Trade

WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Trade is a key element in the generation of the sustained economic growth necessary to raise incomes and reduce poverty[1]. Empirical evidence shows the strong links between trade performance, economic growth, and poverty reduction over the last 30 years, across all regions. Open economies are richer and more productive than closed economies: an increase in the share of trade in GDP of 1% raises the income level by between 0.9% and 3%.

There is a strong link between trade and many other topics in this report. An open international trading system can work effectively only if we: enable market-oriented adjustment to address the current account imbalances that have built up during the past decade; fix the major weaknesses in the operation of financial regulatory and supervisory frameworks; and reform our economies to focus our social and economic progress more heavily on 'green growth' and renewable energies. A liberalised international trading system can in turn help to meet other challenges, including climate change, food and water security, and health.

Domestic policies, including education, labour market and social policies, improvements to productivity and supply-side capacity, and regional co-operation, are all important factors for improving trade performance. There is a key role for Aid for Trade, alongside the efforts of national governments and regional organisations, to increase the capacity of low-income countries to benefit fully from trade liberalisation. But experience shows that wider international co-operation and a multilateral rules-based system are also essential to the continued growth of international trade. This is all the more true following the economic crisis, when falling demand, exacerbated by short-term trade finance constraints, led to dramatic falls in global trade.

Core areas for international co-operation during the recovery phase and beyond are:

- keeping markets open, and avoiding protectionist measures in response to the crisis, or as part of stimulus packages or exit strategies;

- keeping trade flowing and ensuring that sufficient trade finance is available;

- taking forward multilateral trade liberalisation, including through the Doha Development Agenda.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Keeping markets open

The multilateral rules-based system has held up well. The fourth combined Report on G20 Trade and Investment Measures by the OECD, the World Trade Organization (WTO), and the United Nations Conference on Trade and Development (UNCTAD) found a slight decline in the number of trade restricting or trade distorting measures, and their trade coverage relative to levels earlier in the year. But it noted that new trade restrictions covered 1.8% of total G20 imports, and that only 15% of the measures introduced since the outbreak of the crisis had been removed. It also warned of signs of intensifying protectionist pressures driven by persistent high unemployment, macroeconomic imbalances, and tensions over exchange rates.

The majority of the new measures affected already highly-protected sectors such as agriculture, textiles, and metal industries, thus reversing some of the hard-earned gains from successive trade rounds. These areas are also relatively labour intensive and represent areas in which some developing countries have a comparative advantage. These sectors need more market opening, not further restrictions. The next steps include:

• removal of trade restrictions introduced since the outbreak of the crisis;

• continued freeze until the end of 2013 on raising barriers or imposing new barriers, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports, as agreed within the G20;

• action to tackle problems outside the trading system which are putting its stability at risk.

(ii) Keeping trade flowing

The general policy restraint, together with recovery in global demand and the injection of unprecedented amounts of trade finance (USD 250 billion) through Export Credit Agencies, has helped world trade to stabilise and then recover. After falling by around 12% in 2009, the volume of world trade in 2010 grew at an annualised rate of 15% thus returning to its pre-crisis level. Global trade is expected to return to its pre-crisis trend growth of between 6 and 7 percent in 2011-2012. The next steps include:

• assessment of current trade finance needs in low-income countries, and development of measures to achieve efficient trade finance allocations for this group, if necessary;

• review of effectiveness of existing trade finance programmes for this group (as requested by the Seoul G20 Summit).

(iii) Taking forward multilateral trade liberalisation

Progress towards completing the Doha Development Round has been stalled for a number of years. The absence of an agreement bodes ill especially for developing countries. These countries in particular stand to be amongst the major beneficiaries across all the areas of negotiations, and in particular in services, not least because of their growing role as exporters of services. Developing countries are particularly successful in sectors such as port and shipping services, audiovisual, construction, and health services. And while developing countries have a clear comparative advantage in labour-intensive services, such as construction, technological advances in the telecommunications and computer industries has enabled them to become highly successful in skill-intensive computer-related activities. Progress in industrial goods is also in the interest of developing countries themselves, especially since intra-developing country trade continues to face much higher and escalating tariff barriers, as well as high incidence of non-tariff barrier relative to trade between developing and industrial countries.

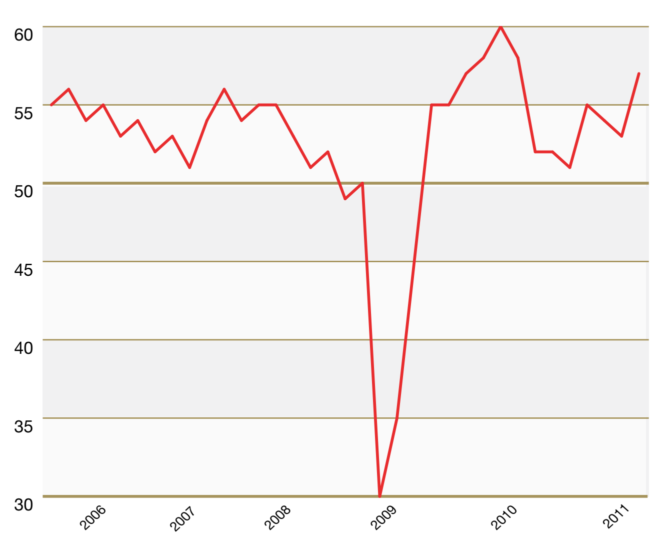
The gains could be especially important for agricultural markets, which at present are distorted by an extensive array of protectionist barriers and self-defeating subsidies. Trade has a critical role to play in achieving food security, as international markets can buffer demand and supply shocks affecting individual countries, and in improving efficient global production to feed the world's seven billion citizens, and provide long-run food security for countries not themselves well endowed for food production. Deeper markets, with increased volume and more buyers and sellers, are less volatile.

The next steps include:

• intensified negotiations to bring the Doha Development Round to a successful conclusion, with a comprehensive, balanced, and ambitious outcome.

World trade is pushing economic recovery

New world exports > 50 means increasing orders.



Source : Markit.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD work on trade covers trade and domestic policies, the multilateral trading system, export credit rules, and the linkages between trade and other policy areas including agriculture, employment, the environment, innovation and growth, and development. The OECD works closely on these issues with other international organisations such as the WTO, the ILO, the World Bank, and UNCTAD. It provides a forum for countries both to exchange information on the availability of trade finance and the demand for official export credit support and to coordinate export credit support measures for the medium and long term. The OECD led the way in efforts to maintain trade finance when the crisis broke through an 'Export Credit Pledge' in November 2008. It also undertakes, with the WTO, regular reviews of Aid for Trade. The next review is scheduled for July 2011.

The OECD policy dialogue increasingly involves developing countries and, in particular, major emerging economies. For example, earlier this year the OECD launched the International Collaborative Initiative on Trade and Employment[2], which brought together ten partner organisations in a global effort to implement an ambitious agenda for research, dialogue, and public information on these issues. The OECD can contribute to taking forward action in the three areas above as follows:

(i) Keeping markets open

Continuing to monitor all trade and trade-related measures adopted by G20 members, jointly with the WTO and UNCTAD; analysing the economic and trade effects of the measures taken in response to the economic crisis; and continuing work on the optimal sequencing of pro-trade and pro-growth exit strategies.

(ii) Keeping trade flowing

Helping to ensure the stability and rules-based operation of government-supported export credit and credit guarantee measures; working with the WTO and the G20 Trade Finance Experts Group on the G20 remit to assess trade finance needs in low-income countries and, if necessary, develop efficient support measures.

(iii) Taking forward multilateral trade liberalisation

Supporting intensified efforts to advance the Doha Development Agenda through its analysis, provision of opportunities for policy dialogue, and advocacy.

1- A recent joint report prepared by the OECD, ILO, World Bank and WTO for submission to the G-20 Summit meeting in Seoul (11-12 November 2010) surveyed the evidence in this regard. For more, see: Seizing the Benefits of Trade for Employment and Growth.

2- For more, see the OECD Trade and Employment web page. An overview of the International Collaborative Initiative on Trade and Employment is available here.

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