June 2014

Briefing 89

Trade and the post-2015 agenda

From Millennium Development Goals to Sustainable Development Goals

Jodie Keane and Claire Melamed

Key messages

- Trade needs to be a prominent part of the post-2015 Sustainable Development Goals (SDGs), given its importance for structural economic transformation.
- Some of the main trade challenges to gainful trade in global value chains (GVCs) today are beyond the direct control of governments, and go beyond tariff barriers.
- The SDGs could help to tackle some of these challenges by going beyond the market access agenda. This includes focusing on addressing behind-the-border measures including rules of origin, supporting adherence to standards and ensuring that aid for trade is additional and targeted.

Written by Jodie Keane, Research Fellow, International Economic Development Group at ODI (j.keane@odi.org.uk) and Claire Melamed, Head of the Growth, Poverty and Inequality Programme at ODI (c.melamed@odi.org.uk).

Achieving structural change – and adapting to the way in which the world trades – is an essential part of sustainable development. If new global development goals are to reflect the multiple challenges that face today's world, then trade's contribution needs to be part of the equation. While trade is more prominent in the current drafts of the new Sustainable Development Goals (SDGs) than it was in the Millennium Development Goals (MDGs), the proposed trade targets do not yet provide a framework to tackle the most pressing trade problems, in particular how countries can insert themselves into global value chains.

This briefing looks at how trade might fit in new global goals for sustainable development, when the MDGs expire in 2015. We first discuss what the MDGs included and excluded on trade and the implementation challenges. We then situate discussion on the SDGs within the context of a new trading environment and international economy. We highlight areas where momentum within the trade community could be harnessed. Finally, we outline the latest outcomes from the Open Working Group on trade-related targets and the SDGs: what's currently included, what's missing and what's likely to prove challenging for implementation.

What was included and excluded in the Millennium Development Goals

The MDGs spanned eight goals and a number of trade-related targets, most notably under MDG8 (Table 1). In general, the MDG trade targets reflected the global trade agenda of the time, and focused on the liberalisation of market access and on border measures. Other trade-related targets were included in the other MDGs, including access to essential medicines and technology, but it was the liberalisation targets that were considered to be at the heart of the MDG trade dimension.

One major shortcoming of these targets (and of the MDGs in general) is that they were primarily about static analysis and welfare redistribution, but not about dynamic analysis and structural change. There is also a contradiction within the different targets on trade, stemming from a fundamental tension between the desire for a universal agenda and the desire to give special treatment to particular groups of countries. In the case of MDG8, for example, it is not possible to address targets 'b' and 'c' without conflicting with target 'a' (Stevens, 2012). Within MDG8, targets 'b' and 'c' were a response to the need for Special and Differential Treatment (SDT) for developing countries.

In the World Trade Organization (WTO), this contradiction has been managed by the adoption of the Enabling Clause under the General Agreement on Tariffs and Trade (GATT) in 1979 and the creation and use of the Generalised System of Preferences (GSP) regimes by developed countries.

However this system is becoming increasingly unwieldy and there is a tension within the SDG debate around the growing difficulty of defining a 'developing country' and the range of obligations and exceptions associated with that category. As middle-income countries (MICs) graduate from traditional donor relationships and enter into new partnerships, there is a growing expectation among some developed countries that MICs will also take on their share of global commitments, commensurate with their shares in world trade. But there is continuing uncertainty about how this will be achieved in practice, particularly given that MICs still face formidable social, economic and environmental challenges.

The current trade landscape

The current trading landscape is different to that of the late 1990s, and that difference is reflected in proposals for the SDGs. Global trade patterns have changed following the integration of China into the global trading system and the emergence of other newly industrialised countries. On average, world trade has grown nearly twice as fast as world production in recent decades, which reflects the increasing prominence of international supply chains, or global value chains (GVCs). Most trade is now in intermediate goods, with components of products moved around between production centres with value being added at each stage of production. This global fragmentation and unbundling process has gathered pace as a result of increasing globalisation and deepening trade and finance links between countries.

The result has been a boom in the 'offshoring' of both manufacturing tasks and other business functions, as well as the outsourcing of production where capabilities in host countries already exist. The way in which products and services are traded has also changed. Arms-length relations are increasingly being replaced by more direct relationships between the buyers and sellers of goods including through mergers and acquisitions, as well as through ownership and foreign direct investment (FDI). Taken together, these changes have transformed the global trade landscape (Box 1).

Table 1: Millennium Development Goal 8 trade targets

MDG8	Target	Indicators
MDG8a	Open, rules-based, non-discriminatory trade and finance system	8.6: proportion of total developed-country imports (by value and excluding arms) from developing countries and LDCs admitted free of duty. 8.7: average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries. 8.8: agricultural support estimate for Organisation for Economic Co-operation and Development (OECD) countries as a percentage of their gross domestic product (GDP). 8.9: proportion of official development assistance (ODA) provided to help build trade capacity.
MDG8b	Address special needs of least-developed countries (LDCs)	
MDG8c	Address special needs of landlocked developing countries and small-island developing states	

Box 1: The current global trade landscape

- Developing countries now account for around half of global trade flows (WTO, 2013).
- Around 80% of all trade takes place within the international production networks of transnational corporations (TNC), around one-third of which is intra-firm trade – occurring within the ownership structure of a single firm or TNC (UNCTAD, 2013).
- The trade in intermediate goods accounts for 60% of global trade (UNCTAD, 2013).
- Trade in commercial services is increasing from a small base. The value of world merchandise trade increased by more than 7% per year on average between 1980 and 2011 (when it reached $18 trillion), while trade in commercial services has grown slightly faster – at roughly 8% per year on average (amounting to $4 trillion in 2011) (WTO, 2013).

The growing share of global trade from developing countries conceals big variations in their growth trajectories. Many commodity-dependent exporters have been unable to engage with more dynamic GVCs and remain stuck at low-end primary production where their share of value added remains low (Nissanke and Kuleshov, 2012). For companies in these countries, the constraints on trade are not market-access restrictions imposed by governments per se, but their failure to upgrade and obtain a more secure supplier position, as well as to integrate with more dynamic GVCs driven by other larger companies around the world. The basic fact remains: for many LDCs (as well as some MICs) there has been no radical change in trade flows – and therefore in their achievement of structural transformation – since the MDGs came into being.

This raises questions about how government policy can help companies to better manage existing participation in GVCs, as well as enter into new ones. All governments are trying to better understand the policy levers at their disposal to improve their producers' relative position within existing value chains. But what does this mean for the SDGs? It means that new trade targets will need to go beyond the broad market access considerations of the MDGs to be relevant and useful in the current trading environment.

Trade negotiations and the Sustainable Development Goals

There is scope to harness some of the momentum that already exists within the global trade community. WTO members, for example, have converged on a trade agenda that goes some way to recognising the changed landscape of global trade and investment patterns. The Bali package, agreed in the WTO at the end of 2013, agrees on issues that go beyond a liberalisation agenda, including on trade facilitation, rules of origin and implementation of a services waiver for LDCs. Although actual implementation has yet to be worked out, all of these, in different ways,

Box 2: The political economy of commodity dependence – the case of Côte d'Ivoire

Côte d'Ivoire, where cocoa and coffee have dominated national economic history and political development, provides an example of commodity dependence. Continuous high cocoa prices following independence in 1960 led the government of President Houphouët-Boigny (once a cocoa farmer himself), to encourage immigration and internal migration to exploit the land for cocoa production. However, when cocoa prices declined in the late 1970s (despite attempts to withhold stocks and curtail supply) the spiralling debt set the scene for structural adjustment, popular protest, the break-up of Houphouët's 'grand coalition' and divisive ethnic politics. These undermined not only the economy but also the political stability that was generated by cocoa rent redistribution while prices were high. Some argue (Boone, 2007) that liberalisation policies have decentralised rents still further, retarding economic growth through a failure to centralise and use these rents productively. In a more recent post-electoral crisis, the outgoing president was finally ousted following the cutting off of access to funds from cocoa exports.

What, then, is the role of trade policy in encouraging transformational change in Côte d'Ivoire? The introduction in 2000 of the West African Economic and Monetary Union common external tariff did not increase Côte d'Ivoire's trade with its co-members. There was a surge in trade with the Economic Community of West African States, but this was the result of imports of Nigerian crude oil and return exports of refined petrol – hardly transformational. Although an interim Economic Partnership Agreement (EPA) with the European Union has been agreed it has not yet been ratified. As discussed by Czapnik (2014), if key partners in the West African region choose not to sign and implement the regional EPA, Côte d'Ivoire will face a daunting choice: lose its preferential access to the European market or undermine its regional integration with West African partners. History suggests that trade policy will have a role in promoting economic transformation only if political and economic interest groups can align on agendas that promote structural transformation.

Source: Adapted from Basnett and Keane (2013); Czapnik (2014).

are responses to the changing trade environment and to the need to develop existing instruments if trade is to play a better role in the achievement of structural transformation, particularly for the LDCs.

Although progress has been made in some areas, questions remain for the consideration of trade, finance and tax issues, including transfer pricing: old issues in new packaging. And as arms-length trade between firms reduces as shares of intra-firm trade increase, previous benchmarks no longer apply.

Questions about the relationship of the SDGs to other processes include:

- the extent to which the SDGs should reflect existing agreements (allowing the international community to focus on implementation), or
- whether the UN should set an agenda and fill in what is currently an empty space in the international sustainable development framework.[1]

Ensuring that the work-package agreed under the WTO is reflected in the SDGs would promote policy coherence. The SDG agenda could, in this sense, be considered as 'MDG+'. However, although there is no institutional force to the SDGs, they do present an opportunity for UN members to consider what they really want out of the trading system. They could, therefore, reflect the current consensus (as the MDGs did to some extent in 2000), or they could seek to advance a more ambitious agenda and set a new pace.

What's on the table

The major changes in the trade landscape since 2000 are already reflected to some extent in the zero-draft of the SDGs released on 2 June 2014,[2] but the agenda does not yet properly reflect the current trading environment, nor does it support the aspiration for the new agenda to promote inclusive and sustainable economic growth worldwide.

The zero-draft document by the Open Working Group on the SDGs contains some useful proposals. References to trade are scattered across a range of goals and it is difficult to make a direct comparison between this draft and the trade-related targets of MDG8. But the most obvious comparison is between MDG8 and the proposed SDG17: to strengthen and enhance the means of implementation and global partnership for sustainable development. The similarities and differences between the two are summarised in Table 2.

The proposed goals, as a whole, give more attention to issues of economic growth and transformation than the MDGs. However, the proposed trade targets do not yet go far enough to support this aspiration in full.

Some of the trade-related targets summarised in Table 2 go beyond both the current MDGs and the WTO agendas, and are steps in the right direction. For example, commodities and finance related issues are not currently on the trade agenda but they are proposed as targets for new SDGs.

However, there is no explicit mention of rules of origin. This is a major omission, as rules of origin are a key policy lever that influences the ease with which companies can insert themselves into GVCs. They represent some of the fine print that really matters now, as we move beyond broad market access considerations.

Rules of origin matter because market access for most poor countries is meaningless in a world of GVCs without the ability to cumulate with third-party countries. Facilitating access to more dynamic GVCs requires providing for additional flexibility and for inputs that come from other trading partners (for some component of the final good) to help to satisfy the origin requirement of the finished product. Some regional and bilateral free trade deals provide for more liberal rules of origin. One contribution of an SDG agenda could be to seek to advance an agenda which improves market access including reforming rules of origin and harmonising them for countries not ready to enter into free trade deals, and in line with the most progressive systems.

Finally, the trade goals currently focus only on the multilateral trading system and not at all on the large regional agreements that are poised to change the future trading system.

Concluding remarks

The new SDGs will almost certainly pay more attention to issues of economic transformation and growth than the MDGs. Trade targets should reflect this, and offer the opportunity for action on a few key areas where international action on trade can make a difference. This is an opportunity to ensure that trade is included effectively within the new targets, and that the targets chosen reflect the most pressing issues that are blocking progress on sustainable development.

The main barriers to trade today are in the areas of upgrading and integrating into GVCs, driven by global companies, rather than the market-access considerations emphasised by the MDGs. If the new agenda is to help to resolve this, behind-the-border measures – such as the regulatory environment and rules applicable to production and consumption within countries – need to receive as much attention as market access considerations and the tariffs applicable at the borders between countries. A new agenda cannot make specific trade rules – that remains the role of the WTO. But it can highlight and create incentives to tackle a few key issues. It can also provide an organising framework to ensure that trade is addressed in a coherent way as countries continue to search for the right global cooperation to drive national progress and tackle global problems.

1 See the Working Document for 5-9 May 2014 session of the Open Working Group, available at: http://sustainabledevelopment.un.org/focussdgs.html
2 See: http://sustainabledevelopment.un.org/content/documents/4044140602workingdocument.pdf

Table 2: Zero-draft trade targets under proposed Sustainable Development Goal 17

Proposed goal	Trade target	MDG+?
1: End poverty in all its forms everywhere	17.2: realise timely implementation of duty-free quota-free market access, on a lasting basis for all least-developed countries in accordance with the WTO decisions and the Istanbul Programme of Action.	Broadly comparable
2: End hunger, achieve food security and adequate nutrition for all	17.7: reduce distortions in international trade, including phasing out all forms of agricultural export subsidies as soon as possible in line with the objective set out by the WTO Ministers in the 2005 Hong Kong Ministerial Declaration.	Broadly comparable
	17.8: improve regulation with strengthened implementation of financial institutions and financial markets, including food commodity markets, to ensure global financial stability and to help dampen food price volatility.	MDG+
3: Attain healthy life for all at all ages	17.12: In cooperation with pharmaceutical companies, provide access to affordable essential medicines in developing countries, and support developing countries' use of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) flexibilities.	Broadly comparable
7: Ensure access to affordable, sustainable and reliable modern energy services for all	17.19: enhance international cooperation to facilitate developing countries' access to clean energy technologies, including through appropriate partnerships.	MDG+
8: Promote strong, inclusive and sustainable economic growth and decent work for all	17.22: promote an open, rules-based, non-discriminatory and equitable multilateral trading system, including complying with the mandate for agriculture, services and non-agricultural products of the WTO Doha Round and implementing the outcomes of the WTO Bali Declaration.	MDG+
	17.23: ensure a speedy conclusion of an ambitious, balanced, comprehensive and development-oriented outcome of the Doha Development Agenda of multilateral trade negotiations.	MDG+
	17.24: improve market access for agricultural, fisheries and industrial exports of developing countries, in particular African countries, least-developed countries, landlocked developing countries and small-island developing states to increase their share of exports in global markets.	MDG+
	17.25: increase trade-related capacity-building assistance to developing countries, including support for building their capacity to meet product regulations and standards, and enhance Aid for Trade initiatives including through the 'Enhanced Integrated Framework'.	MDG+
9: Promote sustainable development	17.31: promote transfer and dissemination of clean and environmentally sound technologies to developing countries, including through the possible implementation of a UN global technology facilitation mechanism, and encourage the full use of TRIPs flexibilities.	MDG+
10: Reduce inequality within and among nations	17.34: by 2030 reduce to 5% or below the transaction costs of migrants' remittances, including regulatory and administrative costs.	MDG+

Source: The authors based on recent outcomes from the Open Working Group.

References

Basnett, Y. and Keane, J. (2013) 'Goods: Trade and Investment', chapter in the *European Report on Development 2012 Post-2015: Global action for an Inclusive and Sustainable Future*. Brussels: Overseas Development Institute (ODI), German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE), European Centre for Development Policy Management (ECDPM). (www.erd-report.eu/erd/report_2012/).

Boone, Catherine (2007) 'Africa's new territorial politics: regionalism and the open economy in Côte d'Ivoire', *African Studies Review* 50 (1): 59-81.

Czapnik, B. (2014) 'Côte d'Ivoire's EPA: Between a rock and a hard place', Bridges Africa, International Centre for Trade and Sustainable Development website (www.ictsd.org/bridges-news/bridges-africa/news/c%C3%B4te-d%E2%80%99ivoire%E2%80%99s-epa-between-a-rock-and-a-hard-place).

Nissanke, M. and Kuleshov, A. (2012) 'An agenda for international action on commodities and development: Issues for the EU Agenda beyond the MDGs'. European Report on Development. Background Paper. Brussels: Overseas Development Institute (ODI), German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE), European Centre for Development Policy Management (ECDPM). (www.erd-report.eu/erd/report_2012/).

UNCTAD (2013) *World Investment Report 2013 – Global Value Chains: Investment and Trade for Development.* Geneva: United Nations Conference on Trade and Development (http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf).

WTO (2013) *World Trade Report 2013*. Geneva: World Trade Organization.

ODI is the UK's leading independent think tank on international development and humanitarian issues.

This Briefing is an output of the project 'Building a post-2015 sustainable development agreement'. Current funders of this project are listed at www.odi.org.uk/projects/2730-building-post-2015-sustainable-development-agreement

ISSN: 2052-7160

Front page image: (C) Nestle. Cocoa supply chain in Côte d'Ivoire.

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399
www.odi.org
info@odi.org