Preparatory Process for the Third International Conference on Financing for Development

Substantive informal session: "Trade, technology and capacity building and other non-financial means of implementation"

10 December 2014, United Nations, New York

The Monterrey Consensus recognized international trade as an engine for development, and committed Member States to place the needs and interests of developing countries at the heart of multilateral trade negotiations. Since Monterrey, the share of developing countries' exports in the value of total world exports has increased, however, progress has been uneven. Global trade continues

Programme

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Co-Chairs:

- H.E. Mr. George Wilfred Talbot (Guyana)

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Briefing Note

<u>*International trade for sustainable development*</u>

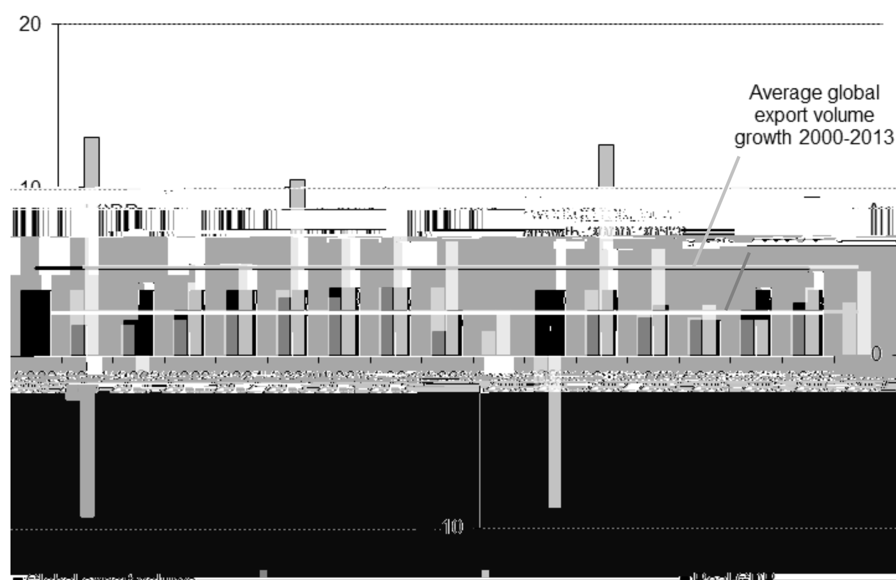
During the past decades there has been a dynamic expansion of world trade driven by technical advances, falling trade costs, a generally open trading environment and global value chains. The volume of world trade in goods and services increased five-fold from 1990 to 2013. The increased participation of developing countries in world trade has driven this global trend: their share in world merchandise exports climbed from 24 per cent in 1990 to 32 per cent in 2000 and then to 45 per cent in 2013. Developing countries in Asia alone have come to represent 36 per cent of the world's merchandise exports in 2013. Trade growth is forecast to accelerate in 2014 and continue into 2015.

However, trade has yet to regain the dynamism and the rapid growth trajectories of the years preceding the global economic crisis. In 2013, international trade in goods and services expanded at a modest pace of 2.2 per cent in volume terms, with developing countries' exports expanding at a faster pace (3.2 per cent) than those of developed countries (1.6 per cent). While trade flows continue to assume importance for resource mobilization in many developing countries, the extent to which export-led growth models offer the same development prospects as before the crisis has come in to question.

There is also a substantial variation in trade performance across countries, which is heavily skewed towards a handful of economies. The largest 20 exporters, most of which are from the developed countries and Asian regions, represent 70 per cent of world merchandise exports. Least developed countries' (LDC's) trade was strongly impacted by the global economic slowdown and their share in world trade in goods and commercial services remains low at 1.14 per cent of world trade.

There have also been large changes in the structure of global trade. World trade has been characterised by a lengthening of global value chains and the intensified transport of goods within such chains. An important aspect of trade in global value chains is that countries are required to import intermediate goods to produce and export processed goods or goods for final consumption. Reflecting the growth in value chains, trade in intermediate goods increased to approximately 55 per cent of world trade in

Annual changes in world real GDP and exports (goods and services), 2000-2015



2011. Dynamic growth in South-South trade, particularly intraregional trade, is in large part a reflection of the rise in trade within global value chains. South-South trade accounted for 59 per cent of developing countries' exports in 2013 and 25 per cent of world merchandise exports.

Overall growth in services trade has been faster and less volatile than trade in goods, but remains fairly stable as a share of total trade, at about 20 per cent. Tourism and transport services remain the main sectors for services trade. From 2000 to 2013, developing countries' share in world services exports rose from 23 to 30 per cent. In 2012, services represented 14 per cent of the total export of goods and services for developing countries and 51 per cent of their GDP.

Trade policies also have differential impacts on men and women, depending on a number of factors, including existing gender patterns within the division of labour, inequalities in the ownership of assets, educational level and entitlements, and the traditional pattern of gender roles. Because trade policies have strong redistributive effects both across economic sectors and among individuals, assessing the impact of trade C2(on)-9ess of iee adepende1mlbtsccho(r)3(
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regulatory measures, including investment, competition policy, capital movement, intellectual property rights and government procurement. Once concluded, these are likely to have a major impact on global trade and investment patterns.

Negotiations for mega-regional agreements have become increasingly prominent in the public debate, attracting considerable attention – support and criticism alike – from different stakeholders. Primary concerns relate to their likely impact on Contracting Parties' regulatory space and sustainable development (see below). In addition, these agreements are not negotiated under a development mandate and thus may not adequately consider the sustainable development implications of their provisions.

Regional trade agreements often incorporate provisions on intellectual property rights going beyond the Agreement in Trade-Related Aspects of Intellectual Property Rights that affect various public policies,

Incentives are widely used by governments as a policy instrument for attracting investment, despite persistent criticism that they are economically inefficient and lead to misallocations of public funds. In 2013, 59 countries adopted 87 policy measures affecting foreign investment, including

likely higher. At least 98 governments have been respondents to one or more investment treaty arbitration. About three-quarters of known cases were brought against developing countries, although in 2013 almost half of all new cases were brought against developed countries. Around 85 per cent of ISDS claims have been brought by investors from developed countries.

The growing number of ISDS cases and the broad range of policy issues they raise have turned ISDS into arguably the most controversial issue in international investment policy. A number of recent ISDS cases have raised questions about the coherence of ISDS with sustainable development goals. In El Salvador a mining company brought a claim against the State after it refused to issue a mining permit; the government has sought tighter restrictions on all mining due to concerns about water pollution. Tobacco companies have brought claims against several states that have introduced regulations on tobacco packaging aimed at bolstering public health. Government policies aimed at resolving financial crises have also been the basis for claims in numerous countries.

Transparency is also an issue of concern. From 2006, the International Centre for SS

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Public agencies have historically provided research funding and early stage capital financing of many new technologies.[8] This is to be expected as early stage basic research activities are inherently risky, and the knowledge gained is a public good. For example, many technological breakthroughs of the past decades, including innovations in aeronautics, electronics, and green technologies, were facilitated or funded by Governments. Additional public resources will be needed to fund breakthroughs needed for sustainable development.

Further along in the technology cycle, when specific products emerge that could yield a return, the risks become lower, and the private sector plays a larger role. Private financing in the form of venture capital, private equity and commercial finance become available at this stage. However, there are financing gaps between different stages of the cycle – at an early stage, when concepts need to be developed into working prototypes, and later during commercialization, when risk capital for early-market exploration is insufficient.[9] It is critical that the financial system is geared toward serving innovation, providing long term and patient capital to bridge potential 'valleys of death'.[10]

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