WTO Highlights Role in Helping Developing Countries Adjust to Global Changes

October 22, 2014
Sandler, Travis & Rosenberg Trade Report

Amid increasing uncertainty as to the future of the World Trade Organization in negotiating and enforcing multilateral trade agreements, the WTO’s annual report defends the organization as having made a significant contribution to the well-being of developing countries. Emerging trends show that trade is one of the key enablers of development, the report states, and the WTO and its rules should be seen as an integral part of the enabling environment for realizing any post-2015 development agenda.

The report identifies four recent trends that have considerably altered the relationship between trade and development: the rise of the developing world, the expansion of global value chains, the higher prices of commodities and the increasingly global nature of macroeconomic shocks. The WTO has enabled developing countries to take advantage of, adapt to and mitigate risks arising from these trends, the report states, by ensuring that countries make binding commitments that increase certainty over their trade policies, providing flexibilities that better allow developing countries to undertake such commitments, and facilitating technical assistance to build trading capacity within those economies. By providing certainty the WTO has created a predictable environment that has allowed economic activity to flourish, the report adds, and by helping contain protectionism during “the greatest economic crisis in 70 years” the WTO helped safeguard the economic gains made by developing countries.

Some of the main points of the report include the following.

Trade Spurs Growth. The gross domestic product per capita of developing countries has grown by 4.7 per cent since 2000, compared with only 0.9 percent for developed countries, and developing countries now account for more than half of world output (in purchasing power parity terms). Expanding trade has underpinned these gains in income; the share of developing countries in global trade has risen from 33 per cent to 48 per cent since 2000.

Global Value Chains. More than half the total exports of developing countries in value-added terms are now related to global value chains, and the share of GVC-based trade between developing countries has quadrupled over the last 25 years. GVCs can lead to productivity enhancements through technology and knowledge transfers, and countries with greater GVC participation have experienced higher growth rates. However, developing countries face obstacles in seeking to participate in GVCs, including infrastructure and customs barriers. In addition, many developing countries join GVCs by performing low-skill tasks where value capture is low, and upgrading to higher value tasks can be challenging.

Commodity Prices. Prices for food, energy, metals and minerals have roughly doubled since 2000, and strong demand from large developing countries provides a reason to believe this high-price environment is likely to stay. Developing countries increased their market share in global agricultural exports from 27 to 36 per cent during this period, but traditional market access barriers such as tariffs and subsidies continue to affect their exports and non-tariff measures are playing an increasingly important role. Trade in natural resources has also grown strongly in terms
of both value and volume, but the social and environmental impacts of natural resource extraction as well as economic diversification remain significant challenges.

**Macroeconomic Shocks.** The 2008-09 trade collapse and subsequent recovery revealed the dependency of developing economies on cyclical developments originating in large developed economies. The synchronization of downturns and upswings across the world has illustrated the strong interconnectedness of economies through trade and financial links, in particular the role of supply chains in the propagation of shocks and the importance of trade finance, which had dried up. Nevertheless, the world did not experience wholesale protectionism, and possible explanations include the existence of a set of multilateral trade rules, the effectiveness of WTO monitoring efforts, countries’ anticipation of the self-harming impacts of protectionism in light of their participation in GVCs, and the internationally coordinated macroeconomic response in light of the crisis.