



WTO OMC

## WTO'S SUBSTANTIVE INPUT FOR THE 2018 HIGH LEVEL POLITICAL FORUM ON SUSTAINABLE DEVELOPMENT

### A. Assessing the situation regarding the principle of "ensuring no one is left behind"

Over the past 15 years accelerated economic growth in developing countries has resulted in narrowing of the income gap between developing and developed countries. The growth spurt in developing countries has been dramatic: After growing a mere 1.5% annually in the 1990s, incomes have grown by 4.7% per year on average thereafter. Meanwhile annual per capita income growth in the developed world slowed to just 0.9 per cent, down from 2.8% in the 1990s. Developing country G-20 members have done particularly well (5.2%), while both LDCs and other developing countries have grown 3.7%. Given their size, rapid industrialization and greater trade openness among developing country G-20 members such as China, India and Brazil may have drawn along other developing countries. Higher demand for commodities resulted in higher prices in the 2000s, consequently boosting incomes in resource-exporting developing countries, including many LDCs. Developing economies as a whole now constitute around half of both global output and global trade (rising from 39% and 32% respectively in 2000).

This growth explosion has greatly contributed to an unprecedented reduction of poverty levels leading to an early achievement of Millennium Development Goal 1 (MDG1) which aimed at halving, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. According to the most recent estimates published by the World Bank, in 2013, 10.7 percent of the world's population lived on less than US\$1.90 a day (the current definition of extreme poverty), compared to 12.4 percent in 2012. In 1990, which constituted the baseline for the MDGs, the proportion of people living in extreme poverty was close to 35%.

Trade and the WTO have contributed significantly to the unprecedented economic development that has taken place in the last decade and a half. 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 played a key role by providing certainty regarding the commitments of its members, thereby creating a predictable environment that allowed economic activity to flourish. It has also given flexibilities to developing countries to address their specific economic needs and has helped contain protectionism, thus helping to safeguard the economic gains made by developing countries in the past.

In making an assessment of the situation regarding the principle of "ensuring that no one is left behind" it is important to look at the mechanisms through which trade benefits the wider population. The theory of how trade contributes to poverty alleviation is explained by economists through 3 main transmission mechanisms:

- I.the distribution channel – this mechanism functions by affecting the price of imports consumed which tend to decrease and the price received for exported goods which tend to higher than for goods sold domestically;
- II.the enterprise channel – this effect operates mainly by affecting the wages received by workers in exporting industries which are higher than for those industries that do not export;
- III.the government channel – by affecting the domestic income generating capacity through increased tax intake which allows governments to enhance social spending, as well as to adopt pro-poor, inclusive policies supported by trade.

Sustained poverty reduction thus occurs through the efficient development and utilization of productive capacities in a manner in which the working age population becomes more and more fully and productively employed, prices for consumers are reduced increasing purchasing power and government revenue increases allowing it to implement redistributive policies. And while the effects of trade on poverty reduction tend to be highly context-specific, trade can be more beneficial to the poor if it is accompanied by domestic policies that promote pro-poor growth strategies, providing the social and physical infrastructure required for a growing economy, and directly assisting specific target groups among whom poverty rates are highest in a nation.

Another reason is related to the fact that trade liberalization may impact regions differently within a country. This coupled with the poor internal mobility in the country may hinder the possibility of workers migrating from regions negatively affected by trade liberalization to those which have been positively impacted.

A similar situation arises regarding the internal mobility of goods within a country. High transport and distribution costs may mean that consumers in regions further from the borders and ports may not be able to fully benefit from the lower prices brought about by trade liberalization. This would also be the case if domestic industries are imperfectly competitive and the decrease resulting from lower tariffs on prices is negated by higher profit margins and markups of intermediaries.

Yet another explanation, which has been much less explored, could be related to the conditions of market access in trade partners. A recent study by Adelina Mendoza and Roberta Piermartini from WTO and Gaurav Nayyar from World Bank shows that that tariffs tend to be higher and non-tariff measures more prevalent for the poor, thus limiting their opportunities to access international markets. The study analyzed tariffs faced on goods produced by Indian workers, by sector of occupational activity. It then calculated the average tariff faced by individuals classified according to their position in the overall income distribution. It also looked at other factors including, gender, rural vs. urban, and small vs. larger enterprises.

The results show that goods associated with higher income households face lower tariffs while goods associated with low income households face higher tariffs. The difference between the tariffs on goods produced by the poorest sector of the population is on average 10 percentage points higher than those faced by the richest segment. This same correlation can be evidenced on tariffs in agriculture products, where many of the poor are concentrate their production, but facing even higher tariffs.

Similarly, households in rural areas face an average tariff which is almost 11 percentage points higher than their urban counterparts (22.6% versus 11.7%). And in this case distance to an urban area also makes a big difference. Average tariffs go from 9.6% for those living in the city to 24.4% for those living more than 600 kilometers from the city center.

There are also marked differences according to gender. Overall, the average tariff facing men is 6 percentage points lower than that facing women. Women consistently face higher tariffs across all segments of the population, except for the richest segment where men face tariffs that are on average one percentage point higher than those faced by women. However, the number of women in the higher-income segment is much lower than the number of men. When it comes to the size of the enterprise, workers in those enterprises with less than 10 employees face an average 9.8% tariff, which is significantly higher than the 7.2% for enterprises with more employees.

In addition to higher tariffs, the products produced by poor workers face a greater number of non-tariff measures (NTMs). On average, the poorest segments face some 200 different types of NTMs while workers belonging to the top income segment face 127.

This evidence points to a problem of coordination. When several countries implement policies to protect the poor and with the poor across all countries being employed in similar sectors of the economy then these poor households may be less able to benefit from trade liberalization because all countries are protecting the very areas where those poor have more potential to capture export opportunities, generating employment and wage increases. This will also have the effect of decreasing global demand for the goods (and services) that the poor produce, depressing their prices and thus reducing the income received by the poor.

Therefore the one aspect of the answer to the question of why the poor have been less able to benefit from trade liberalization is that, in seeking to protect them from globalization, trade liberalization has limited the access of the poor to global market. So the solution to this should be a coordinated multilateral effort to remove the barriers affecting market access for products produced by the poor helping to achieve a more even distribution of the gains from trade.

If countries want to shield the poor from some of the negative effects of globalization it is important to consider that unemployment and other dislocations are not strictly or mainly a trade issue, so trade measures alone will not address some of these problems. A more far-reaching response is necessary which also deals with the wider changes in the economy that are being driven by technology and innovation. This will require action in a number of areas, for example, to ensure that people can have the right skills to participate in and have access to the jobs being created in today's markets and be able to move to where those jobs are. More active and cross-cutting labor market and mobility policies will be essential. These include aspects of education and skills building, help for smaller companies and improved adjustment support to the unemployed, as well as, housing, and skill-certification issues.

## **B. Making trade work for environmental sustainability**

At the core of the 2030 Agenda for Sustainable Development is the idea that economic growth must be both inclusive and environmentally sustainable. International trade, underpinned by the WTO's open, transparent, and non-discriminatory framework of global trade rules, has an important role to play in national and global efforts to meet this challenge.

Trade does of course have direct environmental consequences, including pollution from international shipping and aviation. Efforts to reduce such effects are critically important to achieve sustainable development. But trade can also serve as a powerful tool which countries at different stages of development can use to support their sustainability goals. Trade stimulates growth and raises income levels which over time can help increase the demand for a cleaner environment. At the same time, open trade promotes greater specialization and a more efficient allocation of natural and other productive resources, provided that sound environmental policies are in place.

Trade also contributes to sustainability by providing access at lower cost to a greater variety of goods and services involving environmentally-friendly technologies. These goods and services perform a variety of functions that are critically important for achieving the SDGs, including: generating clean and renewable energy; improving energy and resource efficiency; reducing air, water and soil pollution; managing solid and hazardous waste; and monitoring environmental quality. Having access at lower cost to a greater variety of such goods and services can encourage governments, companies and individuals to leapfrog outmoded technologies, while giving them more environmental "bang" for each dollar invested in reducing pollution or increasing resource and energy efficiency. A study by the World Bank found that eliminating import barriers in the top 18 developing countries ranked by emissions of greenhouse gases would increase imports by 63 percent for energy-efficient lighting, 23 percent for wind power generation, and 14 percent for solar power generation. At the same time, more open trade allows domestic producers of green goods and services to tap into a rapidly growing global market.

Since 2014, 46 WTO members have been working towards a deal – known as the Environmental Goods Agreement or EGA – to cut tariffs on environmental goods. EGA participants account for the majority of world trade in environmental goods. Examples of such goods include: energy efficient LED bulbs; solar photovoltaic panels; solar cook stoves; air and water filters; machines to handle, recycle, compost and incinerate solid waste; floating barriers to contain and clean oil spills; devices to prevent turtles and aquatic mammals such as dolphins, from being trapped in fishing nets; and a broad range of instruments to monitor environmental quality. EGA participants have consulted with a broad range of experts and stakeholders, and have conducted their own assessments, to ensure that the products contained in the EGA would benefit the environment. Once concluded, the negotiations could give an additional boost to trade in environmental goods, which has been growing quickly during the last few years. Also in the context of the Doha Round of negotiations, WTO Members have been discussing the reduction of tariff and non-tariff barriers to trade in environmental goods and services.

By connecting producers to the growing global demand for sustainable goods, trade offers an additional avenue to support countries' sustainability goals, including SDG:12 on sustainable

production and consumption and SDG:2 on sustainable agriculture. Trade in sustainable goods can open up significant economic opportunities, in particular for small agricultural producers in developing and least-developed countries who make up the bulk of the rural poor. Consumers and companies are often willing to pay more for goods that are organic, that have a lower environmental footprint, or that otherwise meet national and international environmental standards. By connecting producers to the rapidly growing global demand for such goods, trade can serve as a powerful financing tool for economic development in rural communities. At the same time, trade can provide incentives for the adoption of environmentally-friendly production practices and more broadly, for the sustainable management of biodiversity and ecosystems.

For trade to play its full role in strengthening markets for sustainable goods, a key step would be to ensure that sustainability 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. Equally important are targeted efforts to strengthen the capacity of small and medium-sized producers to seize new export opportunities. As part of these efforts, special attention should be given to ensure that producers, particularly small and medium sized ones, can access "quality infrastructure" to demonstrate compliance with relevant sustainability standards and access foreign markets.

Turning into reality these and other opportunities to use trade in support of a better economy and a better environment requires continued international cooperation. Such co-operation can be more fruitful and productive if it is rooted in a shared understanding of the rapidly evolving and expanding interaction between trade and the environment, and of the challenges and opportunities arising from that interaction. The WTO provides a forum – the Committee on Trade and Environment or CTE – to help WTO members develop such a shared understanding. This forum works by bringing WTO members together to discuss trade and environment-related issues and learn from each other's national experiences in ensuring that trade and environment policies work hand in hand.

Since its establishment in 1995, the CTE has become the preeminent global forum for policy dialogue on trade and environment issues. For example, the Committee played a groundbreaking role in showing how the use of certain forms of fisheries subsidies not only distorted trade but also led to unsustainable environmental resource exploitation. As early as 1997, important proposals were submitted at the CTE highlighting fisheries as a good example of a natural resource sector where removing certain forms of subsidies would generate significant benefits for trade and for the environment. The ensuing discussions showed significant scope for trade action to address an environmental problem, and helped garner the necessary consensus to launch the process of WTO negotiations referred to under SDG:14.6.

In addition, the CTE is a focal point for information exchange, coordination, and co-operation between the WTO and Multilateral Environmental Agreements (MEAs), including the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the hazardous chemicals and wastes conventions (Basel, Rotterdam and Stockholm Conventions), and the United Nations Framework Convention on Climate Change (UNFCCC). This role of the CTE as a forum for information exchange and policy dialogue between the trade and environmental policy communities has fostered a harmonious co-existence between the WTO and MEAs, thereby contributing to the achievement of SDG:13 on climate change, SDG:15 on life on land and other key sustainability goals.

### **C. Natural disasters and trade – Exploring linkages to make societies more resilient**

Natural disasters affected 98.6 million people world-wide in 2015. The United Nations assesses the economic losses from natural disasters at US\$250-\$300 billion annually. World Bank Group research suggests this figure may be even higher, with extreme weather alone responsible for consumption losses of US\$520 billion. The consequence is to push some 26 million people back into extreme poverty each year according to World Bank estimations.

Declarations made at the WTO's Eleventh Ministerial Conference, by Dominica and other members of the Organization of Eastern Caribbean States, and the Group of Small Vulnerable Economies, highlighted the catastrophic impact that severe storms and hurricanes can wreak. They also

proposed that there is a role to be played by the multilateral trading system, more specifically the WTO, to contribute to promoting recovery by enabling the flow of essential supplies and enabling reconstruction and rebuilding.

The frequency and severity of natural disasters is predicted to grow. Within an inter-connected global economy, international trade is an important factor in disaster response, recovery and resilience.

For example when it comes to disaster response the Trade Facilitation Agreement of the WTO has been highlighted by Members as providing an enabling environment to allow them to respond more quickly to crises. It can do so by cutting red tape and delays at the border that may hamper the import of much needed supplies in disaster relief efforts.

But decisions related to trade taken in the wake of natural disasters could have both positive and negative effects. The right policy can help boost supply side capacity and restore trade after a disaster. The wrong measure could stifle recovery, erode resilience and impact development. It is therefore important to take the initiative of looking at the problem as a whole and consider how the Multilateral Trade System and the WTO should respond.

For these reasons the WTO has started a research project that will examine *inter alia*:

- (i) the nexus between natural disasters and the multilateral trading system;
- (ii) the impact on Members' trade and development of recent natural disasters; and
- (iii) the trade dimension to disaster response, recovery and resilience.

In this work, WTO will engage in a broad outreach exercise, with WTO Members, the UN system and other relevant stakeholders.

#### **D. Emerging trade issues that will have an effect on building sustainable and resilient societies**

In recent days there has been an increase of trade tensions brought about by the imposition or threat of imposition of trade restrictive measures and countermeasures. This situation is of grave concern, as there are signs that this may only be the beginning of these tensions and comes at a time when there is a generally positive economic outlook.

After years of sluggish growth, trade expansion has been picking up around the world. It is now growing at a sustained pace that has not been seen since the global financial crisis. Global trade growth last year was around 3.5% and early indications for 2018 are positive. WTO's latest World Trade Outlook Indicator shows that merchandise trade volumes, export orders and air and sea freight traffic are all above trend, suggesting that first-quarter trade growth is continuing apace. This is may be jeopardized by an escalation of reciprocal trade restrictive measures that would stop this recovery in its tracks – with consequences for jobs and GDP growth that would harm all countries.

But, in addition to the important economic consequences, the potential systemic consequences could be even more serious. One of the major achievements of the WTO is that it has given smaller countries something close to equal status with their larger counterparts in economic relations and provided them with a voice to make their concerns known. The rules based system of the WTO has contributed in levelling the playing field.

It would be an awful setback reverting to a situation in which the strong are not bound by, or ignore, the rules and can force the weak to accept their will in the conduct of trade. Neither would the world be better off with an arrangement of managed trade where countries with larger markets can coerce other countries to limit their exports under the threat of imposition of more restrictive trade barriers. This will lead to great inefficiencies in the use of global resources and increase inequalities.

It is very important to avoid further escalation as once the domino effect starts it is very difficult predict when it will end. This is definitely one of the greatest challenges the system has faced. It is therefore urgent that all members get back to the spirit of international cooperation, and not confrontation, which guided the creation of the multilateral trading system in the post-war period.

This is all the more important since multilateral system is needed not just respond to immediate threats, but also to develop a deeper understanding of the longer-term shifts. And these long term shifts are deeper and coming faster than anything that has been experienced before. They are driven by technological advances happening at an unprecedented pace. Society used to have decades to adjust to the transformations caused by new technologies. Today, adjustment needs to happen in only a few years.

It is also important not to underestimate the complexity of the reforms that will be necessary to adjust to this new technological reality. This is one of the biggest challenges facing all governments today – one that will not be met by a 'business as usual' approach. But, while many of the adjustments needed are in the area of domestic policy, at the international level, multilateral institutions also have a role to play.

For instance in this rapidly changing economic context, a global trading system is needed that would:

- Firstly, be strong enough to help countries resolve disputes, offering a system that helps to depoliticize areas of friction.
- And, secondly, be flexible enough to help countries to seize the opportunities that the Fourth Industrial Revolution will provide.

WTO has shown over recent years that it can produce meaningful development friendly results. Examples of this are the Trade Facilitation Agreement, the expansion of the Information Technology Agreement, the amendment of the TRIPs agreement easing access to medicines and the agreement to abolish agricultural export subsidies.

Besides trying to harvest more results in the traditional areas of WTO's work, discussion has also started in other dynamic areas such as e-commerce, investment facilitation, support to small businesses, and women's economic empowerment. This is being pursued on an open-ended and proponent driven basis where all members are free to join the discussions.

Strength and flexibility are essential ingredients for an effective trading system. Transparency and predictability in trade policy also remain vital for all actors in the global economy. Collectively, WTO Members must show leadership in reiterating their commitment to open and mutually beneficial trading system as a key driver of economic growth and a major engine for prosperity. In these testing times the multilateral trade system and the WTO are more than ever needed to promote global economic cooperation that will help build sustainable and resilient societies.

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