



WORLD TRADE  
ORGANIZATION

# World Trade Report 2014

Trade and development:  
recent trends and the role  
of the WTO

# Main messages



- Trade and the WTO have contributed to the development successes of the past decade and a half.
- But there are still big development challenges ahead and both trade and the WTO have big contributions to make.

# Four key trends



- Rise of developing countries
- Increased developing country participation in global value chains
- Higher commodity prices
- Increased synchronization of macroeconomic shocks

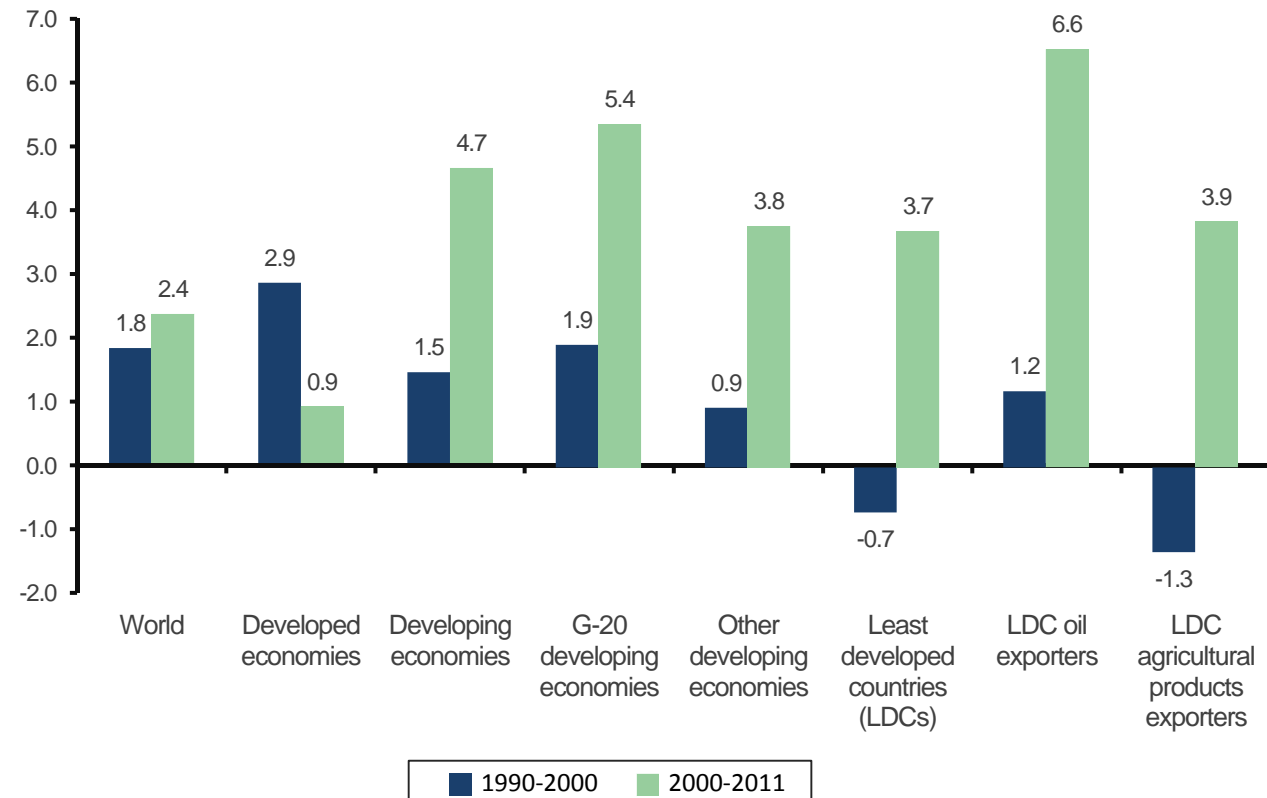
# **Rise of developing countries**

# Broad-based convergence



- In the last decades, faster GDP growth in developing countries has allowed **convergence** with developed countries.
- Growth has been broadly spread:
  - G-20 developing countries have shown double-digit growth
  - Natural resource exporters have benefited from higher commodity prices.

Figure B.8: Average annual growth in per capita GDP at purchasing-power-parity by level of development, 1990-2011  
(annual percentage change)

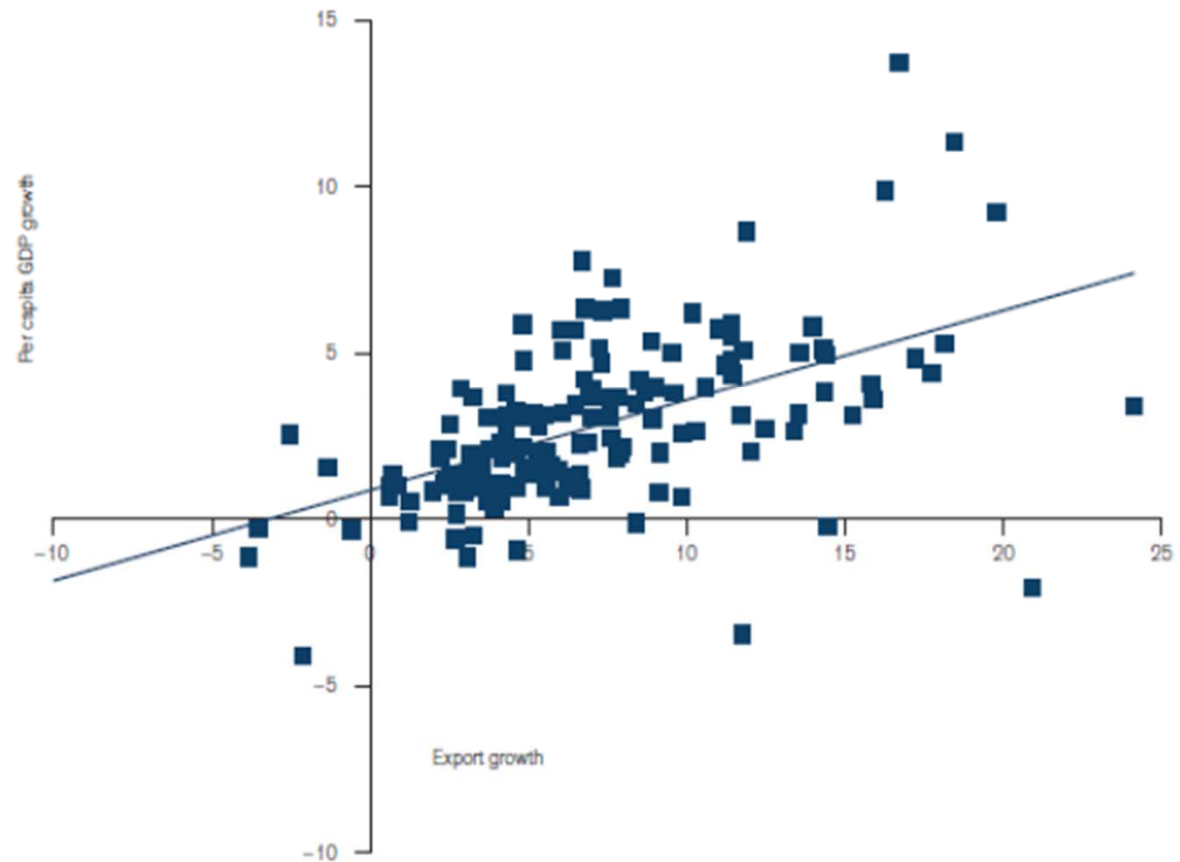


# Role of trade



- GDP growth has moved hand in hand with integration in the world economy.
- Although this relationship does not show causation, we know trade increases growth through various channels.

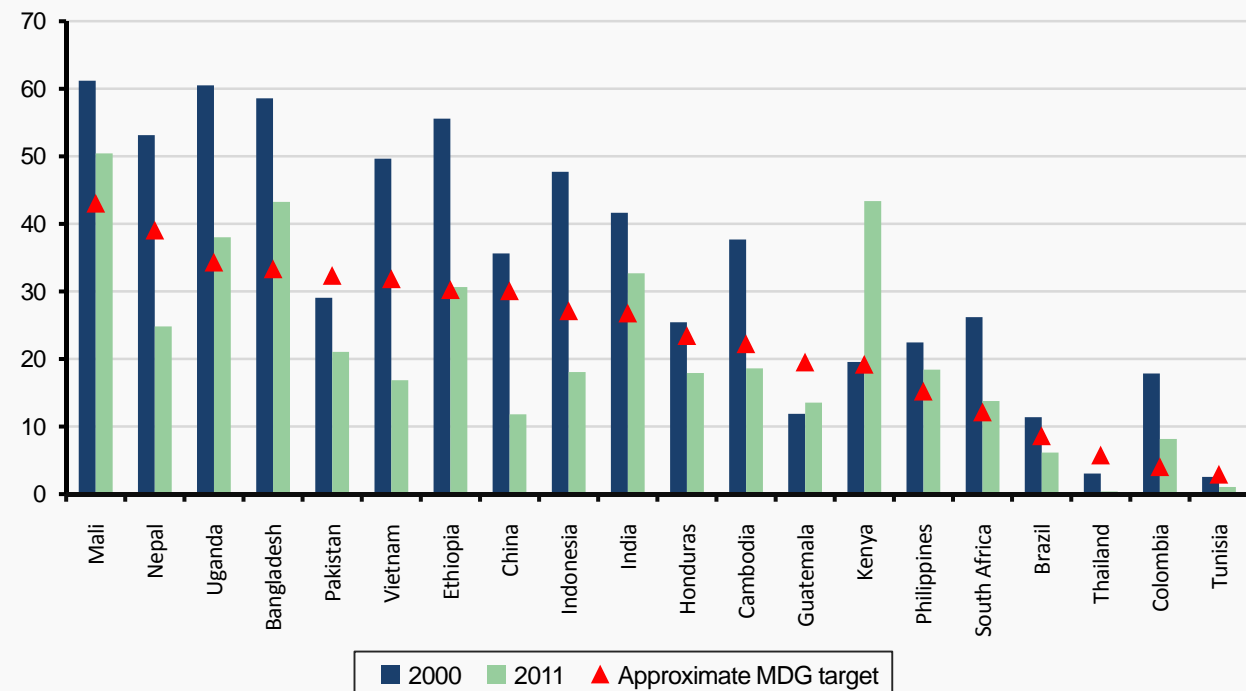
Figure B.7: Real per capita GDP growth and merchandise export volume growth, 2000–11  
(average annual percentage change on both axes)



# Poverty

- There has been a dramatic reduction in poverty.
- Many countries have surpassed their MDG goals.
- But the share of population in extreme poverty has increased in a few countries.
- Developing economies remain much poorer than developed countries.

Figure B.12: Share of population living in households below extreme poverty line, selected countries, 2000-11 (per-cent)



# Role of WTO



- ***A predictable and transparent rule-based system*** promotes trade and investments.
  - Particularly clear for countries that have acceded to the WTO
- ***Trade barriers reduced:*** Tariffs have fallen and binding coverage increased.

Table B.3: Average tariff rates, by country group (per cent)				
	Most-favoured nation (MFN) rate (per cent)		Bound lines (per cent)	
	Average 2009–11	Change since 1996	Average 2009–11	Change since 1996
World	8.5	–2.0	80.1	12.9
Developed	2.7	–1.9	98.9	–0.1
G-20 developing	10.1	–5.5	80.0	7.9
Other developing	13.0	–1.7	87.6	22.4
LDCs	7.1	–2.1	45.5	8.4

- ***Flexibilities*** allowed in WTO rules, specifically through preferential access for LDCs, have supported the good economic performance of the poorest.



# Challenges



- Lessons from the recent rise of developing countries:
  - Growth can lead to improvement in human development indicators.
  - Trade is an important driver of growth.
  - But better environmental outcomes or a more equitable distribution of income do not automatically follow.
- Environmental and social risks need to be anticipated and mitigated.
- Per capita incomes in LDCs remain at only 4% of developed country levels.

# **Increased developing country participation in global value chains**

# Global Value Chains (GVCs)



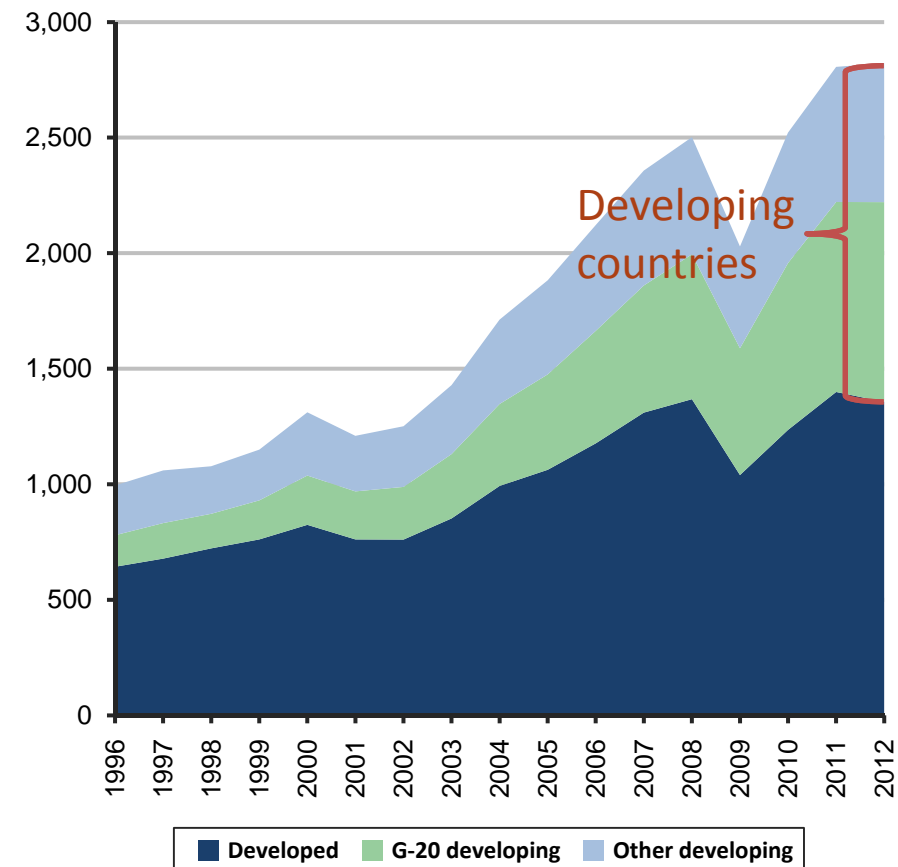
- GVCs offer a useful mechanism for countries to use trade to develop.
- Initial GVC integration typically has large development benefits.
- There are also risks involved and benefits are not automatic.
- Challenge thereafter becomes to upgrade to higher value added tasks or products in GVCs.

# The rise of GVCs and their growth benefits



- Many, though not all, developing countries have become increasingly involved in GVCs.
- South-South trade has grown through GVCs.
- GVC participation is associated with higher income and also higher economic growth.

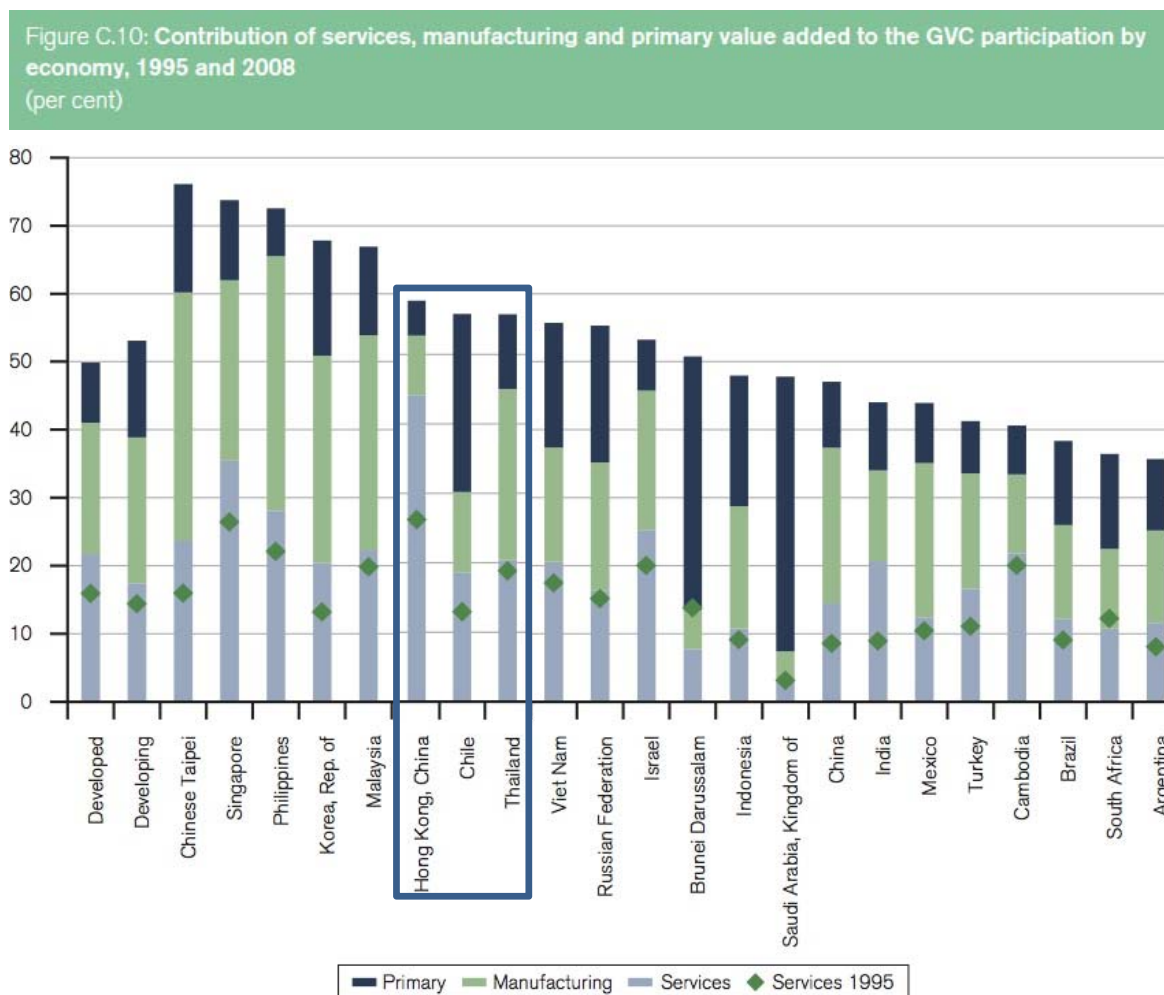
Figure C.1: Imports of parts and components by country group, 1996-2012  
(US\$ billion)



# Developing country participation in GVCs



- There is wide variation among developing countries:
  - In levels of participation
  - In type of participation
- Services have become more important through GVCs.



# Role of the WTO



- Trade policies are crucial for GVCs (alongside various domestic policies).
- Countries with higher GVC participation:
  - reduced significantly their tariffs on intermediate goods; and
  - also made deeper commitments under the GATS.

# Remaining challenges and the WTO



- Significant obstacles to GVC participation remain.
  - Important roles for trade facilitation, aid for trade and services commitments
- Tariff escalation can hold back upgrading.
- GVCs have spurred demand for deeper integration.



# **Higher Commodity Prices**

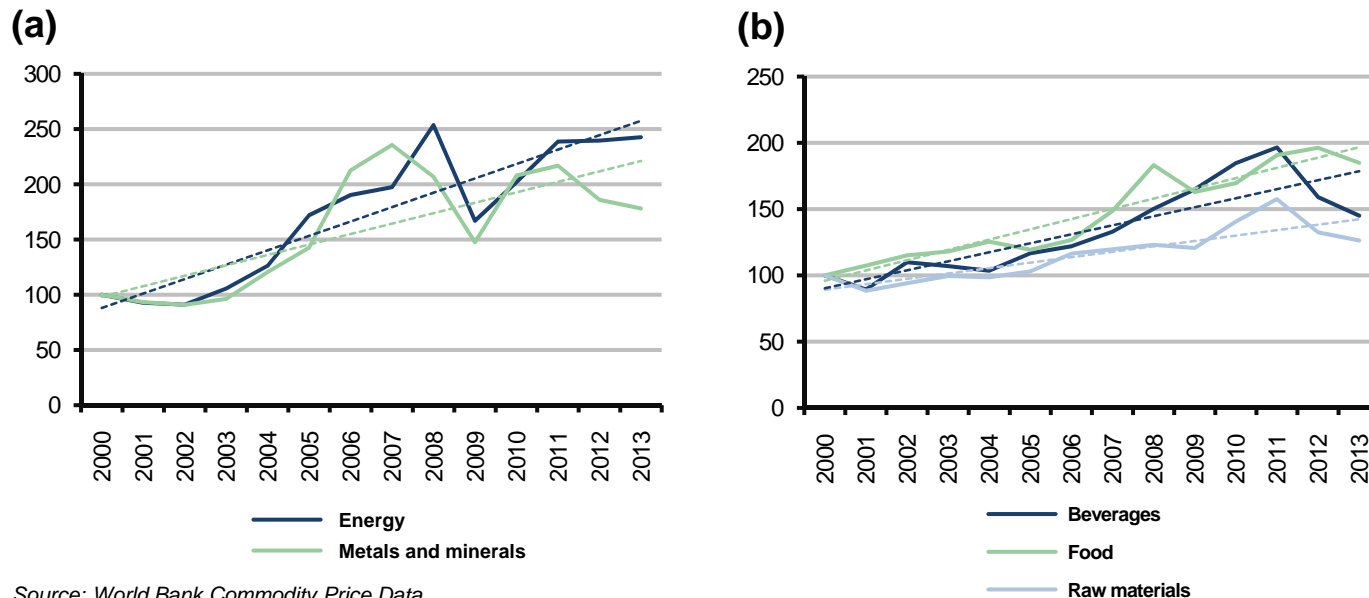


# Higher commodity prices



- Natural resource and food prices roughly doubled since 2000.
  - Trade has increased also in volume terms.
  - In light of emerging markets' strong demand, prices are expected to remain strong (but also volatile).
- This has opened export opportunities for many developing countries which grow these products.

Figure D.1: Real annual price indexes of selected economies, 2000-13  
(2000 = 100; real 2005 US\$)



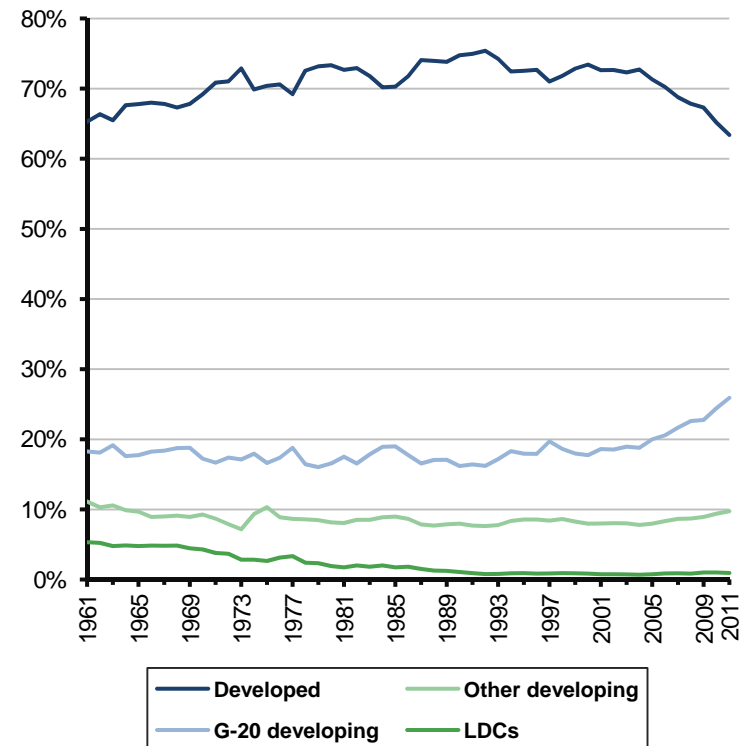
Source: World Bank Commodity Price Data.

# Agriculture



- Richer developing countries were able to take advantage, but poorer countries lag behind.
- Agriculture is key sector in developing countries, employing more than half of population.
  - Incomes/Wages are much higher in GVC-integrated agriculture ([Example: Tomato sector in Senegal](#))

Figure D.11: The share of developing countries' and LDCs' agricultural exports in world agricultural exports, percentages, 1961-2011

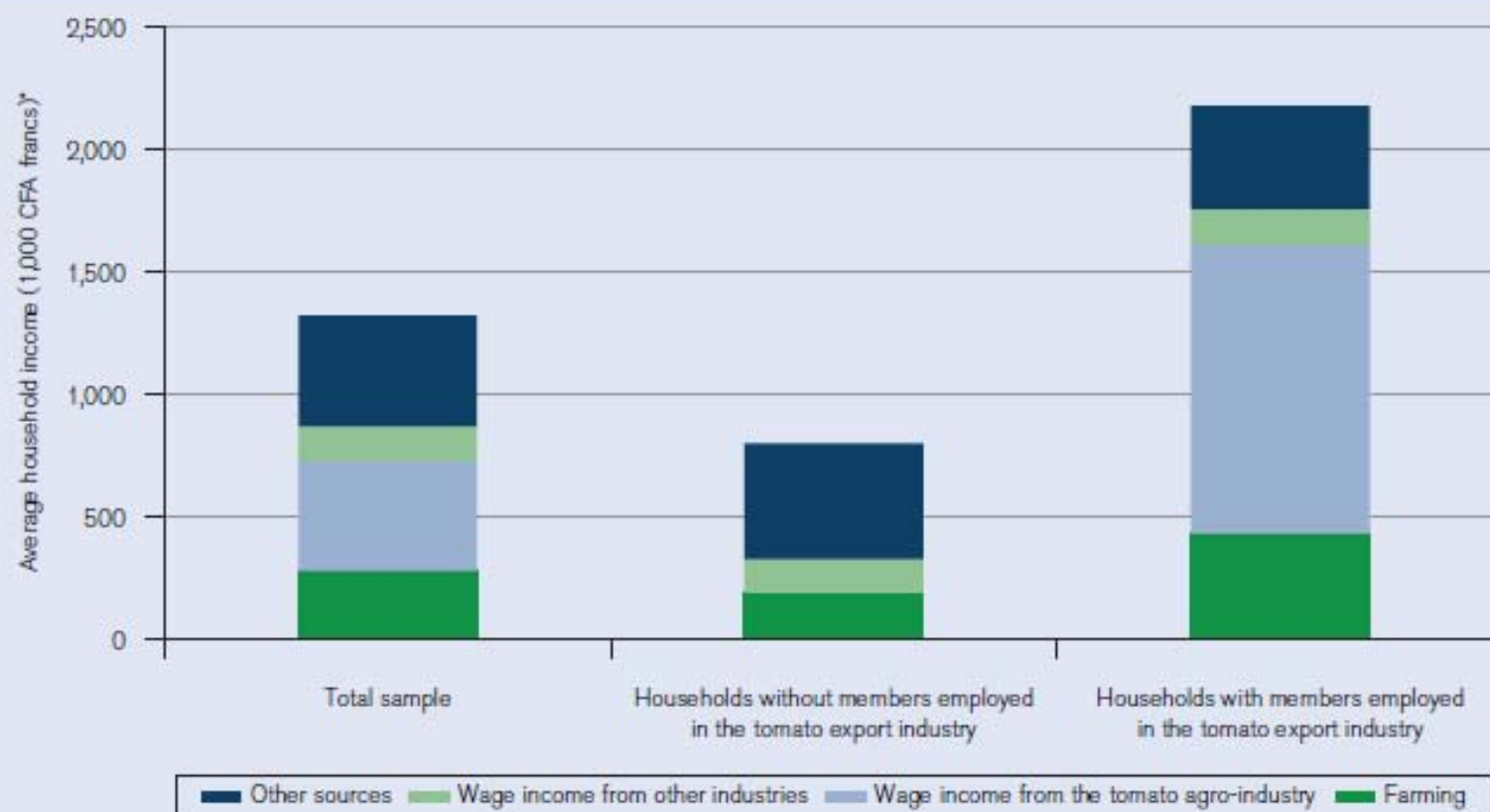


Source: WTO Secretariat calculations based on FAO data.

# GVC integration and rising agricultural incomes



Figure D.8: Comparison of household income in Senegal, by employment status in the tomato export industry



Source: Maertens and Swinnen (2011).

# Challenges and role of the WTO



- High prices are an important challenge for net food importers, many of which are LDCs.
  - Public stockholding for food security purposes
- In agriculture, tariffs and subsidies in destination countries continue to hinder developing country exports.
  - Making progress in this area hedges risk of commodity price softness in the future
- Non-tariff measures are likely to loom large.
  - Certification has become vital for export success, but can be hard to achieve for small producers.
  - WTO addresses issue through STDF.

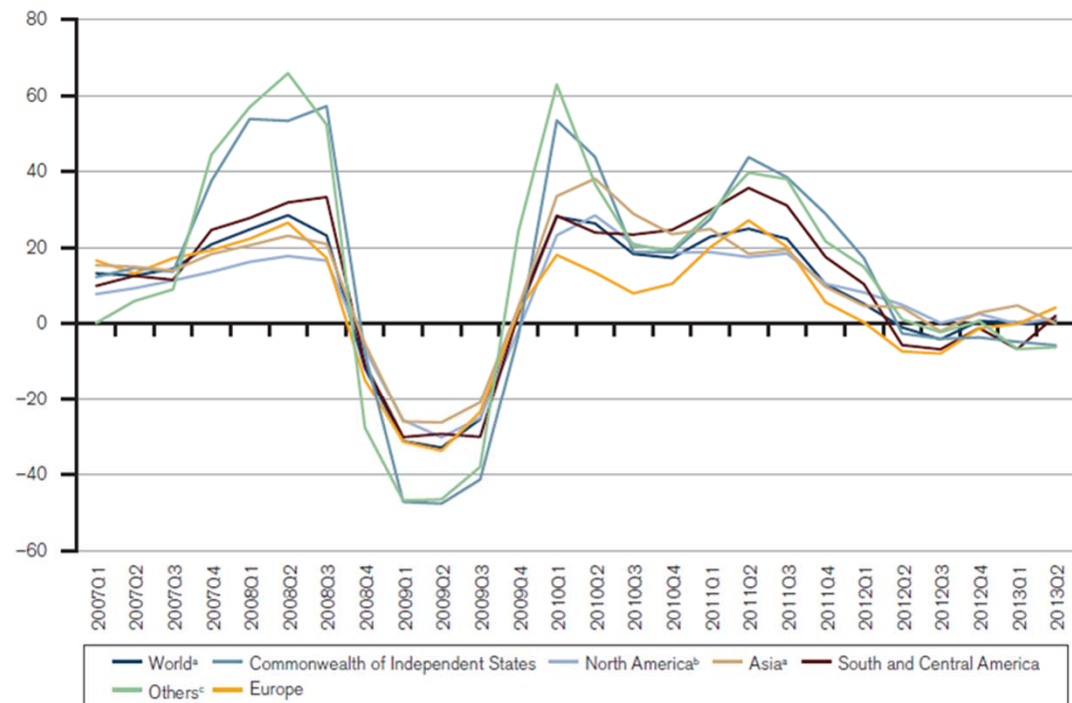
# **Increased Synchronization of Macroeconomic Shocks**

# Globalization and synchronization of macroeconomic shocks



- Macroeconomic shocks emanating from one part of the world can be transmitted to other parts.
- Trade may have been part of the transmission mechanism, but it also dissipates the shocks.

Figure E.4: Quarterly merchandise exports per region, 2007Q1–2013Q2  
(Year-on-year percentage change in US\$ values)



Source: WTO short-term merchandise trade statistics.

Notes: Data are not seasonally adjusted.

<sup>a</sup>Includes significant exports.

<sup>b</sup>Includes Mexico.

<sup>c</sup>Includes Africa and Middle East trade values, for these regions are significantly under-represented.

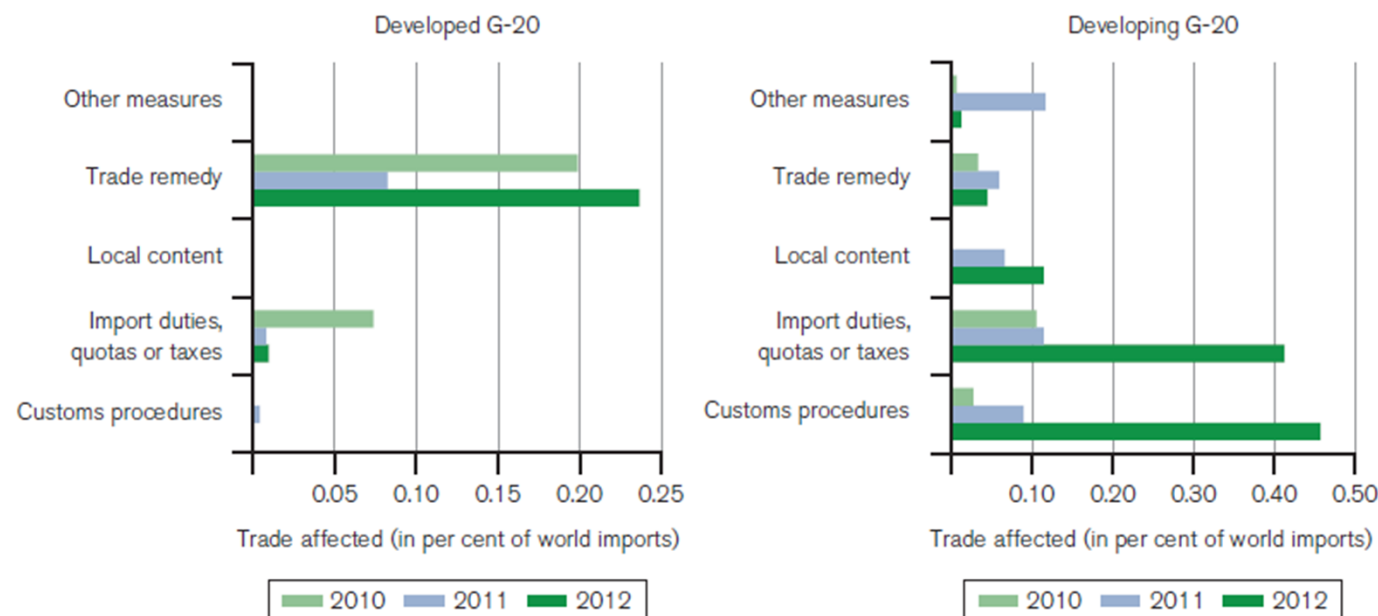
# Trade policy response to the crisis



- Trade restrictive measures were taken during the crisis, but:
  - Nowhere near the scale expected based on previous business cycle experiences.
  - Trade coverage was low.

- At the same time, countries were taking liberalizing trade and investment measures.

Figure E.8: Share of world trade covered by trade-restrictive measures, 2010–12  
(per cent of world imports)



Source: Authors' calculations using data from WTO monitoring database and UN Comtrade.

Note: Figures only include confirmed measures that are classified as restrictive. Only measures that are not withdrawn in the same year are included.

# Why no Smoot-Hawley?



- A coordinated macroeconomic response to the crisis
- Global supply chains
- The existence of trade rules and the effectiveness of monitoring efforts by the WTO
  - Without this system of rules, much of the developmental gains of the past decades could have been lost.
- Continued vigilance is needed in case of another crisis.



# Conclusions



- Enormous development gains have been achieved.
- But much more needs to be done:
  - Developing countries' incomes still lag those of developed
  - Upgrading and greater participation in GVCs
  - Agricultural protection and subsidies
  - Strengthening the rules-based system
- Trade has a central role to play and WTO has much to contribute.
- Many of the elements needed are at hand in the Bali decisions and the DDA.

# Thank you!

[http://www.wto.org/english/res\\_e/publications\\_e/wtr14\\_e.htm](http://www.wto.org/english/res_e/publications_e/wtr14_e.htm)

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