Chapter II

International trade

With demand in many developed countries still low, and growth faltering in developing countries, 2013 has seen a further slowdown in trade. There is some improvement expected in the forecast period, with demand rising in developed economies and activity recovering in developing countries. Trade balances are expected to remain virtually the same between now and then. Trade in services has fared somewhat better than goods, particularly exports from developing countries. There has been some progress on multilateral trade, with a limited agreement reached on 7 December 2013 at the World Trade Organization (WTO) Ninth Ministerial Conference, held in Bali. Significant developments are also possible in the area of large regional trade agreements (RTAs), which have the potential to cover a majority of world trade if they are approved. For the moment trade is being driven by larger macroeconomic trends as opposed to changes in policy; this may shift in the medium term.

Slow growth continued in world merchandise trade in 2013, but some improvement is expected

Growth of international trade flows weakened even further in 2013, after anaemic growth in 2012. Sluggish global output growth has weighed on international merchandise trade flows, with feeble import demand in major developed economies and moderate demand in a number of large developing countries. World export volumes are set to increase only 2.3 per cent for 2013, lower than the pace of 3.1 per cent in 2012 and well below trend growth prior to the global financial crisis (figure II.1).

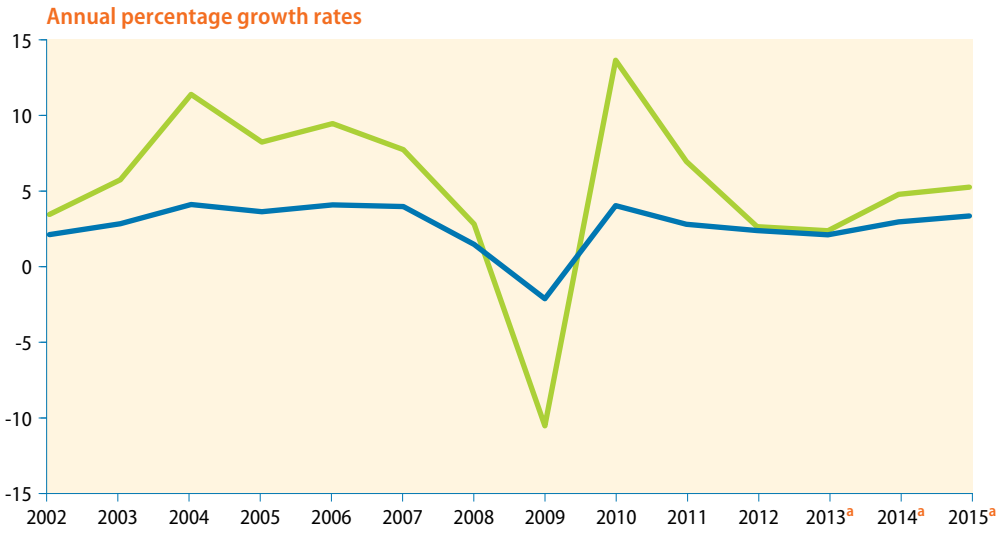
Some improvement is expected in world trade flows in the outlook for 2014-2015, as global output is projected to strengthen gradually. Slightly improved demand in Europe (from a recession, admittedly), a continuation of the recovery in the United States of America, and an expected rebound in the trade dynamism of Asia are anticipated to drive growth of world exports to 4.6 per cent in 2014 and 5.1 per cent in 2015—more in line with the historical pattern of the ratio of trade growth to global output growth.

South-South trade is now nearly equal to North-North trade as a proportion of world trade

The geographic pattern of world trade flows continues to shift. The share of exports is almost equal for developed and developing countries, although imports of developed countries are still leading developing countries. South-South trade has continued to grow, rising from about one fifth of world trade to about one fourth in the past decade. Growth of South-South trade has accounted for a majority of the growth of world trade. North-North trade has grown at a slower clip and now accounts for about the same proportion of world trade as South-South trade (figure II.2). Much of the growth in South-South trade has been driven by trade in fuels—owing to both higher prices and increased demand in developing countries—and by communications equipment, which has shifted production from developed to developing countries.[1] Trade flows between developing and developed countries still account for a significant portion of world trade. Despite some increase, shares of least developed countries (LDCs) in world trade remain low at less than 1 per cent.

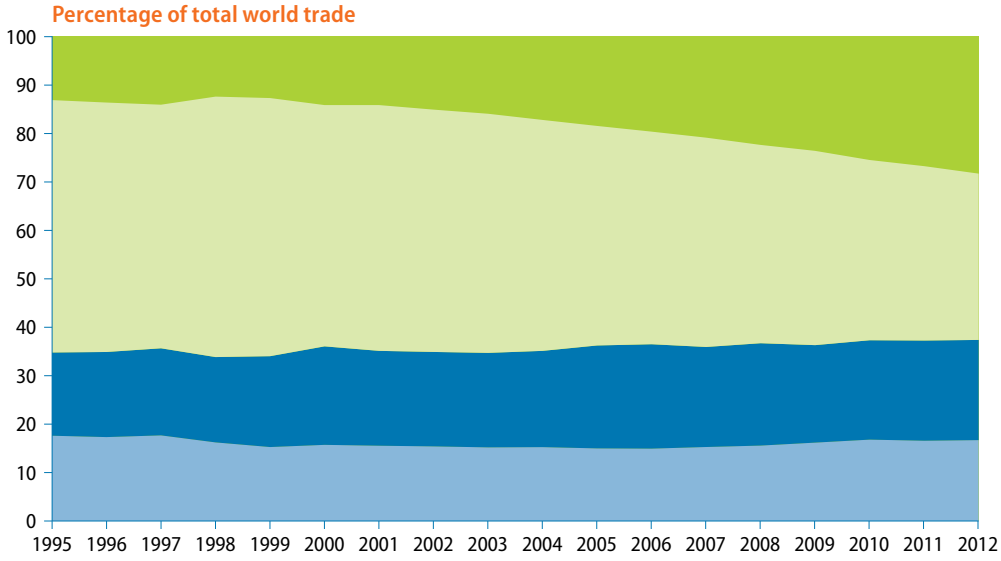
1 See UNCTAD, "Key trends in international merchandise trade", UNCTAD/DITC/TAB/2013/1 (Geneva) for more details.

Figure II.1
World trade growth, 2002-2015



Source: UN/DESA.
a Data for 2013-2015 are forecast.

Figure II.2
North-South distributions of world trade, 1995-2012



Source: UNCTADStat.
Note: Each region-pair represents exports from the first region to the second one.

Among developing countries, intraregional trade makes up a significantly large proportion of overall trade only in East Asia, particularly owing to trade in intermediate products; yet, intraregional trade accounts for a much smaller proportion of trade growth in Latin America and the Commonwealth of Independent States (CIS), as trade in these two regions is based more on primary products and agriculture. The degree of regional integration varies by countries and regions, with some East Asian countries, such as Lao People's Democratic Republic, Mongolia and Myanmar, registering upwards of 80 per cent of their trade as intraregional. Larger economies, such as those in Latin America, have considerably lower shares of intraregional trade. Overall, in value terms, a majority of trade continues to occur within

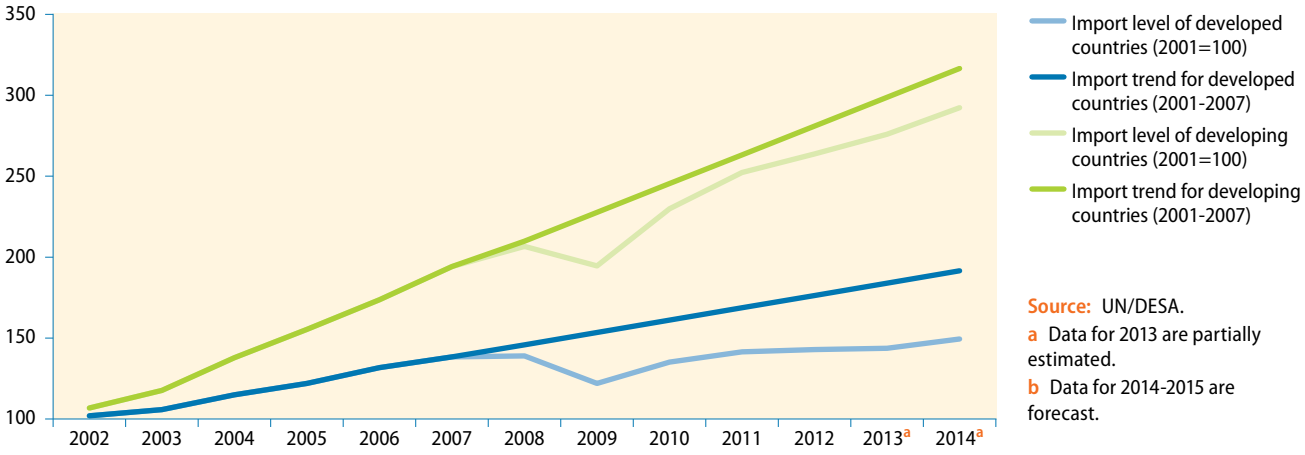
and between Europe, North America and East Asia.[2] Evidence of this is apparent when examining the global liner shipping network, in which these regions play a central role (box II.1).

In developed countries, growth of imports was down to almost zero at 0.5 per cent for 2013, pulled down by a significant deceleration in developed Asia and Oceania. Import growth improved slightly in Europe in 2013, but that was only from -0.2 per cent to 0.0 per cent. In contrast, import volume for developing countries increased by 4.6 per cent in both 2012 and 2013 (figure II.3). An upward shift is expected in trade for major developed countries in the outlook for 2014-2015.

Developed-country trade growth is expected to improve in the outlook period

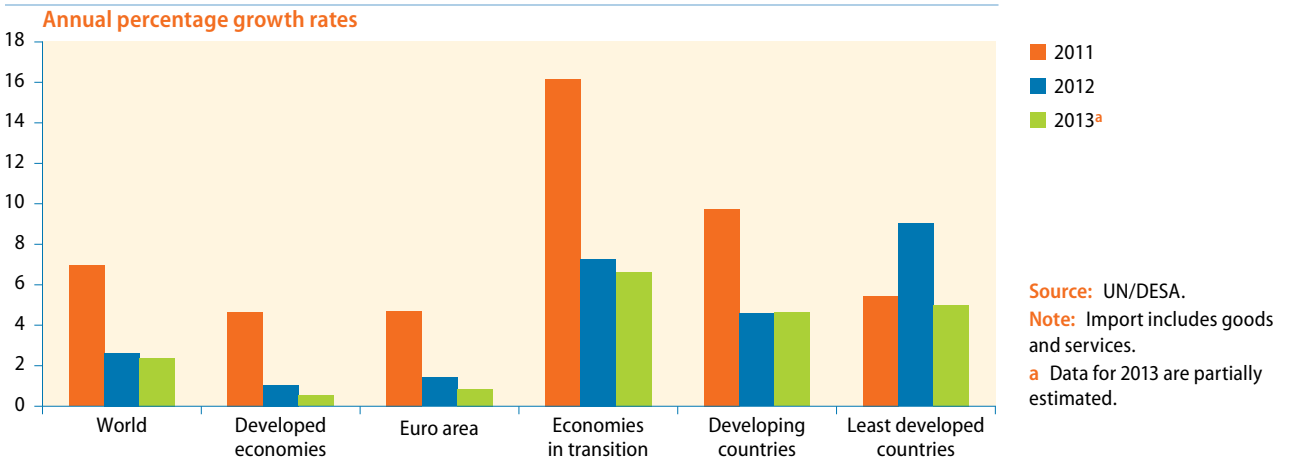
Among developed countries, for 2014-2015, relatively strong import growth is expected in Japan—to 5 per cent, which is higher than its average growth rate of the past 15 years. Import growth in Canada and the United States is also expected to grow at a pace of about 5 per cent. Growth in imports in Europe will only improve modestly from the zero growth registered in 2013 (figure II.4).

Figure II.3
Import trends of developed and developing countries, 2000-2015



Source: UN/DESA.
a Data for 2013 are partially estimated.
b Data for 2014-2015 are forecast.

Figure II.4
Import volume growth across groups of countries, 2011-2013



Source: UN/DESA.
Note: Import includes goods and services.
a Data for 2013 are partially estimated.

2 Ibid.

Box II.1

Maritime trade: the role of the global liner shipping network

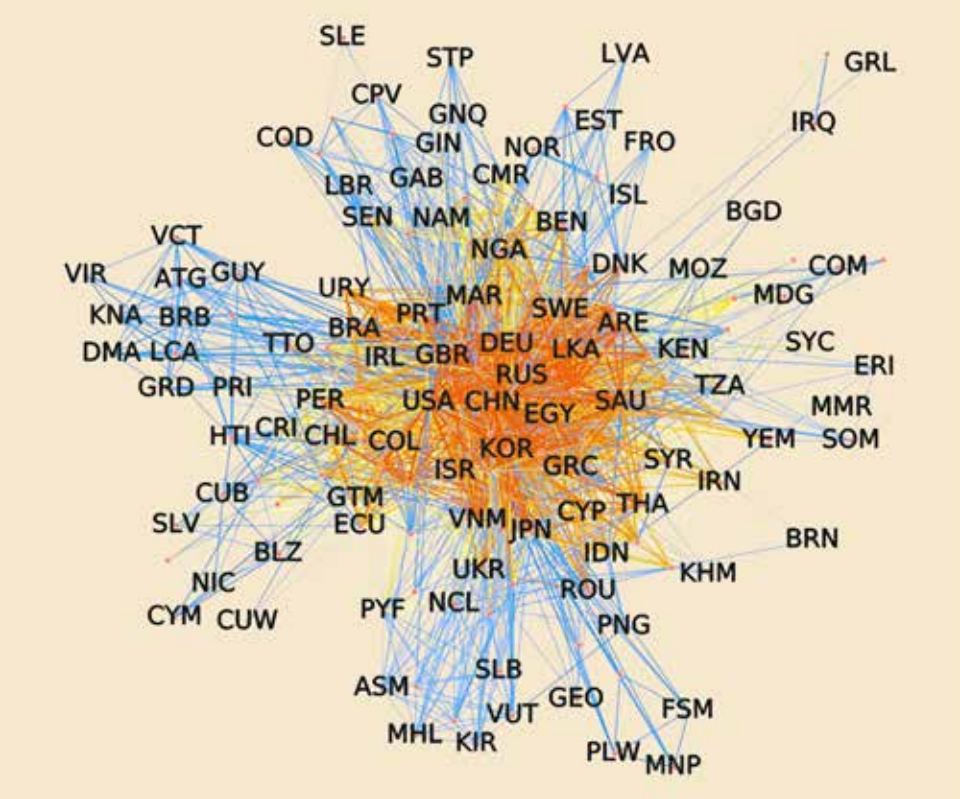
The importance of containerization for global trade has only recently started to be understood. A new study[a] covering the introduction of containerization until 1990 concluded that containerization had a stronger impact on driving globalization than trade liberalization. A study by ESCAP and the World Bank[b] found that liner shipping connectivity was a more significant determinant of trade costs than the indicators for logistics performance, air connectivity, costs of starting a business, and lower tariffs combined.

In order to analyse the structure of the global container shipping network, the United Nations Conference on Trade and Development (UNCTAD) has developed the Liner Shipping Connectivity Matrix database, which includes both country-level data as well as information on container shipping services between pairs of countries. The country-level Liner Shipping Connectivity Index is generated from the following five components that capture the deployment of container ships by liner shipping companies to a country's ports of call: 1) the number of ships; 2) their total container carrying capacity; 3) the number of companies providing services with their own operated ships; 4) the number of services provided; and 5) the size (in twenty foot equivalent units (TEU)) of the largest ship deployed.

Based on this database, it is possible to visually capture the structure of the global network of container shipping services (figure II.1.1). The best connected countries, such as China, Germany, the Republic of Korea and the United States of America, are at the centre of the global shipping network and they are also well connected with each other. Other countries are located closer to the periphery of the global network, represented at the edges of the star-like structure illustrated in Figure II.1.1.

Figure II.1.1

Position of countries in the global liner shipping network

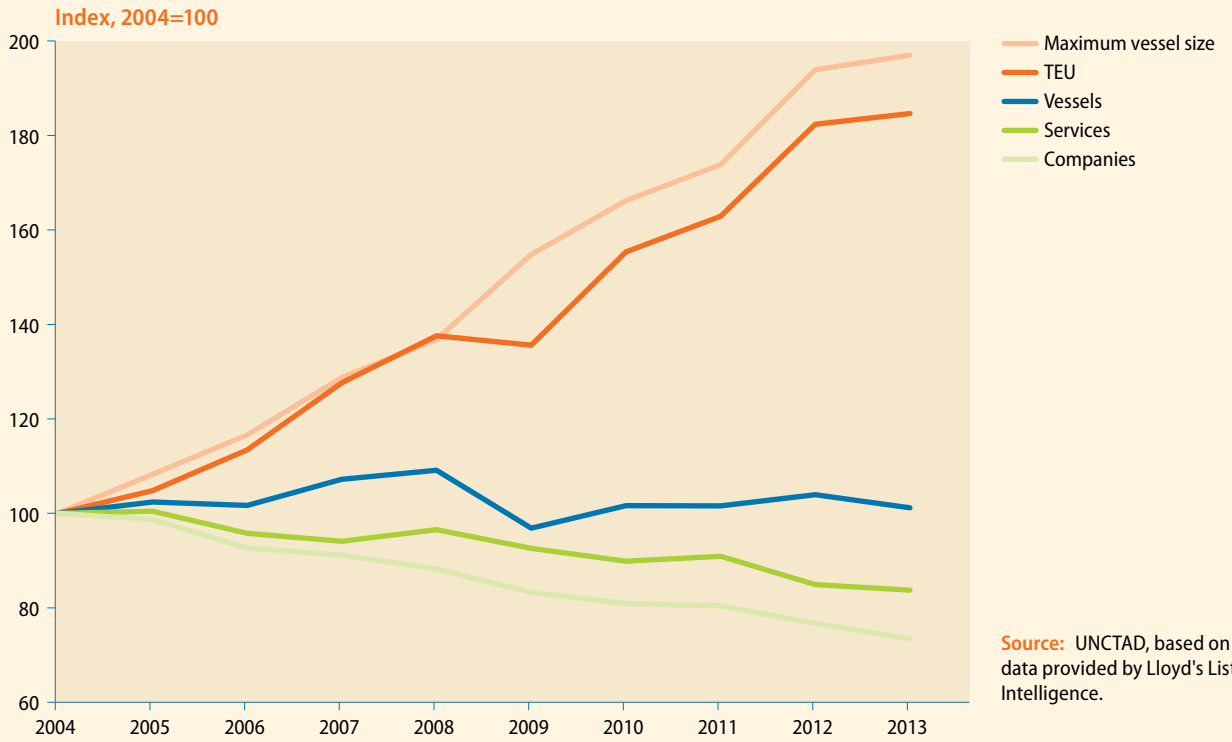


Source: UNCTAD, based on data provided by Lloyd's List Intelligence.

Note: The three-letter code is the country code defined by the International Organization for Standardization.

With the database, it is also possible to examine important trends in container ship deployment, namely, that ships have become significantly larger over time and these ships are being deployed by fewer companies (Figure II.1.2).

Figure II.1.2
Trends in container ship fleet deployment, mid-2004–mid-2013



Source: UNCTAD, based on data provided by Lloyd's List Intelligence.

Regarding vessel sizes, since 2004, the average container-carrying capacity of the largest ship in the 159 countries covered by the UNCTAD database has almost doubled, from 2,812 TEU ten years ago to 5,540 TEU in 2013. The trend towards larger ships can be expected to continue. The current containership orderbook is dominated by ships that are far bigger than today's average.[c]

As regards the number of companies per country, the average has decreased by 27 per cent during the last ten years, from 22 in 2004 to just 16 in 2013. This trend has important implications for the level of competition, especially for smaller trading nations, many of which are located at the periphery of the network (figure II.1.2). While an average of 16 service providers may still be sufficient to ensure a functioning competitive market with many choices for shippers for the average country, on given individual routes, especially those serving smaller developing countries, the decline in competition has led to oligopolistic markets. For example, in 2004, there were 22 countries served by three or fewer carriers, while in 2013, 31 countries were facing this situation.

From the shippers' perspective, larger ships and more total TEU carrying capacity could be positive developments. It should lead to lower freight costs, both by ensuring sufficient available carrying capacity for the growing trade in containerized goods, and by the doubling of ship sizes to allow them to achieve economies of scale. However, lower operational unit costs achieved by shipping lines, thanks to newer, larger and more fuel-efficient ships, may not necessarily be passed on to the shippers (that is, the importers and exporters). The very process of concentration of cargo in larger ships may also lead to the same capacity being offered by fewer providers, thereby decreasing competition. In some oligopolistic markets shippers may in fact be confronted with higher freight rates and less choice of services.[d]

a Daniel Bernhofen, Zouheir El-Sahli and Richard Kneller (2013), "Estimating the effects of the container revolution on world trade" CESifo Working Paper, No. 4136 (Februar y 2013).

b Jean-François Arvis and others, "Trade costs and development: a new data set ", World Bank Economic Premise, No. 104 (January 2013).

c Clarksons, *Container Intelligence Quarterly*, (Clarkson Research Services Ltd: London).

d UNCTAD, *The Review of Maritime Transport 2013* (United Nations publications, Sales No. E.13.II.D.9).

Source: UNCTAD.

The same patterns of trade deficits and surpluses continued among most developed countries, with the United States in deficit and the euro area in surplus—the latter mainly driven by surpluses in Germany. The exception was Japan's shift from surplus to deficit.

Exports from the new European Union (EU) members in Eastern Europe picked up over the course of 2013 and should strengthen further in 2014 and 2015, in line with the recovery in external demand. Despite the strong import content of exports, imports to those countries will expand at a lower pace, as investment has yet to recover and austerity measures continue to dampen domestic demand.

For the economies in transition, export growth was up slightly to 1.4 per cent, still well below growth in imports, which were up 7.9 per cent. Among the CIS countries, exports from the Russian Federation are projected to grow slowly in 2014-2015, owing to capacity constraints. However, exports from the Central Asian energy exporters, such as Kazakhstan and Turkmenistan, will expand rapidly, benefitting from growing demand in China especially for natural gas. Public spending in Central Asia will sustain growth in imports.

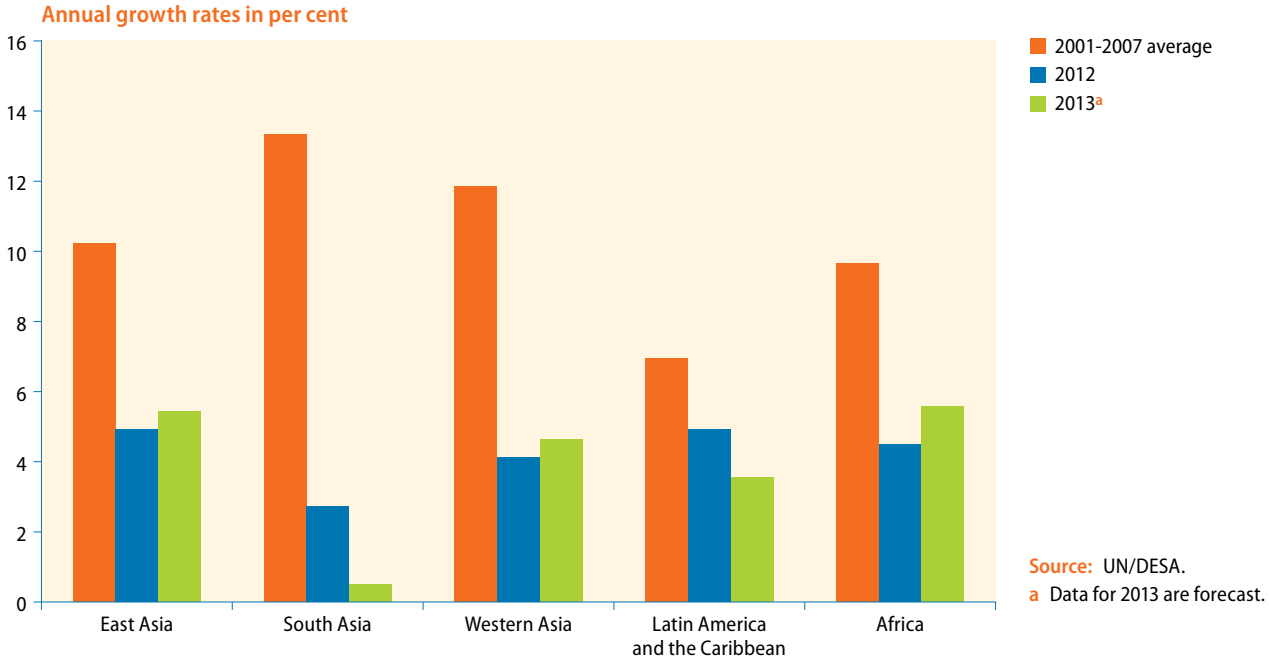
Among developing countries, Africa's commodity exports are increasingly heading towards other developing countries, particularly China. Intraregional trade in Africa is rising, but remains small, and there are still considerable barriers such as infrastructure bottlenecks, overlapping regulations and restrictive border crossings. There are a number of existing trade agreements and common market frameworks in place across the continent, but many of them have yet to be fully activated or implemented. While import demand in many African countries is rising, there is a widening disparity in the types of goods that are imported; a small but growing class of urban consumers is driving demand for more sophisticated consumer goods. On the other hand, there are still many countries that are net food importers where variations in prices for imported staples can have significant impacts on a sizeable percentage of households, many of whom are poor. Overall, lower commodity prices will also help towards reducing current-account deficits in many African countries, but balances will remain negative in most countries that don't export oil or minerals.

In East Asia, while export and import growth continued to expand robustly in comparison to other regions, they were still much weaker than the period prior to the crisis (figure II.5). Both export and import growth are expected to improve slightly over the forecast period, with exports rising from 4.9 per cent in 2013 to 6.1 per cent in 2014 and 6.2 per cent in 2015. Within the region, China will continue to be the powerhouse, but it has begun to increase its share of both regional and world imports in efforts to strengthen domestic demand (Box II.2). There have also been some shifts in the trade patterns between East Asia and Japan, mainly owing to exchange rate changes.

In Western Asia trends vary across subregions. In Gulf Cooperation Council (GCC) countries, trade surpluses shrank as oil revenues declined, while demand grew at a rapid pace, driven by solid domestic demand. The conditions in the Syrian Arab Republic have increasingly impacted their neighbouring countries, particularly Jordan. Import growth jumped in Turkey, driven in particular by rising oil imports. There was a drastic drop in export growth for Turkey between 2012 and 2013, from over 16 per cent to about 3 per cent. The combination of these two trends pushed the trade deficit up by 17 per cent for the first nine months of 2013, compared to the same period in 2012. Some recovery is expected in the outlook period as demand from Europe recovers.

In Latin America, slowing growth in emerging economies such as China caused a notable decline in export growth in Brazil. More generally, decreased commodity demand—also to some extent a function of slowing growth in China—further contributed to a reduction in exports from Latin America. Domestic demand continued to be strong in many countries in

Figure II.5
Import volume growth across regions, 2001-2013



Source: UN/DESA.
a Data for 2013 are forecast.

Box II.2
The impact of China's structural changes on its major trading partners

A structural shift in the composition of China's gross domestic product (GDP), away from investment and net exports and towards efforts to promote household consumption might affect the size and composition of its import basket.

Between 2000 and 2008, China's rapid growth was led by an increase in investment as a share of GDP from 36 per cent to 42 per cent and an increase in the share of net exports from about 2 per cent to over 8 per cent. Increases were driven mainly by rising exports, whose share in GDP went from 23 per cent to 38 per cent.[a] Over the same period, the share of household consumption fell from 46 per cent to 36 per cent.

After the global crisis, the Chinese Government's stimulus package further increased the share of investment in GDP to almost 50 per cent to support strategic emerging industries, urbanization, the construction of social housing, and the development of infrastructure and higher technology products. The share of household consumption has changed little, however, while the share of net exports declined to 3.5 per cent, mainly as a result of a sharp deceleration in the growth of exports.

Given the large size of China's economy, significant shifts in the composition of its trade basket may affect global commodity prices and the terms of trade for other countries, particularly for resource-based economies such as those in Africa. Therefore, the changes in China's trade basket resulting from structural changes in the Chinese economy may have significant impacts on its trading partners.

Different GDP components have different import intensity. An increase in the share of private consumption in China's GDP is unlikely to bring sizable benefits to countries exporting consumer goods, because much of the consumption increase will come in the form of increased demand for services, such as health care and other social services with low import intensity. On the other hand, changes in the shares of investment and exports in its GDP would lead to more substantial effects on China's imports.

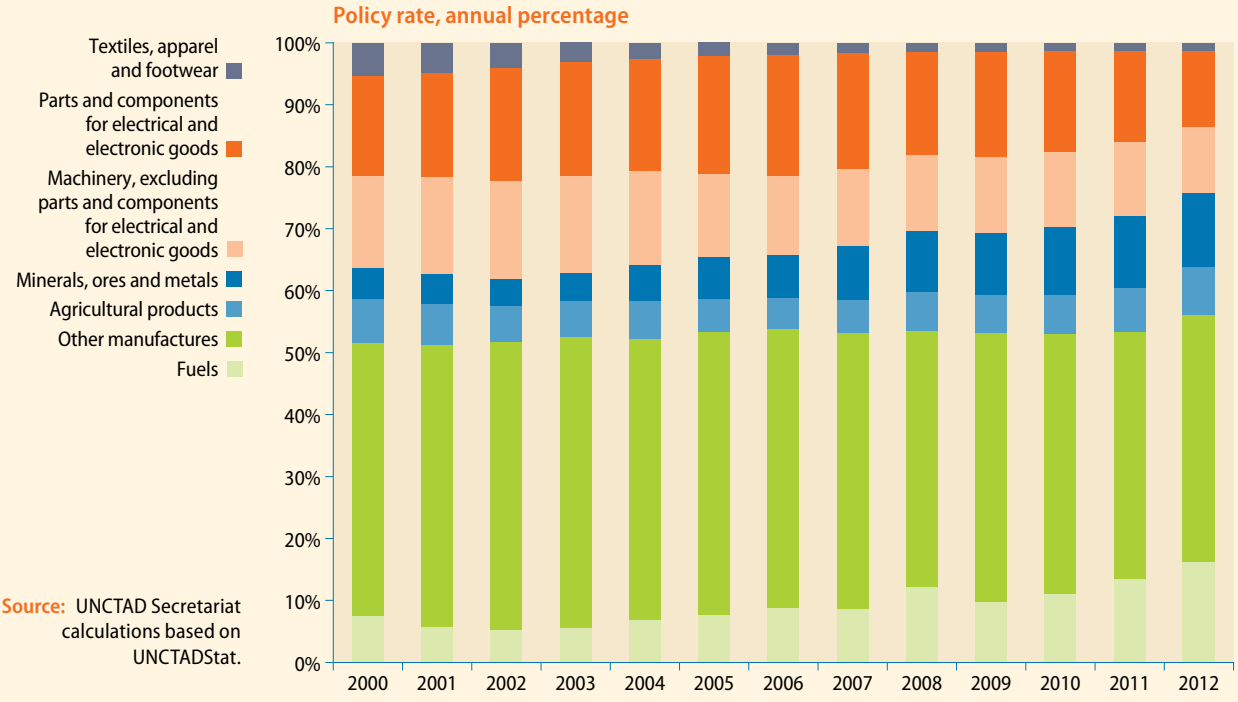
Box II.2

The impact of China's structural changes on its major trading partners (*continued*)

Empirical evidence on the composition of China's imports (figure II.2.1) indicates that the recent increase in the share of investment in gross domestic product (GDP) was accompanied by an increase in the share of minerals and metals—especially iron ore and copper—in China's total imports from about 9 per cent in 2005-2007 to about 13 per cent in 2009-2012. This increase was mostly due to strongly rising infrastructure investment during the latter period. By contrast, the share of machinery in total imports declined from about 16 per cent in 2005-2007 to about 12 per cent in 2012. This decrease reflects the decline in net exports as a share of GDP, while the decline in the shares of imports of parts and components for electrical and electronic goods, from 24 per cent in 2005-2007 to 14 per cent in 2012, is a result of the decline in processing trade.

Figure II.2.1

The composition of China's merchandise imports, selected product categories, 2000-2012



Source: UNCTAD Secretariat calculations based on UNCTADStat.

In the outlook, a structural shift in the composition of China's GDP away from investment and net exports towards a greater importance of household consumption would lead to changes in China's imports. The groups of countries most heavily exposed would include: Australia and Brazil, which account for about two thirds of China's iron ore imports; Chile, which accounts for about one third of China's copper imports; Germany, Japan and the Republic of Korea, which account for almost half of China's machinery imports; and Japan, Malaysia, the Republic of Korea and Taiwan Province of China, which account for over two thirds of China's imports of parts and components for electrical and electronic goods. However, the impact would likely be spread over a number of years, and would not be sudden and sharp. Moreover, given that China's rapid pace of urbanization is set to continue, and a shift in the composition of its GDP towards greater importance of household consumption will require enhanced transportation and distribution networks, China's infrastructure investment is likely to remain high in the medium term. This would mean that those countries exporting minerals and metals, in particular, are unlikely to experience a significant, if any, adverse effect.

a Given its fairly stable level of about 13-16 per cent during the period 2000-2011, the share of government consumption in GDP will not be considered here.

Source: UNCTAD.

the region, which helped to support overall growth and also added to import growth, but led to rising trade deficits. Most of those imports, however, were coming from outside of Latin America, as exports within the region were generally lower. The prospects for 2014-2015 will benefit from expected increases in external demand from developed countries, particularly the United States, but the demand from emerging economies in other regions, including China and India, will remain moderate compared with the period prior to the global financial crisis.

Commodity markets

Since January 2013, commodity prices have generally eased, although trends of commodity groups vary (figure II.6). The United Nations Conference on Trade and Development (UNCTAD) Non-oil Nominal Commodity Price Index[3] fell 9.44 per cent between January and September 2013. However, the index remained generally high relative to its long-term trend.[4]

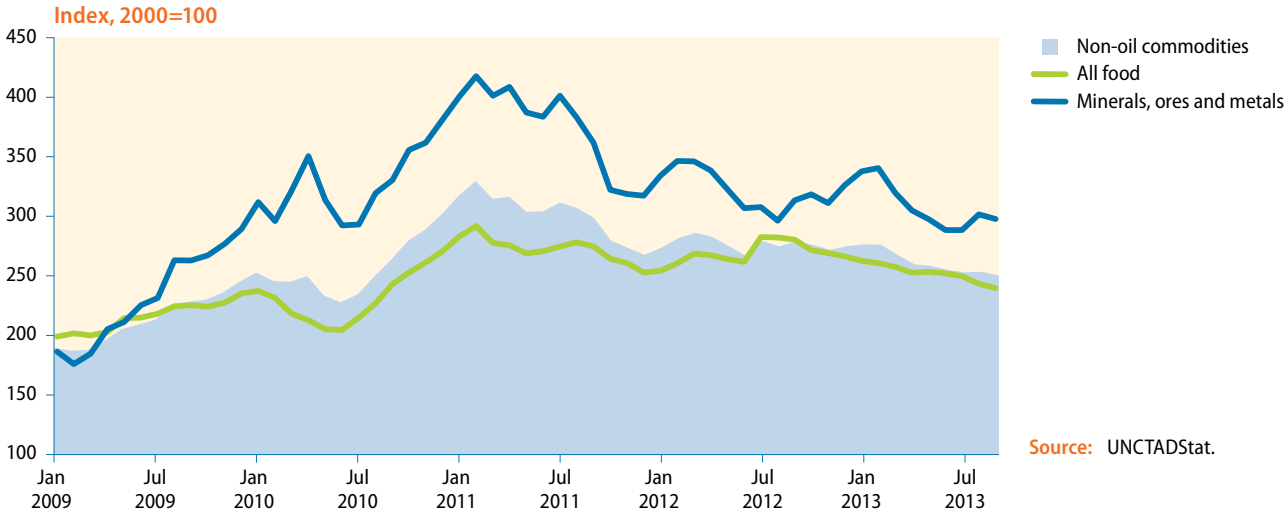
Food and agricultural commodities

Since January 2013, prices in food markets have been easing, thanks to good harvests, which have also allowed a continuation of the ongoing replenishment of stocks (figure II.7).

Food prices decline on good harvests

The food price index registered a steady decline, reaching 245.1 points in September 2013 after its peak of 286 points in August 2012. Between January and September 2013, prices for wheat and maize declined by 9 per cent and 26 per cent, respectively. Expectations of continued growth in wheat and maize production will likely prompt further drops in cereal prices in 2014. The price of rice has been trending downward since 2012, despite short-term fluctuations. During the first nine months of 2013, the Thailand rice price index recorded

Figure II.6
Price indices of non-oil commodities, all food and minerals, ores and metals, January 2009-September 2013

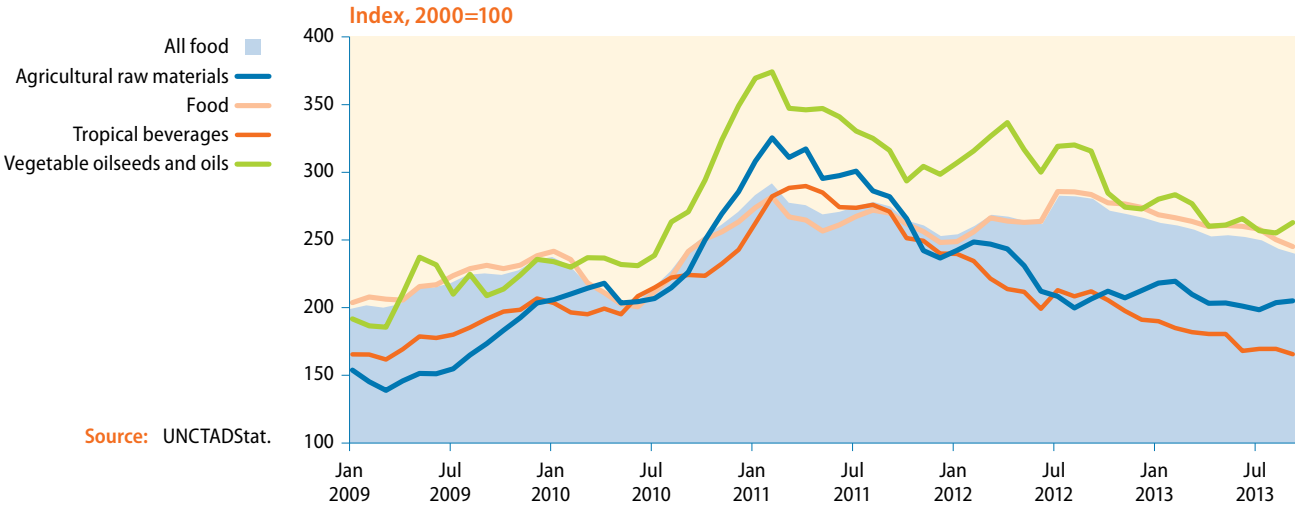


Source: UNCTADStat.

3 The UNCTAD Non-oil Nominal Commodity Price Index covers these subgroups of commodities: food, tropical beverages, vegetable oilseeds and oils, agricultural raw materials, and minerals, ores and metals.

4 In September 2013, the Index was 250.3 points, 32 points higher than its 10-year average of 218 points (between October 2003 and September 2013).

Figure II.7
Price indices of selected food and agricultural commodity groups, January 2009-September 2013



Source: UNCTADStat.

an 18 per cent decline, underpinned by comfortable levels of stocks and the ongoing release of rice from the Thai Government's public stock. The sugar price fell by 11 per cent from January 2013 to reach 16.84 cents per pound in July 2013 as a result of a production surplus and the retreat of speculative funds from the sugar futures market. However, owing to falling crop output in Brazil and a rise in demand, especially from China and Indonesia, sugar prices rebounded in August, reaching 17.4 cents per pound in September 2013. Looking forward, trends in sugar prices will depend on the level of global stocks and the demand from the main consuming countries.

The UNCTAD Vegetable Oilseeds and Oils Price Index trended downwards over the first eight months of 2013, despite some short-term fluctuations, mainly as a result of improvements in soybean supplies. Soybean prices recorded a 13 per cent decline from January to August 2013, due to favourable harvests in the main soybean producing countries and weaker demand growth in China and the EU. In September 2013, soybean prices surged as a result of strong demand from China, driving up the Vegetable Oilseeds and Oils Price Index by 3 per cent.

The price index of tropical beverages has been trending downwards since early 2013, owing to a decrease in coffee prices. The coffee composite indicator index dropped from 207.6 points in January 2013 to 178 points in September 2013 as a result of the good outlook for coffee production, especially in Brazil, Colombia and Viet Nam. The cocoa bean index fluctuated between 242 and 264 points from January to May, 2013. This price volatility was a result of the instability in supply, particularly from Côte d'Ivoire and Ghana following dry and hot weather, and the uncertainty in demand from the main consuming countries. However, from June to September 2013, the cocoa bean price strengthened and increased by 15 per cent over this period, owing to rising demand from the chocolate manufacturing sector in Europe and North America. Expected improvements in the economic outlook of the major consuming areas, albeit slow, are likely to keep the cocoa market firm through 2014.

The UNCTAD Agricultural Raw Materials Price Index strengthened in early 2013, driven by higher prices of rubber, tropical logs and cotton. The index fell from 219.5 points to 198.4 points between February and July 2013, owing to a 24 per cent decline in rubber prices during the same period. However, as China's manufacturing pace picks up, the demand for

rubber from the automobile manufacturing sector has been boosted. As a result, the Raw Materials Price Index increased by nearly 3.5 per cent from July to September 2013. The cotton index has been fluctuating within a band from 144 to 160 points. Furthermore, the cotton market is sensitive to China's policy with respect to its reserves, given the country's large state cotton reserves. Prices for agricultural raw materials are expected to be mostly flat over the forecast period.

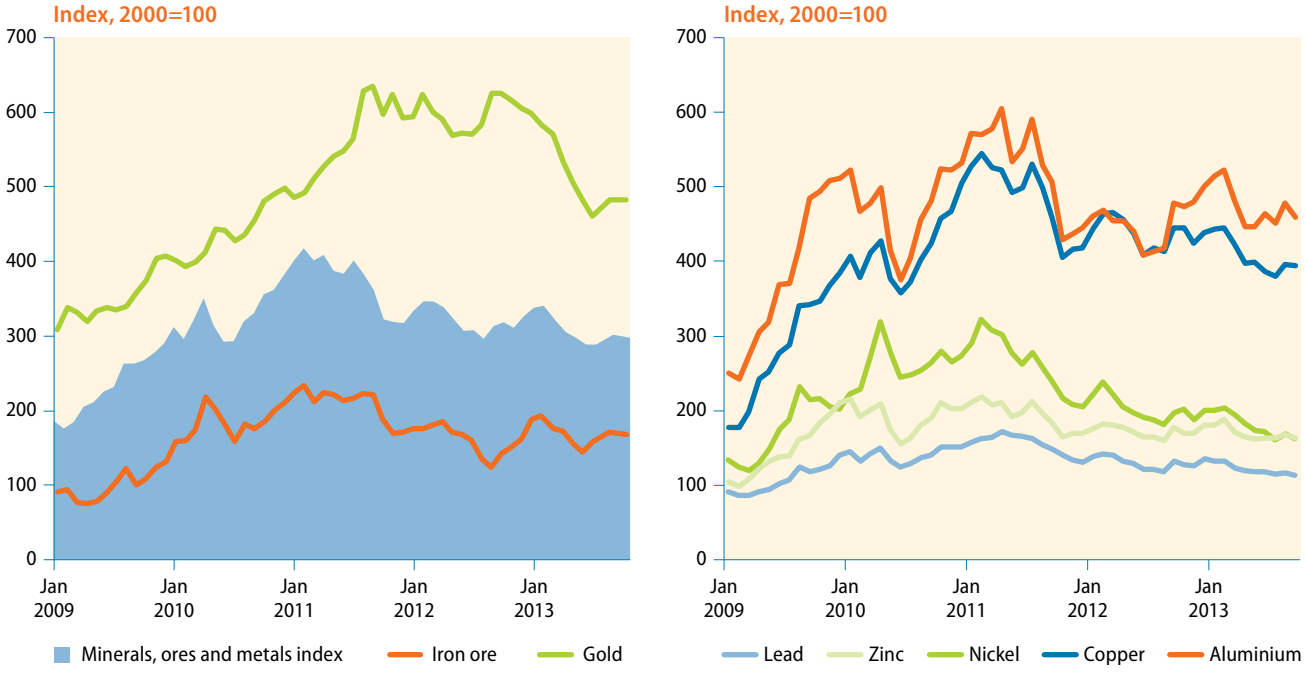
Minerals, ores and metals

Metals prices declined as world growth remained tepid

Minerals, ores and metals prices are sensitive to worldwide supply, the macroeconomic context, and manufacturing demand from major consuming countries including China, the United States and the EU. After a brief recovery in the first two months of 2013, base metal prices softened in the remaining first half of the year (figure II.8). This can be attributed to a combination of factors, including uncertainty over the economic outlook of the euro area, a slowdown in China's economy, the indecisive pace of recovery in the United States, a supply surplus in the context of relatively high stock levels, and the strengthening of the dollar.

Prices of several industrial commodities dropped below their end-2012 levels, partly owing to the deceleration of growth in major economies (China especially) in the first half of 2013. In July 2013, the UNCTAD Minerals, Ores and Metals Price Index was down 15 per cent relative to the 340 points recorded in February 2013. Price indices for aluminium, nickel, and zinc registered a steady decline from January 2013 to July 2013. Over the same period, price indices for copper and lead, while recording some short-term fluctuations, showed an overall downward trend. The iron ore index declined by 23.67 per cent from January to June

Figure II.8
Price indices of selected minerals, ores and metals, January 2009-September 2013



Source: UNCTAD, UNCTADStat.

2013, largely owing to shrinking demand for steel by China's construction and manufacturing industries—a consequence of the ongoing structural change in China's economy (box II.2).

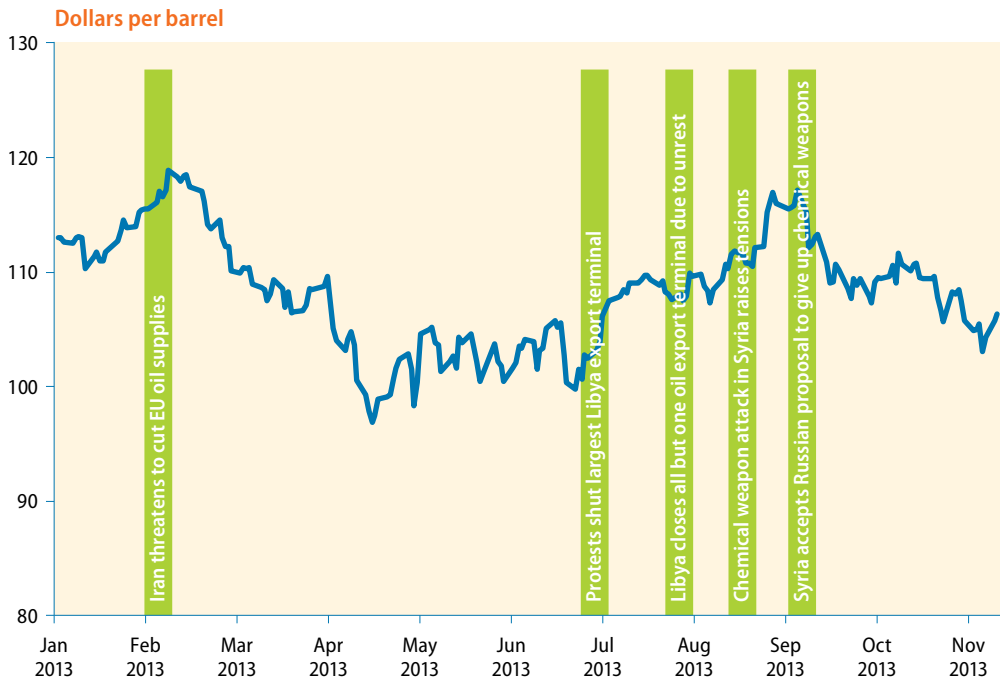
However, owing to positive expectations for global industrial activity and China's economic revival beginning in mid-2013, several metals prices rebounded in August 2013, then retreated the following month based on strong supply in global metals markets. For example, the iron ore index regained 19.33 per cent of its June 2013 value, reaching 171.6 points in August and falling to 168 points in September. Although global industrial prospects are expected to put upward pressure on metals prices in the short run, the strong supply induced by increased investments in the extractive sector (due to the recent price boom) will probably soften the metals markets. Moreover, trends in these markets in the coming years will greatly depend on ore grades, environmental issues and energy costs.

A group of other metals not included in the index discussed above has also become increasingly important (box II.3).

Oil prices

Oil prices were on a downward trend in the first half of 2013 (after a spike in January and February caused by geopolitical tensions with Iran), as global demand for oil weakened along with the deceleration in world economic growth overall. Moderation in the growth of emerging economies was particularly notable, as they have been the major source for the incremental increases in global oil demand in recent years. However, oil prices surged in July and August as geopolitical tensions in the Syrian Arab Republic escalated. The Brent oil price increased by about $18 per barrel (pb) within two months to above $117 pb. Later,

Figure II.9
Brent spot price in relation to significant geopolitical and economic events, January-November 2013



Source: UN/DESA, based on data from United States Energy Information Administration.

Box II.3

The strategic importance of rare earth metals

Rare earth metals (REMs) or rare earth elements (REEs) are a group of 17 elements,[a] which are vital inputs in high-tech device manufacturing, military and defence applications, as well as clean energy technologies. For example, they are essential to battery and magnet technologies, laser technology, radar systems, cellular telephone manufacturing, energy-efficient lighting, fibre optics, and flat screens for television and computers. REMs are indeed considered to be critical raw materials.[b] REMs are not as rare as their name suggests; they are classified as "rare" because their deposits are not concentrated in commercially viable quantities. Hence, it is difficult to mine them cost effectively.

The strategic importance of REMs stems from two main factors: they have very few substitutes, and they are associated with high supply risk as their reserves and production are highly concentrated in a handful of countries. REMs global reserves and production are mainly concentrated in China and, to a limited extent, the United States of America. Although information on REMs reserves, production and use varies, the January 2013 United States Geological Survey estimates suggest that in 2012, China and United States accounted for about 50 per cent and 12 per cent of global reserves, respectively.[c] Australia, Brazil, India, Malaysia, and the Russian Federation also have some reserves. China accounts for over 80 per cent of total production and is also a major user and exporter of REMs.

Recently, global demand for REMs has increased significantly, reaching an estimated 136,000 tons per year between 2010 and 2012. From 53,000 tons in 1990, world REMs production increased about twofold to reach 90,000 tons in 2000. Thereafter, production continued its upward trend to finally reach 110,000 tons in 2012. Excess demand partly explains the recent price increases.

REMs prices—which are not quoted on international markets—were relatively stable until 2010. Between 2010 and 2012, prices increased markedly as a result of a global supply deficiency that was induced by increasing demand in high technology industries as well as China's export quotas—set partly to preserve domestic stock and increase domestic processing, and partly to start addressing severe environmental damages associated with past REMs mining and processing.[d] As a result, depending on which element is considered, prices increased by 1.2-14.0 times between the first half of 2010 and the first half of 2011 before declining in the second half of 2011 and 2012. Indications are that the prices have recovered in 2013, but remain below their peak level of mid-2011.

In order to reduce world dependence on Chinese exports, several Governments have initiated a series of new legislations and actions. For example, the United States National Strategic and Critical Minerals Policy Act of 2011 was adopted to address the potential supply vulnerability and to support domestic production and supply chain development of REMs. The European Union adopted its Raw Materials Initiative in 2008 to maintain fair and undistorted access to raw materials including REMs. Moreover, many countries have launched new projects to increase production. They include the new Mountain Pass project in the United States with its 19,050 tons of REMs production capacity; the Mount Weld mine project in Australia, launched in 2012 with its production capacity estimated at 20,000 tons per year; and the Zandkopsdrift Rare Earths project in South Africa, currently at an advanced phase of feasibility, with a potential reserve of 950 kilotons of REMs.

By 2015, global demand for REMs is expected to range from 180,000 tons to 210,000 tons per year. China will continue to play a major role in the global REMs market, but its dominance is expected to decline. The increasing demand for REMs from high tech industries will keep the demand firm. On the other hand, despite the opening of new projects, concerns about the negative environmental impact of mining REMs, and the high cost of cleaning up polluted old mines (as currently experienced by China) will heavily weigh on REMs supply, keeping the prices relatively high.

a REMs or REEs consist of the following elements: scandium (Sc), yttrium (Y) and the 15 so-called lanthanoids (Ln) including lanthanum (La), cerium (Ce), praseodymium (Pr), neodymium (Nd), promethium (Pm), samarium (Sm), europium (Eu), gadolinium (Gd), terbium (Tb), dysprosium (Dy), holmium (Ho), erbium (Er), thulium (Th), y tterbium (Yb) and lutetium (Lu).

b In 2010, the European Commission analysed a selection of 41 minerals and metals and listed four teen critical mineral raw materials, including REMs based on their low substitutability, high supply risk and high economic importance. See http://ec.europa.eu/enterprise/policies/raw-materials/critical/index_en.htm.

c U.S. Department of the Interior, U.S. Geological Survey, "Mineral Commodity Summaries, January 2013", available from http://minerals.usgs.gov/minerals/pubs/mcs/2013/mcs2013.pdf.

d However, many countries interpreted these measures as unfair trade practice prompting Japan, the European Union and the United States to file complaints against China to the WTO in 2012. A WTO ruling has judged these measures as incompatible with WTO rules; it is likely that China will appeal the decision. See Lucy Hornby and Shawn Donnan, "WTO rules against China on rare earths export quotas", *Financial Times*, 29 October 2013.

Source: UNCTAD.

when progress was made in the Syrian Arab Republic's agreement to surrender its chemical weapons, the Brent oil price retreated to $108 pb in September.

Oil prices fluctuated with geopolitical tensions

Geopolitical tensions can entail a large risk premium for oil prices, particularly when oil supply is also tight. Most recently, global oil supply has been declining modestly: increased oil supply in North America has been offset by declines in the North Sea, while high Saudi output only partly counterbalanced the recent collapse in Libyan production.

Oil exporters have continued to register trades surpluses, but lower than in 2012, partly because of an increase in domestic oil production in the United States (box II.4) and the general decreases in the demand for oil. In the outlook, global demand for oil is expected to grow above 1 per cent for 2014, moderately stronger than 2013. By assuming no further significant eruptions in geopolitical tensions, the Brent oil price is expected to be about $108 pb for 2014-2015, compared with an estimated average of $108.1 pb for 2013 and $111.6 pb in 2012.

Box II.4

Effects of increased oil production in the United States of America on exporters of similar grade

A significant contributor to the decrease in the trade deficit of the United States of America over the past few years has been the rise in domestic oil production that has resulted in a substantial decrease in oil imports. Countries like Algeria and Nigeria, that export the same light sweet crude that the United States has begun to produce in relatively massive quantities, have been significantly affected (figure II.4.1). There had been some shifts in Algerian and Nigerian exports towards Asia, which still has considerable demand for this oil variant, but the situation has still put measurable downward pressure on those countries' trade surpluses.

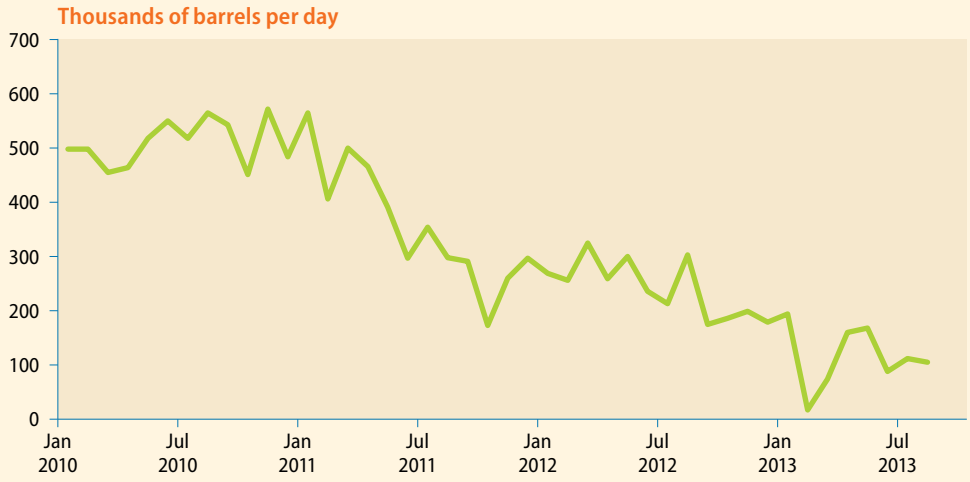
While the United States is not the largest market for Algeria's oil, it still absorbs almost 13 per cent of Algerian exports, the large majority of which are crude oil and petroleum related products. The scope of the decline can be seen in figure II.4.1, with imports down from an average of 500,000 barrels per day (bpd) in 2010 to closer to 100,000 bpd in 2013. A similar decline can be observed in Nigeria, from an average of about 1 million bpd to about 300,000 in 2013. This trend has also affected other producers such as Angola and Libya, albeit to a lesser degree. Overall, imports of the United States from OPEC, which includes producers of both light sweet crude and heavier sour varieties, was down from an average of almost 5 million bpd in 2010 to 3.75 million bpd in the first eight months of 2013.

In addition, generally flat oil prices—with some significant fluctuations—have continued to put pressure on the budgets of some of these countries. Algeria relies on revenue from oil and petroleum products, which make up 90 per cent of the country's exports, to cover significant portions of the Government's budget. Recent increases in spending have also pushed up estimates for the price per barrel necessary to balance the budget well above current prices. As it appears that U.S. production is set to continue expanding, these countries will have to diversify both their oil trading partners and their overall export baskets.

Source: UN/DESA.

Figure II.4.1

United States imports of Algerian crude oil and petroleum products, January 2010-August 2013



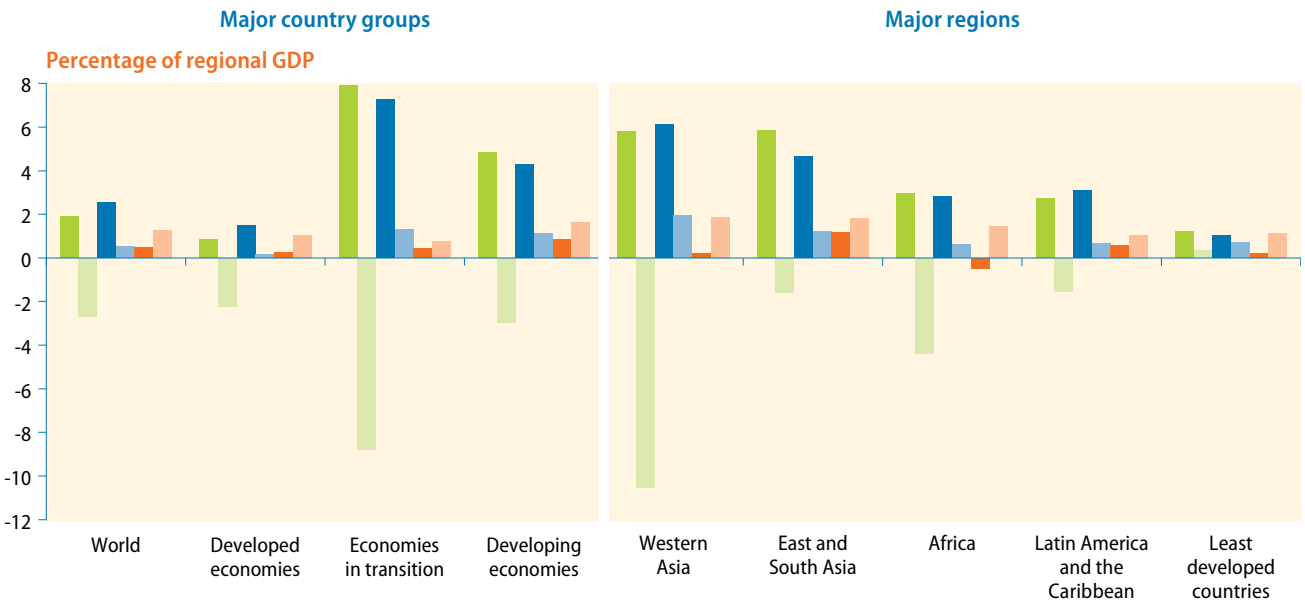
Source: United States Energy Information Administration.

Terms of trade and trade shocks

The outlook for global merchandise trade is unlikely to fulfill expectations of a net-exportled recovery for a number of countries. Trade volume demand is only estimated to grow moderately across the world; on a country-by-country basis, small declines will mostly offset small rises. Overall, this will result in relatively flat patterns in the terms of trade and thus in limited changes to import and export bills.

Using historical and forecast changes in trade volume and prices, the Global Vulnerability Monitor[5] provides a decomposition analysis to quantify the size of trade shocks relative to gross domestic product (GDP) that world regions experience in the event of changes in volume or terms of trade. As shown in figure II.10, these shocks were significant for most countries during the periods of the boom years, the eruption of the

Figure II.10
Trade shocks of major country groups and major regions



	Major country groups				Major regions				
Years	World	Developed economies	Economies in transition	Developing economies	Western Asia	East and South Asia	Africa	Latin America and the Caribbean	Least developed countries
2004-2007	1.9	0.9	7.9	4.8	5.8	5.9	2.9	2.7	1.2
2009	-2.7	-2.2	-8.8	-3.0	-10.5	-1.6	-4.4	-1.5	0.3
2010-2011	2.5	1.5	7.3	4.3	6.1	4.7	2.8	3.1	1.0
2012	0.5	0.1	1.3	1.1	2.0	1.2	0.6	0.7	0.7
2013	0.5	0.2	0.4	0.8	0.2	1.2	-0.5	0.6	0.2
2014-2015	1.2	1.0	0.7	1.6	1.9	1.8	1.5	1.0	1.1

Source: UN/DESA, World Economic Vulnerability Monitor.

5 See UN/DESA, World Economic Vulnerability Monitor, available from http://www.un.org/en/development/desa/policy/publications/wevm.shtml.

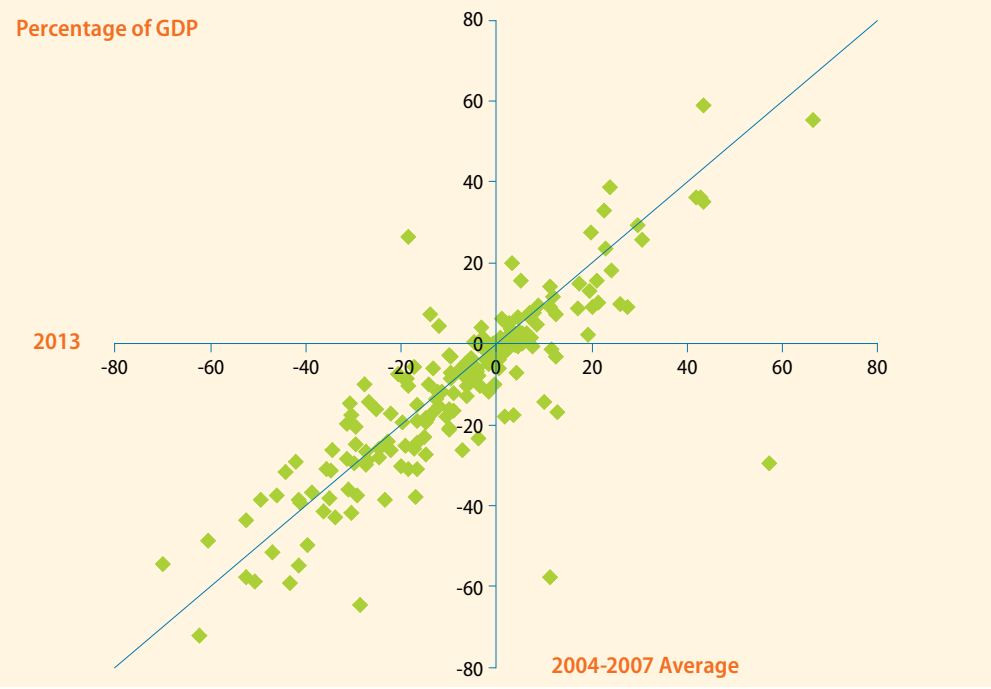
crisis and the immediate aftermath. Particularly for net exporters (and correspondingly importers) of primar y commodities and energ y, huge shocks mostly reflect wide swings in their terms of trade. However, in the most recent period (2012-2013) and the short-term outlook (2014-2015), trade shocks are mostly fading away, remaining very small in the forecast period.

After significant trade shocks surrounding the crisis period, recent trade shocks have been marginal

At the aggregated level of figure II.10, and for most countries individually, large positive shocks in the two years following the crisis compensated for the high negative shocks of 2009. In addition, as trade shocks in 2012-2013 were only marginal, the balances of merchandise trade for most countries in 2013 will be of a similar size and magnitude as those prior to 2009. This is illustrated in figure II.11, a scatter-plot constructed at the country-level, showing the balances of goods in 2013 against those of the pre-crisis period. With most observation points lying close to the diagonal 45-degree line, the figure confirms that in spite of the traumatic shocks around the global financial crisis, countries with deficits (of merchandise trade) in the years before the crisis were experiencing similar deficits by the end of 2013, and conversely for countries in surplus.[6]

Figure II.11 calls attention to the fact that there are a number of countries which, up to 2013, were facing chronic deficits in the balance of goods. Indeed, for many of the countries situated in the south-west quadrant of the chart, the merchandise trade deficit was more than 10 per cent of GDP. Going forward, the aggregate picture of trade shocks for 2014-2015 suggests that the prospects for changes in the significant imbalances in trade of goods are limited. At a more detailed level, figure II.12 shows a comparison of the trade positions of 2013 with those of 2015, estimated using the Global Vulnerability Monitor

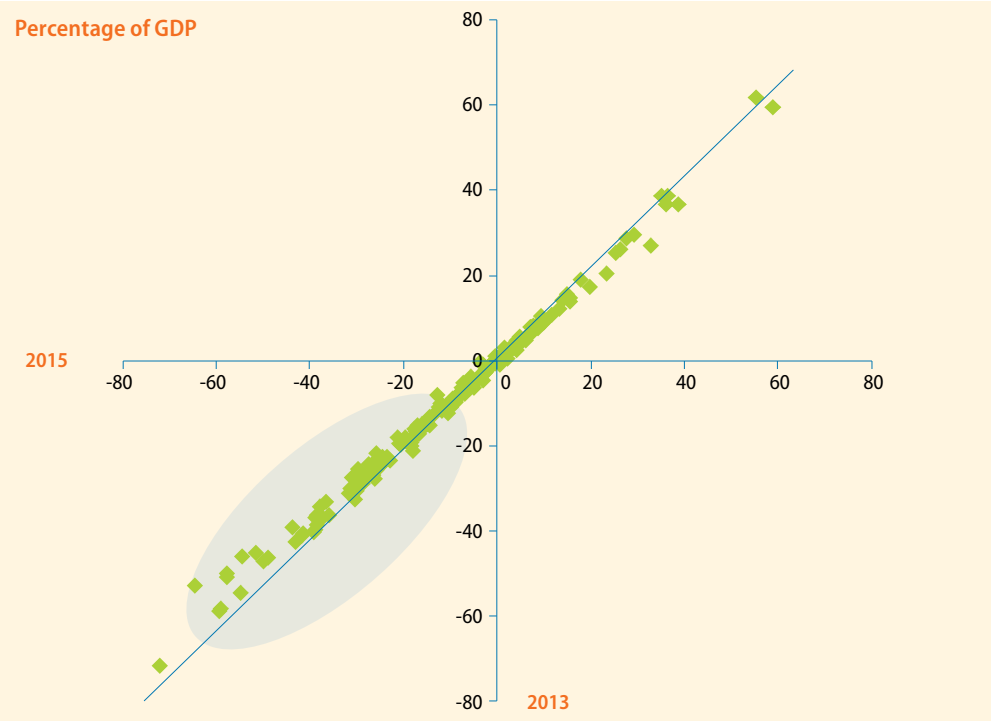
Figure II.11
Merchandise trade balances, 2004-2007 compared to 2013



Source: UN/DESA, World Economic Vulnerabilit y Monitor.

6 There are a few exceptions to this such as Ghana, which went from a merchandise trade deficit to a surplus, mainly owing to the start of oil exports between the two periods.

Figure II.12
Merchandise trade balances, 2013 and 2015



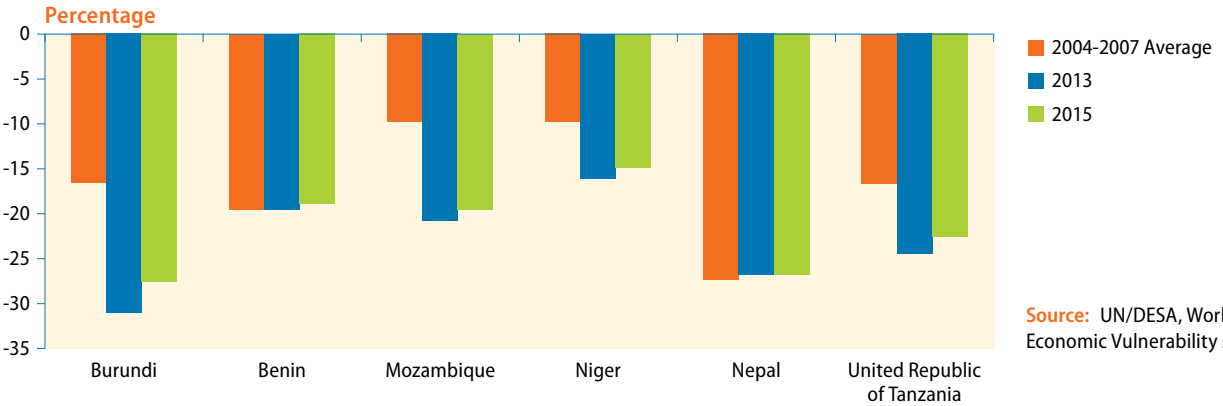
Source: UN/DESA, World Economic Vulnerability Monitor.

tool. The countries highlighted within the red circle are those that were in deficit in 2013 and are not expected to see notable change in the outlook, as they are mostly situated in the diagonal line.

Large LDC trade deficits are likely to persist throughout the forecast period

This situation is of particular importance for a majority of LDCs. Many are low-performing primary commodity exporters and often net importers of energy and food, facing a configuration of price changes in the outlook which is either flat or only minimally positive in net terms. Further analysis of a number of countries for which more detailed information is available corroborates this predicament, as presented in figure II.13. Deficits

Figure II.13
Merchandise trade balance deficits as a percentage of GDP for selected LDCs



Source: UN/DESA, World Economic Vulnerability Monitor.

in merchandise trade have been and will likely continue to be large, and all the more so if growth prospects involve a greater demand for imported manufactures. In these instances in particular, policy efforts need to focus on diversification and increases in the value added to their existing commodity exports; but this is a longer-term process and unlikely to have significant impacts during the forecast period.

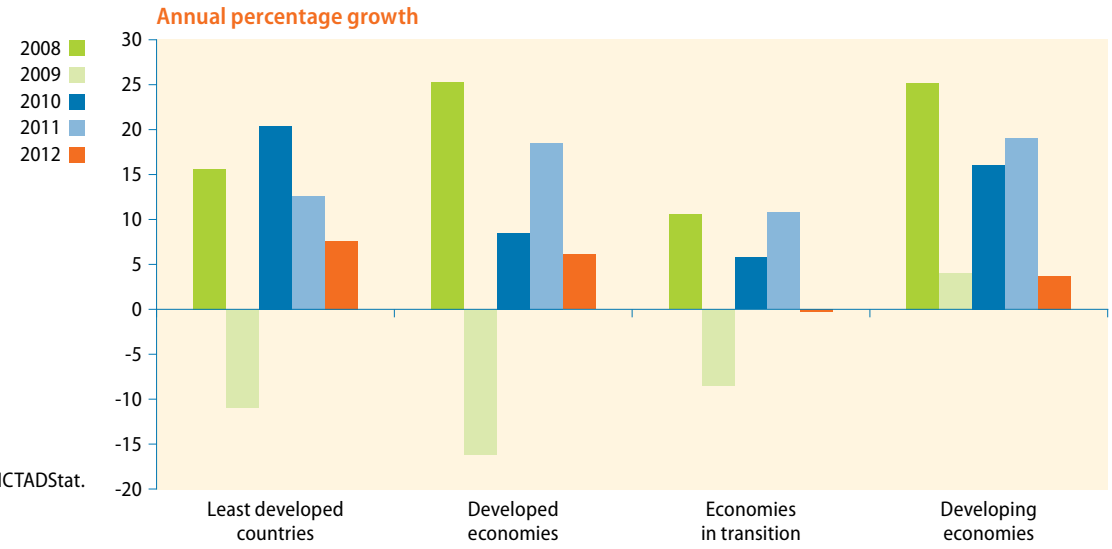
Trade in services

Services exports expand at a modest pace, driven by developing country exports

According to the latest information, the value of world services exports reached $4.4 trillion in 2012, but expanded at a modest pace of 2.2 per cent after two years of a rapid recovery from the global financial crisis. The moderation in the growth of trade in services during 2012 was primarily caused by weaker exports from Europe. Developing countries largely outpaced developed countries, registering an annual growth rate of 7.6 per cent in exports of services, compared with a pace of -0.3 per cent in developed countries (figure II.14). Figures are similar for imports of services. According to preliminary estimates by UNCTAD and WTO, world exports of services in the second quarter of 2013 grew by 5.0 per cent compared to the same quarter of the previous year, indicating a recovery of global trade in services.

Production through global value chains (GVCs), which has become a prominent feature of world merchandise trade over the last two decades, makes extensive use of services such as information and communication technology, communication, logistics, transport, distribution and business services. While the share of services in gross exports of goods and services worldwide is only about 20 per cent, almost half (46 per cent) of value-added in exports is contributed by service-sector activities. This share is higher in developed countries (50 per cent) than in developing countries (38 per cent). This fact confirms that greater value-added tends to be captured by developed countries, in which many transnational corporations are headquartered, to a large extent through services activities. Two thirds of global foreign direct investment (FDI) stock indeed concentrates on services (figure II.15). In the aftermath of the global financial crisis, the manufacturing sector in major developed countries lost ground to the services sector in terms of attracting FDI projects, especially greenfield projects.

Figure II.14
Growth of services exports by development status



Source: UNCTADStat.

Figure II.15
Share of services in trade, employment, GDP and FDI in 2011

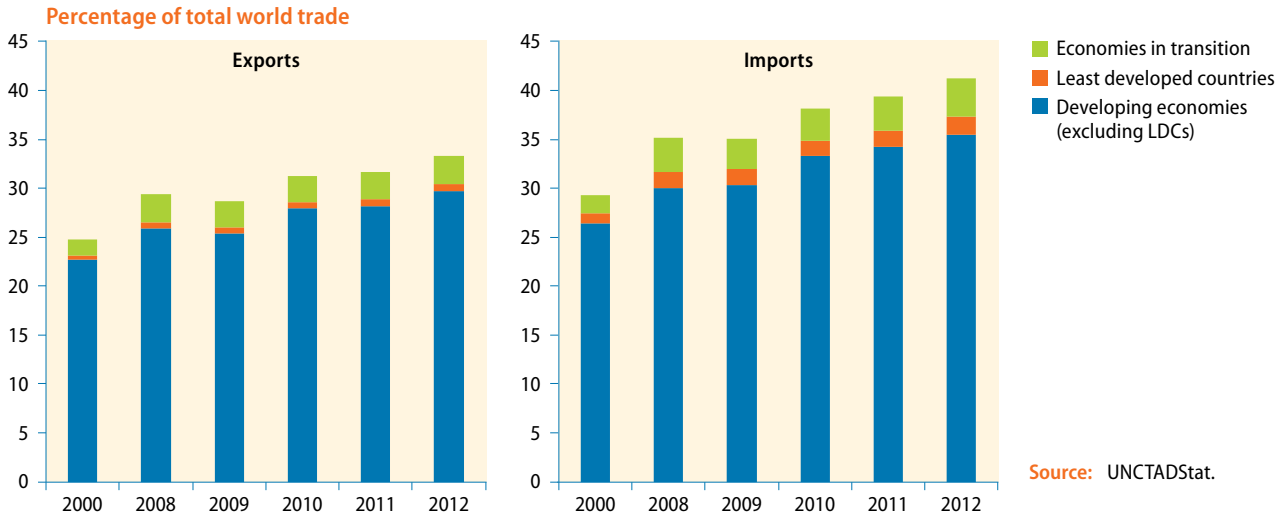
Source: UNCTAD, *World Investment Report 2013* (United Nations publication, Sales No. E.13.II.D.5); UNCTADStat; and ILO, *Global Employment Trends 2013* (Geneva).

Developing countries have steadily increased their participation in trade in services over the last decade, particularly in the past five years.[7] Their share in world services exports climbed to 31 per cent in 2012, owing largely to a rapid expansion of exporters in Asia services, with a similar pattern observed for imports where developing countries' share in world services imports was almost 32 per cent in 2008 and jumped to more than 37 per cent in 2012 (figure II.16). The shares for the economies in transition and the LDCs have changed only marginally since 2008.

Trade flows tend to be concentrated, particularly among developing countries and economies in transition

Trade flows in services have been concentrated in a small number of countries, with the top 10 exporters accounting for 51 per cent of world exports. This reflects their high shares in trade in travel and transport services, which represent more than fifty percent of total services. It also reflects the predominance of a few countries—especially that of the United Kingdom of Great Britain and Northern Ireland and the United States—in trade in financial and insurance services sectors. A breakdown of services exports according to

Figure II.16
Share in world services trade by development status, 2000 and 2008-2012



Source: UNCTADStat.

7 For a discussion of the effects of trade in services on poverty and employment, see UNCTAD, "The impact of trade on employment and poverty reduction", TD/B/C.I/29, 8 April 2013.

regions indicates that only developing economies in Asia have significantly expanded their services exports over the last decade; the share of Latin American economies has fallen, while the share of Africa has not changed. Exports of services originating from France, Germany, Japan, the United Kingdom and the United States together still represent almost one third of total exports in 2012. However, China has surpassed Japan, and five developing countries are now among the top 13 services exporters.

Concentration in trade in services is even more pronounced among developing countries and transition economies. Only 10 countries account for about 70 per cent of total trade in services for developing countries and economies in transition (table II.1 and table II.2). These countries have particularly greater presence in travel (China, Turkey) and transport services (Singapore), construction services (China, the Republic of Korea, the Russian Federation), financial and business services (Hong Kong Special Administrative Region of China) and computer and information services (India). The share in world travel services of Macao Special Administrative Region of China has doubled over the last five-year period to reach about 4 per cent in 2012. The increases of imports of services in most developing countries and the economies in transition have outpaced that of exports, leading to deterioration in their trade balances in services (figure II.17). However, the deficits in their services balances have been

Table II.1
Top 10 services exporters in 2012: developing countries and economies in transition

	Share in world exports			
	Rank in 2008[a]	Share in 2008[a, b]	Rank in 2012[a]	Share in 2012[a, b]
China	1	3.8	1	4.4
India	2	2.7	2	3.2
Hong Kong SAR[c]	4	2.4	3	2.8
Singapore	3	2.5	4	2.6
Korea, Republic of	5	2.3	5	2.5
Russian Federation	6	1.3	6	1.4
Thailand	9	0.8	7	1.1
Taiwan Province of China	7	0.9	8	1.1
Macao SAR[c]	14	0.5	9	1.0
Turkey	8	0.9	10	1.0

Source: UNCTADStat.
a Among developing economies and economies in transition.
b In percentage points.
c Special Administrative Region of China.

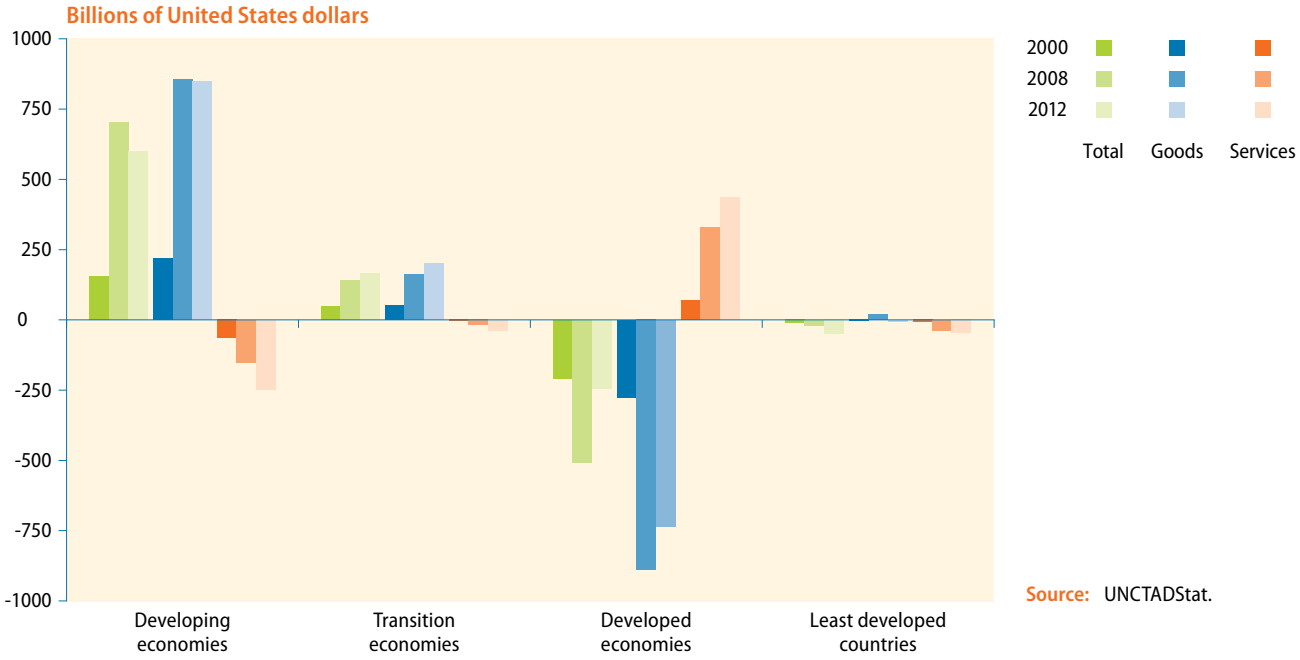
Table II.2
Top 10 services importers in 2012: developing countries and economies in transition

	Share in world imports			
	Rank in 2008[a]	Share in 2008[a, b]	Rank in 2012[a]	Share in 2012[a, b]
China	1	4.3	1	6.8
India	3	2.4	2	3.1
Singapore	4	2.4	3	2.9
Korea, Republic of	2	2.6	4	2.6
Russian Federation	5	2.0	5	2.6
Brazil	7	1.3	6	2.0
Saudi Arabia	6	2.0	7	1.8
United Arab Emirates	10	1.2	8	1.5
Hong Kong SAR[c]	8	1.3	9	1.4
Thailand	9	1.2	10	1.3

Source: UNCTADStat.
a Among developing economies and economies in transition.
b In percentage points.
c Special Administrative Region of China.

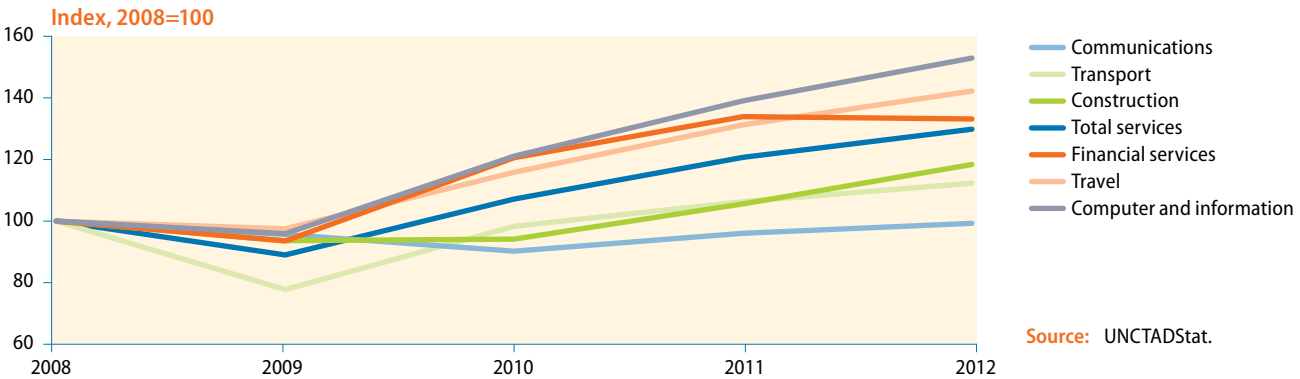
more than compensated by surpluses in their goods balances. The LDCs, however, have seen deficits in their trade balances in both goods and services.Travel and transport services remain the core sectors of exports in services for developing countries, especially high- and middle-income developing countries. Almost 60 per cent of exports in services are either travel services or transport services. Outsourcing associated with the global dynamic growth of computer and information and travel services associated with tourism (box II.5) have continued to drive services exports of developing countries (figure II.18). Construction services seem to have accelerated the speed of recovery lately. The financial services and the royalties and fee payment sectors are the only sectors showing a negative growth rate in 2012. Communications services associated with merchandise trade, despite positive records in terms of growth over the last two years, is the only sector that has still not recovered its pre-2008 level of exports.

Figure II.17
Trade balances by development status



Source: UNCTADStat.

Figure II.18
Developing country exports of services by category, 2008-2012



Source: UNCTADStat.

Box II.5
International tourism

International tourist arrivals (overnight visitors) exceeded the 1 billion mark for the first time ever in 2012 with 1035 million tourists crossing borders, up from 995 million in 2011. Over half of global travel was for leisure and 14 per cent for business, with the rest being for health, religious or other purposes, including visiting friends or family. Demand for international tourism remained strong throughout the first eight months of 2013, with arrivals growing by 5 per cent compared to the same period last year, boosted by arrivals in Europe (5 per cent) and Asia and the Pacific (6 per cent). An estimated 747 million overnight visitors crossed borders through August 2013 worldwide, about 38 million more than in the same period of 2012. In view of these results, the January 2013 projection of 3 per cent to 4 per cent growth for the full year could well be surpassed, despite the weak world economy.

In tourism receipts, preliminary data through August also point to good results for 2013, with approximately three quarters of countries reporting an increase in tourism earnings and over a quarter with double-digit growth. After growing 4 per cent in real terms in 2012, tourism receipts hit a record $1075 billion. In addition, international passenger transport generated $213 billion in export earnings last year, bringing total tourism exports (tourism receipts plus passenger transport) to $1300 billion in 2012.

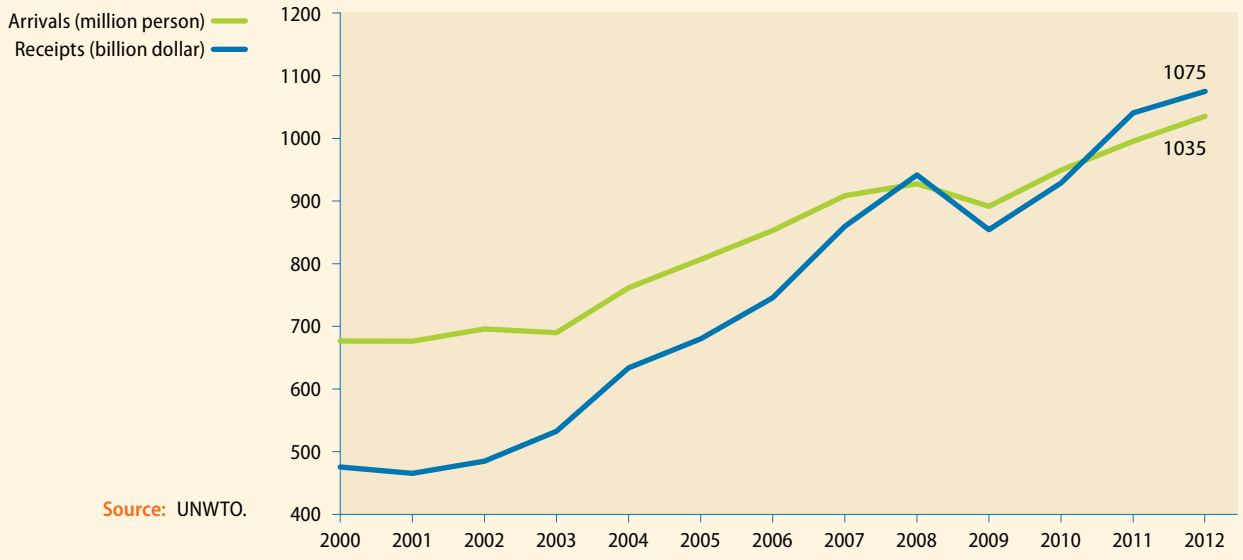
As for outbound markets, emerging economies continue to show rapid growth in tourism expenditure, due to rising disposable incomes and improved infrastructure. China became the world's top outbound market in 2012 with a record $102 billion spent, following a nearly eightfold increase since 2000. In the first eight months of 2013, China reported another double-digit increase, as did Brazil and the Russian Federation, while growth was slower in advanced economy source markets.

The latest survey among the United Nations World Tourism Organization (UNWTO) Panel of Experts revealed a major increase in confidence in the tourism industry throughout 2013. In 2014, international tourism is expected to maintain momentum with international arrivals growing at a slightly more moderate pace of about 4 per cent.

Tourism as a source of development

Growth of international tourism in emerging market and developing countries has been significant in the last three decades. In the 49 least developed countries (LDCs), international tourist arrivals increased from 1.4 million to 21 million between 1980 and 2012 (almost 9 per cent a year on average), substantially faster than in the world overall (4 per cent a year), although from a low base. As a result, the share of LDCs

Figure II.5.1
International tourist arrivals and receipts, 2000-2012



Source: UNWTO.

in global tourist arrivals has quadrupled from 0.5 per cent to over 2 per cent in this period. This growth is also reflected in international tourism receipts, which rose 25 times in LDCs—from $0.5 billion in 1980 to over $12 billion in 2012. Earnings growth was also much faster in LDCs than globally. In current dollar terms, the average growth rate of tourism receipts in LDCs was 11 per cent per year between 1980 and 2012, as compared to 8 per cent worldwide, 9 per cent in emerging markets and developing countries overall, and 7 per cent in developed economies.

In the full group of emerging economies, international tourists spent $386 billion in 2012, over five times the level of official development assistance received by those countries.

Tourism offers LDCs an opportunity to compete in the global economy, as it accounts for 6 per cent of overall exports (10 per cent among non-fuel exporters) and 52 per cent of services exports. Tourism has been identified by most LDCs and small island developing States (SIDS) as a powerful engine for poverty reduction and development. This is reflected in the sector's role in the three countries that have so far graduated from the LDC category: Botswana, Cabo Verde and Maldives. In Cabo Verde and Maldives particularly, tourism accounts for a large percentage of exports: 56 per cent and 80 per cent respectively, while in Botswana it is approximately 11 per cent.

The five pillars for assessing sustainable tourism

While tourism can be a significant force for poverty alleviation in developing countries through the creation of jobs and businesses, sustainability is an inseparable condition of tourism development and requires careful planning and management. The *Sustainable Tourism for Development Guidebook* identifies five pillars in the assessment of the sustainability of tourism development, which constitutes a methodology for identifying and implementing strategies, policies and measures.

1. Tourism should be given due recognition in Governments' development plans and incorporated into development studies and frameworks to ensure that the sector is correctly positioned as a force for sustainable development.
2. In order to effectively assess competitiveness, countries must put systems in place to effectively measure and monitor the sector. Many developing countries will require assistance in establishing a reliable system of national tourism statistics.
3. Tourism also requires a sufficient supply of suitably skilled labour, which will necessitate coordination between government, private enterprise and employee representatives to ensure the sector can fulfill its full employment-creation potential.
4. As a labour-intensive and diverse sector, tourism presents special opportunities for benefiting poor and disadvantaged people. This requires commitment from government and the private sector, applying relevant policies and tools.
5. Finally, the tourism sector can be an effective partner in supporting the preservation of nature and local cultural heritage because it depends on these to attract visitors. Sustainable consumption of natural resources such as water and energy can be part of a broader strategy of protecting the country's natural capital.

Source: UNWTO.

Between 2000 and 2012, developing countries increased their market share in 7 out of 10 subsectors reported. The share of developing countries is the highest in construction and travel services at 40 per cent, followed by transport and other business services. Developing countries saw a substantial increase in their share in computer and information services, together with construction, during this period.

Trade policy developments

The WTO Bali Package contains agreements on agriculture, development and trade facilitation

The successful outcome of the Ninth WTO Ministerial Conference in December 2013 in Bali[8] somewhat renewed faith in the multilateral trading system. There remains much unfinished multilateral business under the Doha Round, while regional and national

8 WTO, Bali Ministerial Declaration, WT/MIN(13)/DEC/W/1/Rev.1, 7 December 2013.

trade liberalization continues unabated—although the picture is mixed.[9] Overall, the international trading system is becoming more uncertain and fragmented, and less able to provide a coherent, development-oriented framework that enables international trade to optimally boost economic growth and development—all of which leads to renewed questioning of the benefits arising from trade. These challenges have affected progress in reaching Millennium Development Goal Target 8.A (to develop an open, rule-based, predictable, non-discriminatory trade and financial system) and poses a serious risk for global economic welfare.

The multilateral trading system: the Bali "mini" Package and variable geometry of trade agreements

The more than twelve-year Doha Round negotiations have finally led to some limited outcomes agreed within the Bali "mini" Package, representing an early harvest from the much broader Doha Round. The Doha Round[10] will continue, and a work programme to address the remaining issues will be established during 2014. The programme will build upon the Bali outcome (particularly with regard to agriculture, development and LDC issues, and prioritizing issues where legally binding outcomes were not achieved), as well as all other Doha issues central to concluding the Round.

Salient elements of the agriculture component of the Bali Package include: a peace clause for existing food stockholding programmes for traditional staple crops (subject to certain conditions) that will continue until a permanent solution is found, with the aim of finding that solution within four years; rules for tariff-rate quota administration when the quota is persistently under-filled, with some countries (including the United States) reserving the right not to apply the system after six years; political commitments to continue reducing export subsidies, and measures that have an equivalent effect; continuing negotiations and enhanced transparency and monitoring on cotton; and clarification that land reform and rural livelihood security programmes are considered to be non-trade-distorting general services.

On development, there are provisions for: extending duty-free quota-free (DFQF) treatment to those LDC exports going to countries that have not provided DFQF for at least 97 per cent of products, in order to increase the number of products covered; guidelines on preferential rules of origin for LDCs; discussions on operationalizing the LDC services waiver; and a monitoring mechanism for implementation of special and differential treatment for developing countries.

On the Agreement on Trade Facilitation, which is perhaps the most important element in the Bali Package in terms of rule-making, there are, inter alia, provisions on: publication and availability of information; consultation; advance rulings; appeal procedures; impartiality, non-discrimination and transparency; fees and charges; clearance of goods; border agency cooperation; formalities; freedom of transit; customs cooperation; and timing flexibilities and capacity-building assistance for developing-country and

9 For more details, see UNCTAD, "Key statistics and trends in trade policy", UNCTAD/DITC/TAB/2013/2 (Geneva), available from http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=685.

10 For a review of developments in the international trading system from a development perspective, see United Nations, Report of the Secretary-General on international trade and development (A/68/205).

LDC members to implement obligations. The non-discrimination principle of Article V of the General Agreement on Tariffs and Trade 1994 on freedom of transit is reaffirmed.

Clearly, this "Doha-lite" outcome attempts far less than the original ambitious Doha Round agenda, and achieves little in securing development-oriented outcomes. The likely trade and development gains from its implementation are unclear, despite over-optimistic predictions about the welfare gains from the trade facilitation agreement amounting to up to $1 trillion. In any event, the Bali outcome will take time to implement and thus will not affect world economic prospects in 2014, and probably not in 2015. Yet the Bali Package does provide reassurance that trade multilateralism can still deliver in terms of agreed negotiating results. However, what further WTO negotiations could produce in the short and medium term remains an open question.

Another positive outcome of Bali was the approval of the WTO accession of Yemen, the thirty-fifth LDC member, bringing WTO membership to 160 (Lao Democratic People's Republic and Montenegro also acceded in 2013). Twenty-three more countries are currently negotiating membership. While this demonstrates the continuing attractiveness of WTO, the former Director-General of WTO has offered a cautionary message against creating a divide between R A Ms (recently acceding members)—who have higher commitments on average—and ROMs (rest of the members).[11]

There has been limited progress on some sectoral negotiations such as the ITA and TISA

Meanwhile, prospects for WTO sectoral discussions outside the Doha Round appear uncertain. Negotiations on expanding the product coverage of the 1997 Information Technology Agreement (ITA) are currently suspended over China's request for exclusion of a number of information technology (IT) products from trade liberalization, and no timeline for resumption has been set.[12] However, progress was registered in September 2013 when the Russian Federation became the seventy-eighth member of the ITA.

Discussions continue among some 23 WTO members (the majority of which are Organization for Economic Cooperation and Development (OECD) countries) on a plurilateral Trade in Services Agreement (TISA) to cover about 70 per cent of global services trade. China is seeking to join these negotiations, but the United States is requesting that certain preconditions be met first.[13] The TISA proponents' aim is that the outcome of the negotiations will be brought into the multilateral system, although the modalities for such a development remain unclear.

At the Bali Conference, participants in the negotiations on expansion of the plurilateral Agreement on Government Procurement affirmed their objective of bringing its 2012 revision extending market access commitments into force by March 2014.

Regional trade agreements: major initiatives, uncertain outcomes and implications

The pace and scale of negotiations on regional trade agreements (RTAs) further accelerated in 2013. As of 31 July 2013, some 575 notifications of RTAs (counting goods and services and accessions separately) had been received by the WTO, and, of these, 379

11 Pascal Lamy, "Looking back, moving forward", VOX, 29 July 2013, available from http://www.vox-eu.org/article/looking-back-moving-forward.

12 See Inside U.S. Trade's World Trade Online of 22 November 2013. While negotiated plurilaterally, the zero tariffs, duties and charges on IT products covered under the ITA are extended to all WTO members on a most favoured nation basis.

13 Ibid.

were in force.[14] Current RTA negotiations often involve multiple parties and/or parties accounting for major shares of world trade; they aim at high-standard integration through WTO-plus or WTO-extra provisions on behind-the-border regulatory measures, such as technical regulations, standards, conformity assessment systems, sanitary and phytosanitary regulations, services, investment, intellectual property, State aid and State-owned enterprise (SOEs), public procurement, competition policy, environment, or labour market regulations.[15]

Two new large RTAs—the TTIP and the TPP—are currently being negotiated

Major RTA developments in 2013 have included the launch of negotiations on a Trans-Atlantic Trade and Investment Partnership (TTIP) between the United States and the EU, the joining of the negotiations on the Trans-Pacific Partnership Agreement (TPP) by Japan,[16] the start of negotiations on an EU-Japan free trade agreement, and agreements (pending final approval or ratification) on RTAs between the EU and Canada, China and Switzerland, and Australia and the Republic of Korea .

It is reported that a leaked version of the TPP chapter on intellectual property revealed major divergences and has raised controversy within the United States.[17] Plans for finalizing the TPP negotiations by December 2013 did not materialize. On 10 December 2013, TPP participants decided to extend these negotiations to 2014.

In the TTIP, the EU has placed relatively more emphasis on mutual recognition in specific sectors, and the United States on horizontal rules regarding issues such as transparency.[18] However, it is agreed there will be a post-negotiations long-term regulatory mechanism to work on breaking down new regulatory barriers.[19] The ultimate outcome of both these "mega-regional" negotiations may hinge upon whether fast-track negotiating authority to conclude trade agreements is extended by the United States Congress to the Administration.

The EU is negotiating RTAs with a large number of other countries or regional groupings[20] and has recently concluded association agreements with Georgia and the Republic of Moldova; Armenia and Ukraine, however, have cancelled similar negotiations on EU association agreements, with Armenia intending to accede to the Eurasian Customs Union forming among Belarus, Kazakhstan, the Russian Federation and, eventually, Armenia and some Central Asian countries (Kyrgyzstan and Tajikistan).

South-South regional integration arrangements and interregional organizations are increasing

In parallel, many developing countries are exploring South-South regional integration schemes to promote scale economies, diversification and resilience. Building upon existing initiatives, such as the tripartite initiative among SADC, COMESA and ESA, the African Union decided in 2012 to fast-track the operationalization of the Continental Free

14 See World Trade Organization's regional trade agreements section of the website, available from http://www.wto.org/english/tratop_e/region_e/region_e.htm.

15 "WTO-Plus" provisions relate to areas already subject to some commitments in WTO agreements, and provide for additional obligations. "WTO-extra" provisions relate to areas outside current WTO coverage.

16 Countries participating in these negotiations include Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam. Some other Asian countries have expressed interest in joining.

17 See Inside U.S. Trade's World Trade Online of 14 and 22 November 2013.

18 See Inside U.S. Trade's World Trade Online of 27 September 2013.

19 See Inside U.S. Trade's World Trade Online of 22 November 2013.

20 Including Armenia, Georgia, India, the Republic of Moldova, Singapore, Thailand, 6 Central American countries, 4 Mediterranean countries, most African, Caribbean and Pacific Group of States (ACP) countries, the Andean Community, the Gulf Cooperation Council and Mercado Común del Sur (MERCOSUR).

Trade Area by the indicative date of 2017, and, to this end, implement an Action Plan for Boosting Intra-African Trade.[21] At the interregional level, the successful conclusion of the Sao Paulo Round negotiations under the Global System of Trade Preferences in 2010 has provided a major additional opportunity for further strengthening the expansion of South-South trade on an interregional scale.

Major motivations for attempts to form RTAs have been to spur progress in the Doha Round negotiations and to promote deeper commitments in new areas that will eventually be incorporated at the multilateral level. RTAs may sometimes be driven by the desire for predictable and less restrictive trade and investment rules that support the establishment and evolution of GVCs, which mainly exist in developed countries and in Asia.[22] The conclusion of RTAs has also politically triggered other RTAs, as countries have sought to avoid isolation.

Mega-RTAs are intended as "Doha by other means"

Regarding "mega-RTAs", such as TPP and TTIP, it has been suggested that they aim at constituting alternatives to multilateral liberalization and updating of trading rules, while enabling parties to avoid marginalization from non-participation in rival trade pacts;[23] they can also enhance coherence and promote improved WTO trade rules, most favoured nation (MFN) liberalization, and deeper regional integration worldwide.[24]

However, doubts have been expressed over the reach and effectiveness of TPP and TTIP negotiations. There are questions as to whether the two would fit with each other and with other RTA negotiations, particularly the Regional Comprehensive Economic Partnership Agreement (RCEP) between ASEAN and Australia, China, India, Japan, New Zealand and the Republic of Korea; and if they would promote global trade liberalization and multilateral convergence, given they may involve discriminatory market-distorting trade-offs (concessions and preferential market access), avoid addressing agricultural subsidies and other global challenges, and lock in regulatory divergences.[25] Differences between rules applicable inside and outside mega-RTAs could indeed pose major problems for the constantly changing operations of GVCs (box II.6).[26]

Many participating developing countries see regional trade agreements (RTAs) as a way to lock in access to their major markets. However, it has been suggested that: (a) the proliferation of RTAs has reduced transparency and uniformity in the global trading system and increased transaction and administration costs, particularly for developing-country customs authorities and firms less able to deal with multiple and complex rules of

21 "Decision on boosting intra-African trade and fast tracking the Continental Free Trade Area" (Assembly/AU/Dec.394(XVIII)), adopted by the Assembly of the African Union on its 18th Ordinary Session in Addis Ababa, Ethiopia from 23-30 January 2012.

22 See OECD, *Interconnected Economies: Benefiting from Global Value Chains* (Paris, 2013); and Richard Baldwin, "Global supply chains: why they emerged, why they matter, and where they are going", in *Global Value Chains in a Changing World*, Deborah K. Elms and Patrick Low, eds. (Fung Global Institute, Nanyang Technological University and World Trade Organization, 2013).

23 See David Pilling and Shawn Donnan, "Trans-Pacific Partnership: Ocean's Twelve", *Financial Times*, 22 September 2013; and Shawn Donnan, "Pascal Lamy questions US-led regional talks", *Financial Times*, 18 July 2013.

24 See Lucian Cernat, "TPP, TTIP and multilateralism: stepping stones or oceans apart? VOX, 8 November 2013.

25 See David Pilling and Shawn Donnan, "Trans-Pacific Partnership", op. cit.; and Shawn Donnan, "Pascal Lamy questions US-led regional talks", op. cit.

26 Michitaka Nakatomi, "Global value chain governance in the era of mega FTAs and a proposal of an international supply-chain agreement", VOX, 15 August 2013.

origin; (b) while RTAs enable developing countries to import international regulatory systems that are pre-tested and represent best practices, potentially limiting costs, the fact that they are often negotiated under substantive power asymmetries could lead to developing countries being pressured to adopt common rules inappropriate for their level of development, and utilization of standards by advanced economies to close markets to poor countries.[27] It has further been argued that, while the establishment of systems of "hub-and-spoke" bilateral agreements by Japan, the United States and the EU would mitigate conflicts, "spoke countries" having RTAs with more than one of these parties would face particular problems.[28]

Regarding developing countries not party to major RTAs, their adherence to the harmonized standards of these RTAs could reduce their trading costs with both RTA parties and non-parties adopting these standards.[29] However, developing-country non-parties with limited capacity may run risks of marginalization and damage to their competitiveness, particularly if they do not substantially participate in world trade or are unable to conform to higher standards. Moreover, although some RTA provisions are extended to non-members because they are embedded in broader regulatory frameworks, discrimination might arise from mutual recognition agreements recognizing only standards of RTA parties as equivalent, mandating more advance transparency notifications, or providing for services provider recognition.[30]

Box II.6

Global value chains: policy implications for developing countries

Greater participation and capture of value addition by developing countries in global value chains (GVCs) could offer a promising path to enhanced growth and development. However, benefits of GVCs do not accrue automatically, and appropriate policies are needed to harness the potential economic and social upgrading opportunities.

The international fragmentation of production, while not a new phenomenon, has in the past two decades reached an unprecedented magnitude and scale. Driven by progressive trade liberalization and technological advances (especially in transport and telecommunication), GVCs have become a dominant feature of many industries, involving both developed and a growing number of developing countries. Since the 1980s, firms have turned to offshoring and outsourcing of production processes to locations with quality and low cost inputs and skills. In the past years, the nature of GVCs has been shaped by a shift in production and market demand from North to South, especially emerging economies. Multinational enterprises now coordinate as much as 80 per cent of global trade through GVCs.[a] Following the 2008 2009 global economic crisis and other unforeseen events such as the 2011 Japanese tsunami and nuclear disaster, as well as the Thai floods, GVCs have resorted to forming geographical hubs and reorganizing, as lead firms seek to deal with smaller numbers of larger, more efficient and strategically located suppliers.[b] Delocalization of production to other developing-country regions, although increasing, is still limited. An

a UNCTAD, *World Investment Report 2013— Global Value Chains: Investment and Trade for Development* (United Nations publication, Sales No. E.13.II.D.5).

27 See *Trade and Development Report 2007: Regional cooperation for development* (United Nations publication, Sales No. E.07.II.D.11); and WTO, *World Trade Report 2011—The WTO and preferential trade agreements: from co-existence to coherence* (Geneva).

28 Richard Baldwin, "Global supply chains: why they emerged, why they matter, and where they are going", op. cit.

29 See Lucian Cernat, op. cit.

30 See Pravin Krishna, Edward D. Mansfield and James H. Mathis, "World Trade Report 2011. The WTO and Preferential Trade Agreements: From Co-Existence to Coherence by World Trade Organization Geneva: World Trade Organization, 2011", *World Trade Review*, vol. 11, Issue 2 (May), pp. 327-339.

arguably more insightful picture of patterns of global production and trade is painted by new metrics of value-added trade, which distinguish between use of domestic and foreign inputs to fuel export-oriented growth. The high share of trade in intermediates, which comprises about 40 per cent of total world trade, is also indicative of the fragmentation of production in the context of global/regional supply chains. However, this is a phenomenon largely confined to developed countries and to the East Asian region.

In theory, greater participation and value capture in value chains could be important avenues for developing countries to benefit from enhanced trade and investment, competitiveness, economic growth and employment. GVCs can facilitate access to global markets without developing entire export industries, but instead focusing on fewer specific tasks or components within industry value chains. GVCs can also help build productive capacity—including through transfer of technology, finance, knowledge and skills—thus opening up opportunities for longer-term industrial upgrading. Evidence shows that faster growing developing economies also have the fastest growing GVC participation.[c]

Not all countries have joined global production networks to the same extent, with most countries in Africa and Latin America accounting for a limited share of world GVC income and trade. Moreover, even developing countries that manage to join global supply chains can still remain locked into relatively low valued-added activities (typically resource-based and/or purely manufacturing-related) and a narrow technology base.[d] Connecting to GVCs can also carry other risks, including: greater exposure to the transmission of crises and shocks through trade; unequal sharing of gains; exposure to predatory behaviour of powerful global players (which could be linked, for example, to unstable and hazardous employment, land grabbing, or depletion of natural resources); as well as environmental degradation and climate change acceleration, exacerbated by the fact that internationally traded goods generate on average 50 per cent more carbon emissions than locally traded goods.[e]

Smaller and/or resource poor developing countries, including least developed countries, which may also have high costs of production, are often unable to compete in GVCs, even by specializing in niche segments of the chain. In such cases, regional, national and local value chains may potentially present a viable alternative, by promoting integration and industrial development, and presenting an opportunity to diversify production and export structures and capture higher value in the chain. More localized value chains could also enhance food security, environmental sustainability (linked to lower CO2 emissions from transport[f]), and other development goals. A successful example includes South African supermarkets and clothing manufacturers that have expanded via regional value chains involving neighbouring and other sub-Saharan African countries.[g]

Overall, the potential development benefits of GVCs are not automatic; hence, carefully designed and proactive policies are necessary for promoting increased participation as well as upgrading to higher value-added and technologically sophisticated activities in GVCs. While GVC-led development strategies need to be country and sector specific, with no one-size-fits-all approach, a number of broad policy prescriptions can nonetheless be identified.

GVCs strengthen the economic case for limiting traditional and non-tariff barriers in trade, as the cost of protection may be magnified when intermediate and final goods are traded across borders numerous times. However, this case is challenged by the need to devise a more sustainable development path compatible with environmental sustainability and climate stabilization; the cost of protection must be weighed against the environmental cost of incentives that encourage transporting goods across borders and oceans many times. In addition, gainful participation of low-income countries in GVCs necessitates a global trading system that permits sufficient flexibility and space to implement trade policies that support industrial, agricultural and services development, and at the same time ensures unrestricted global market access for exports.

Importantly, GVC policies need to be embedded in broader national development strategies that focus on a rapid pace of capital formation, economic diversification and technological upgrading. Appropriately tailored complementary policies—including investing in infrastructure and skills, improving public and corporate governance, and facilitating adjustment through well-designed labour market, social and environmental policies and standards—are therefore central to engaging and upgrading in value chains and reaping associated development benefits. Finally, international cooperation can also contribute greatly to fostering a supportive and coherent multilateral trade and investment climate, and to building productive capacities—including through initiatives such as Aid for Trade—to help developing countries realize the development gains of GVCs in today's highly interconnected world.

b Olivier Cattaneo and others, "Joining, upgrading and being competitive in global value chains: a strategic framework ", World Bank Policy Research Working Paper, No. 6406 (April, 2013); and, Gary Gereffi, "Global value chains in a post-Washington consensus world", *Review of International Political Economy*, DOI: 10.1080/09692290.2012.756414.

c OECD, WTO and UNCTAD, "Implications of global value chains for trade, investment, development and jobs", Prepared for the G-20 Leaders Summit at Saint Petersburg in September 2013.

d UNCTAD, "Integrating developing countries' SMEs into global value chains", UNCTAD/DIAE /ED/2009/5; and, Rashmi Banga, "Measuring value in global value chains", UNCTAD Regional Value Chains Background Paper, No. RVC8 (Geneva).

e See *World Economic Situation and Prospects 2013* (United Nations publications, Sales No. E.13. II.C.2), Box. II.1, pp. 39 -41; and, Anca D. Cristea and others, " Trade and the greenhouse gas emissions from international freight transport", NBER Working Paper, No. 17117 (Cambridge, Massachusetts: National Bureau of Economic Research).

f See Anca D. Cristea and others, Ibid.; and WTO, *World Trade Report 2013: Factors shaping the future of world trade* (Geneva). This will be true in general, although there are some particular regional or sectoral shifts where there could be potentially greater emissions such as a switch from ocean going transport to truck-based overland transport.

g Gary Gereffi, "Global value chains in a post-Washington consensus world", op. cit.

Source: UNCTAD.

The G20 Leaders' Declaration at the St. Petersburg Summit, held on 6 September 2013, commits to ensuring that RTAs support the multilateral trading system (MTS).[31] The Annex on Advancing Transparency in Regional Trade Agreements expresses G20 member commitment to ensuring full compliance with transparency obligations for RTAs under the WTO and proposes further transparency obligations, including further steps to ensure consistency of RTAs with WTO principles and rules. The Annex further reaffirms that RTAs should remain complementary to—not substitute for—the MTS, and urges WTO members to advance their discussions of the systemic implications of the increasing number of RTAs on the MTS.

Unilateral trade liberalization: a mixed picture

Global tariff liberalization continues, although more slowly than before the crisis

The last decade has seen the process of global tariff liberalization continue largely unabated. Developed countries further reduced tariffs or maintained them at very low levels since 2002, while the vast majority of developing countries reduced their tariffs, in some cases quite substantially. Tariff liberalization occurred to a greater extent during the pre-crisis period (2002-2007), with the average level of developing-country tariffs falling by almost 5 per cent. Since 2008, tariff liberalization has continued, but at a slower pace. In 2012, with the exception of some countries (mainly in sub-Saharan Africa), the average tariffs applied by developing countries on imported goods has generally been lower than 10 per cent. Overall, the average tariff on world trade in 2012 was about 2 per cent.

Many countries have reduced MFN tariffs, while the proliferation of preferential trade agreements has contributed to further reducing applied tariffs. By 2012, almost 40 per cent of international trade was fully liberalized under MFN terms, with an additional 35 per cent free because of preferential tariff regimes.[32]

More recently, some backsliding has occurred. A review of G20 trade policies, since a standstill on new protectionist measures was announced at the first economic crisis-era G20 summit (November 2008), found that the number of trade-related protectionist measures increased by 23 per cent between 2009 and 2012, and 90 per cent of crisis-era G20 protectionism still needed to be unwound.[33] A comparison of the G20 nations' performance with the ten next largest trading countries in terms of different measures of protectionism[34] since the announcement of the standstill found that the performance of the G20 was markedly better only with regards to "murky", non-transparent protectionism.

31 See G20 Leaders' Declaration at the St. Petersburg Summit from 5-6 September 2013, available from http://en.g20russia.ru/events_summit/20130905/780962092.html.

32 See, UNCTAD, "Key statistics and trends in trade policy", op. cit.

33 Simon J. Evenett, "What restraint? Five years of G20 pledges on trade", 14th Global Trade Alert Report (London: Centre for Economic Policy Research), available from http://www.globaltradealert.org/sites/default/files/GTA14_0.pdf. The review drew upon nearly 3,800 reports of trade-related measures taken since the pledge was made, and compared the annual totals up to 19 August 2010 (273) and 19 August 2013 (335).

34 Those are: shares of all measures since November 2008 that are harmful; shares of all measures since last G20 summit that are harmful; share of harmful measures still to be unwound; shares of tariff linesaffected by all implemented harmful measures; shares of tariff lines affected by remaining harmful measures; and share of harmful measures that are "murky" (non tariff measures).

Conclusions and ways forward

While tariff liberalization has continued, the overall picture is fragmented and uncertain

Tariff liberalization has proceeded at all levels: multilaterally, regionally, bilaterally and unilaterally. WTO disciplines still remain at the core of global trade governance and their credibility has been boosted by the Bali "mini" Package. However, the uncertainty and fragmentation of the international trading system, the meagreness of progress regarding more effective development-oriented multilateral trade rules and disciplines, and the scale of outstanding issues may accelerate a shift in multilateral focus from trade liberalization to monitoring compliance with established trade rules, together with a variable geometry approach to WTO member commitments. Such trends may be further accelerated by the potential impact of RTAs involving multiple parties and/or major trading countries (mega-RTAs) upon developing parties and non-parties, and upon the wider trading system and international trade. Meanwhile, the record of achievements in terms of unilateral trade liberalization may be stained by the common trend of resorting to "low intensity protectionism" in national trading regimes, despite pledges made to the contrary.

Accordingly, to promote systemic coherence and development-oriented trade liberalization, transparency, analysis and discussions need to be furthered regarding: (1) outstanding multilateral issues left over from Bali, particularly with regard to agriculture and development issues; (2) types of provisions in selected policy areas commonly found within RTAs, particularly "WTO-plus" and "WTO-extra" provisions in RTAs of major trading countries; (3) effects of RTAs upon developing country parties and outsiders, particularly in areas having spillover effects (such as agriculture and non-tariff measures, industrial policies, GVCs, the environment, or sectoral employment composition); (4) RTA best practices in terms of asymmetric provisions favouring developing countries; (5) how best to exploit the potential of South-South RTAs to expand markets for poorer and smaller countries and facilitate broader cooperation, consistent with national developmental objectives; and (6) interrelationships among RTAs and between RTAs and WTO provisions.