly for developing countries — but together they also opened a new chapter for multilateral trade negotiations.

In this way the success of Bali created new momentum for further negotiations. It has the potential, still, to change the game.

However, WTO Members are now facing a considerable challenge in implementing what they agreed.

At present we don't have a solution to the current impasse in our negotiations. We are working hard to find one.

But, as I told all WTO members last week, we have a responsibility to those who sent us here to Geneva to find ways to continue our work and to keep moving forward, while still looking for a way out of the impasse.

And this Report shows that, if cannot make progress, the biggest losers will be the people in the developing world.

They stand to lose the most in terms of forgone opportunities.

Trade has made a huge difference in the lives of countless people in developing countries in recent years and it has the capacity to deliver more developmental benefits in the future.

The international community understands the need for a continued and unrelenting focus on development. That's why they are mobilizing their efforts and resources behind the UN's post-2015 development agenda.

And I think the World Trade Report underlines that trade should be a central part of this agenda — and that it should feature in the sustainable development goals which are currently being discussed in New York.

So trade and the trading system have a great deal to offer.

Of course trade growth has been slow in recent years — due largely to the sluggish and uneven pace of macroeconomic recovery.

On current forecasts, 2014 will be the third straight year of below-average trade growth. And we don't expect this story to change in 2015.

But this isn't a situation that we have simply to accept. We can do something about it.

This slowdown could be partly remedied if we agreed on and implemented new agreements to underpin trade integration.

As this report shows, the reforms to international trade rules which were agreed 20 years ago have played a major role in the broad economic expansion that we have seen since then.

But over time the productivity gains from those reforms are gradually disappearing.

We are living off the liberalization and reforms of the past.

We need to update the rules and implement a new generation of trade reforms which would be so essential for development.

Although this report shows the contribution that trade has made to development, it also shows that the potential of trade in supporting development has not yet been fully realized.

The emerging trends we are seeing — and which you will see in the report — suggest that trade will be a major force for development in the 21st century.

So let’s do everything we can to make sure that is the case.

Thank you for listening.