Chapter III.D

International trade as an engine for development

1. Key messages and recommendations

The war in Ukraine has impacted the trade rebound from the COVID-19 pandemic; the war has also affected food supplies, which has spurred a global food crisis. The growth in global trade in goods and services slowed in early 2023 after reaching a historical high in 2022. Maritime costs remain elevated due to continued shipping capacity shortages, underpinning the higher prices of imported goods. High food and fertiliser prices, currency depreciations against the United States dollar and export restrictions have also affected food supplies worldwide. The Black Sea Grain Initiative helped to resume exports of Ukrainian grain amid the ongoing war, and World Trade Organization (WTO) members agreed to exempt food purchases by the World Food Programme for humanitarian purposes from export restrictions to address growing food insecurity.

The impact of the COVID-19 pandemic, digitalization and the climate crisis are bringing renewed attention to trade and industrial policy. Trade measures can help to build or improve the competitiveness of domestic industries, supporting industrial policies. There is renewed attention on the role of industrial policy in tackling the climate crisis amid rapid digitalization. However, developed countries need to consider the impact of industrial policies on poorer countries. There is a risk of a new industrialization divide unless developing countries, in particular least developed countries (LDCs) and landlocked developing countries (LLDCs), are supported.

- *The international community needs to update multilateral rules on subsidies in the face of compounding challenges. More dialogue is needed to develop an agenda to better understand subsidy programmes and their consequences;*
- *LDCs and LLDCs should be prioritized for support, including for trade finance, trade facilitation measures and aid for trade.*

While there is progress on implementing trade facilitation measures, the trade finance gap continues to widen. Implementation of trade facilitation measures is uneven, with LDCs needing more support. Current global challenges have also widened the trade finance gap.

- *Multilateral development banks (MDBs) and development finance institutions can help to scale up trade finance;*
- *Exploring opportunities in digital trade finance can help to narrow the trade finance gap.*

Sustainable development considerations remain central to discussions in regional and multilateral trading systems. The sustainability focus of the new WTO Agreement on Fisheries Subsidies marks an historic achievement by the WTO and will be instrumental in tackling harmful fisheries subsidies. Regional trade agreements (RTAs) have expanded, with environment and labour issues increasingly featured. Recent trends also show a new wave of sectoral agreements based on regulations mechanisms. More international investment agreements (IIAs) are being terminated than new ones signed, with newly concluded IIAs featuring reform-oriented provisions, including promoting corporate social responsibility standards and addressing gender equality and women's economic empowerment. However, immediate IIA reforms are needed to better support climate action as the current IIA regime, largely based on old-generation IIAs, can constrain states taking measures to combat climate change and protect the environment, with a high risk of investor-State dispute settlement (ISDS) cases.

2. Trade and industrial policy

There is a clear interplay between industrial policy and trade. Industrial policy aims to transform a country's productive and supply capacity. This affects the composition of goods and services that the country can trade in the world market.[1] Trade measures are instruments to implement industrial policy to build or improve the competitiveness of domestic industries vis-à-vis foreign competitors.[2]

An open and predictable trading system is essential for effective industrialization. Trade allows domestic industries to have access to the capital goods, primary and intermediate inputs and services necessary for building and upgrading productive capacity. Beyond access to inputs, interactions with foreign firms through backward and forward linkages can promote technology diffusion and knowledge spillover. A study of 27 emerging economies shows that both competition from foreign firms and linkages with foreign firms, through importing, exporting or supplying multinationals, increases product innovation and the adoption of new technologies and enhances product quality.[3]

There is renewed attention on the role of industrial policy in tackling the climate crisis amid rapid digitalization. Industrial policy has received renewed attention as a strategy for achieving green growth and climate goals. For example, clean energy transition and industrial transformation are critical components in reducing carbon dioxide emissions and adapting to the impact of climate change through nationally determined contributions under the Paris Agreement.[4] Industrial strategies must also account for the various ways in which digital technologies can affect their development. Leading economies, such as G20 members, will likely focus on maintaining industrial leadership and on supporting innovation in digital technologies; in contrast, the main challenge for developing countries is ensuring access to technologies, including through trade, and enhancing absorptive capacities.[5]

When developed countries pursue sustainable industrial policies, they need to consider the impact on poorer countries. The European Union is set to introduce the Carbon Border Adjustment Mechanism (CBAM) in 2026, which will require importers of certain carbon-intensive products to buy certificates to account for embedded emissions. The CBAM is intended to complement the European Union emissions trading system and address carbon leakage, that is, shifting production of carbon-intensive goods from the European Union to third countries that have more carbon-intensive production methods. Such mechanisms remain controversial as they could increase the price of goods from countries without carbon pricing.

Successive global supply shocks, including the COVID-19 pandemic and the war in Ukraine, have triggered a significant increase in government interventions, many of which share the same characteristics as industrial policy instruments. During the COVID-19 pandemic, tariff and non-tariff measures were widely used to promote or restrict the import and export flows of "essential" goods, such as medical supplies and food.[6] To combat the triple crises of food, fuel and finance following the war in Ukraine, many governments also resorted to a variety of subsidies. In addition, linking supply shocks with national security concerns, several developed and emerging economies have enacted measures to gain or maintain a competitive edge in strategic industries, such as semiconductors, artificial intelligence, electric vehicles or decarbonization technologies.

2.1 Understanding subsidies in modern industrial policy and strengthening multilateral cooperation

Subsidies can help to support certain industries; but they can also have adverse effects on trade and the allocation of resources. Properly crafted subsidies can correct market failures, spur technological innovation and diffusion, and provide social safety nets. Subsidies may take the form of direct payments, price support, tax incentives or other economic incentives, with the purpose of nurturing infant industries, boosting the competitiveness of domestic "strategic" industries or meeting national security concerns (e.g., food security), among others. While the provision of subsidies may serve legitimate policy objectives, they can also have adverse effects on trade and the efficient allocation of resources, such as providing unfair advantages to inefficient firms in wealthier countries. Hence, subsidies are subject to multilateral regulations, namely the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement)and the WTO Agreement on Agriculture. The latter's primary objective is to discipline agricultural policies that create distortions to production and trade, including through certain types of subsidies. The SCM Agreement regulates subsidies based on the principle that the more trade distorting the subsidy, the stricter the disciplines applied. Export subsidies contingent on local content requirements that are the most trade distorting are prohibited and can be challenged under the WTO's Dispute Settlement Mechanism. Other subsidies are deemed to be "actionable", that is, subject to countervailing measures or challenges by other WTO members when a WTO member is adversely impacted.

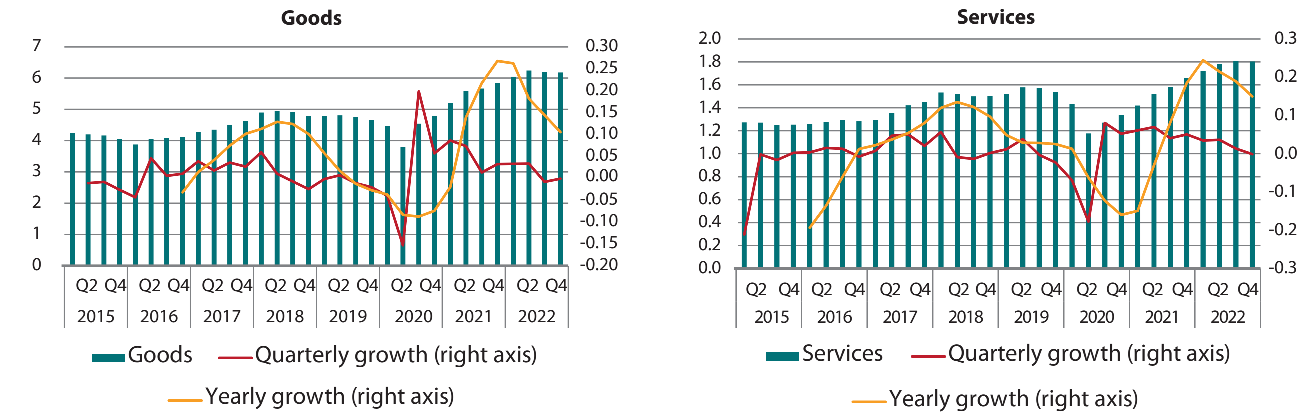
There is a need to update multilateral rules on subsidies in the face of compounding global challenges, including the climate crisis and rapid digitalization. Recent announcements of new subsidy programmes in some major economies covering key sectors such as electric vehicles, renewable energy and semiconductors, have raised questions about current multilateral rules. To enhance the transparency, openness and predictability of global trade, broad-based cooperation is needed to update the multilateral rules on subsidies. [7] More work is required to develop an agenda to better understand present subsidy programmes and their consequences for trade partners and the global good.

2.2 Addressing inequality to avoid a new "industrialization divide"

LDCs face significant challenges in industrializing their economies and need international support to narrow the industrialization divide. While developed and emerging economies are focusing on sustainable industrial policies, such as greening or digitalizing their existing productive industries, many low-income developing countries remain focused on diversifying their commodity-dependent economies. From 2018 to 2020, commodities still accounted for 63 per cent of the total merchandise exports of LDCs.[8] Although the share of manufacturing value added (MVA) in LDCs grew faster than in other economies between 2010 and 2020, the actual value of MVA per capita in LDCs remains quite low overall—at a fraction of that in industrialized economies.[9] Amid the current global challenges, LDCs face the additional challenges of narrowing existing technological, digital, infrastructural and services gaps.[10] Limited fiscal space due to low domestic resource mobilization (see chapter III.A) and a high debt burden (see chapter III.E) also constrain LDCs from industrializing their economies. Without support from the international community, LDCs will further lag behind developed and advanced economies, widening the industrialization divide.

LLDCs also face structural impediments to industrialization and trade competitiveness. LLDCs continue to rely on primary commodity exports, which made up 83.9 per cent of their total merchandise exports

Figure III.D.1
World trade in goods and services, 2015–2022
(Trillions of United States Dollars, percentage)



Source: UNCTAD.
Note: Data for 2022 are estimates.

in 2021. Transport connectivity constraints hinder growth in manufacturing, which has slowed further due to the COVID-19 pandemic. LLDCs need technical and financial support for industrialization and manufacturing as well as assistance with infrastructure development, trade facilitation and transit services to alleviate their transport connectivity issues.

3. Trends in international trade

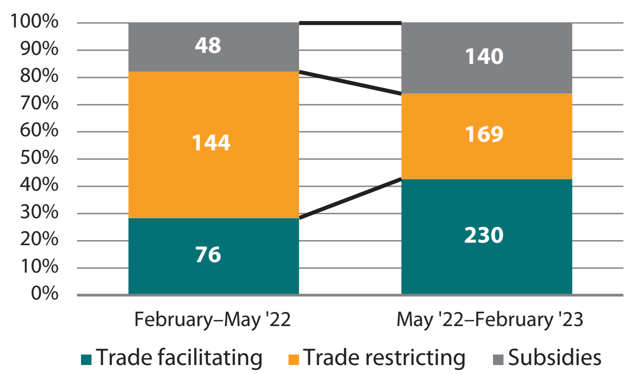
3.1 Impact of the war in Ukraine

International trade rose to an all-time high in 2022 but growth slowed following the impact of the war in Ukraine. The global trade in goods and services reached an all-time high of $32 trillion in 2022 (figure III.D.1), underpinned by a surge in e-commerce transacted by businesses and consumers in the wake of the pandemic. However, the growth in trade slowed following the outbreak of war in Ukraine. Many developed and emerging economies implemented trade-restricting measures such as export bans on agricultural products and fertilisers (figure III.D.2) to mitigate the supply shocks triggered by the war (see chapter I). By February 2023, many of these restrictions had been lifted, with more trade-facilitating measures in place such as eliminating import tariffs on wheat and other staple foods, and price subsidies to importers and businesses. The outlook for global trade remains pessimistic due to lower economic growth, commodity price fluctuations, sustained inflation in many economies (see chapter I) as well as the ongoing impact of the war in Ukraine and restrictive trade policies.

Commodity prices rose steeply following the outbreak of war in Ukraine; while prices have fallen more recently, they remain elevated. Prices of all commodities shot up following the outbreak of war in Ukraine, especially fuel and food prices (figure III.D.3). In October 2022, fuel prices were 99 per cent higher than in December 2019, with food prices 34 per cent higher. Prices have since eased but remain elevated due to the ongoing impact of the war.

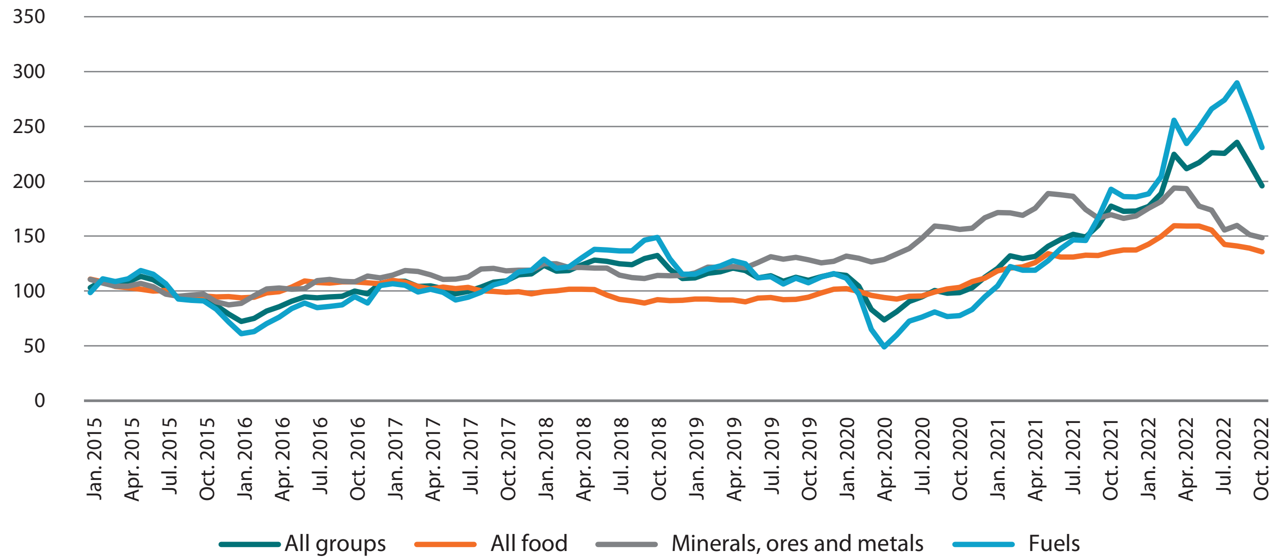
High food and fertiliser prices, currency depreciations against the US dollar and export restrictions have affected food supplies worldwide, underpinning a global food crisis. Economies and supply chains had yet to fully recover from the COVID-19 pandemic when the war in Ukraine broke out. In March 2022, both the United Nations Food and Agriculture Organization (FAO) food price index and fertiliser prices[11] rose to record highs, and although prices have since declined, they remain at historically high levels (see chapter I). Many developing countries also saw their currencies fall against the US dollar. This affected net-food-importing developing countries as the price of imported wheat increased significantly. For example, estimates suggest that Pakistan would have to pay 132 per cent more to buy the same quantity of wheat that it purchased in 2020 due to an 89 per cent increase in the world wheat price and a 43 per cent increase due to the Pakistani rupee's depreciation against the US dollar.[12] The Black Sea Grain Initiative, signed in July 2022, has helped to resume

Figure III.D.2
Trade-related measures in agriculture and fertilizers, February 2022–February 2023
(Percentage)



Source: UNCTAD.

Figure III.D.3
Commodity price index, 2015–2022
(Index)



Source: UNCTAD.
Note: 2015=100; data for 2022 are estimates.

exports of Ukrainian grain via the Black Sea amid the ongoing war and has contributed to stabilizing global wheat and maize prices.[13] As of February 2023, more than 20 million metric tons of grains and other foodstuffs have been exported from Ukraine.[14] FAO has also proposed a Food Import Finance Facility to ease immediate food import financing costs for low-income countries.[15]

Trade growth in LDCs surged on the back of high commodity prices, outpacing other country income groups (figure III.D.4), but their share of world trade remains unchanged. LDCs saw a major spike in their exports—composed mostly of primary commodities—in tandem with higher prices in 2022. However, their share of exports remained at around 1 per cent of global exports in goods and below 1 per cent of global exports in services in 2021 (figure III.D.5)—still below SDG target 17.11 to double this share to around 2 per cent by 2020. In contrast, the share of developing country exports in world exports has steadily increased (figure III.D.5), with trade growth among developing countries (South-South trade) outpacing other trade flows (figure III.D.4).

3.2 Trends in transport, trade facilitation and trade finance

Maritime transport

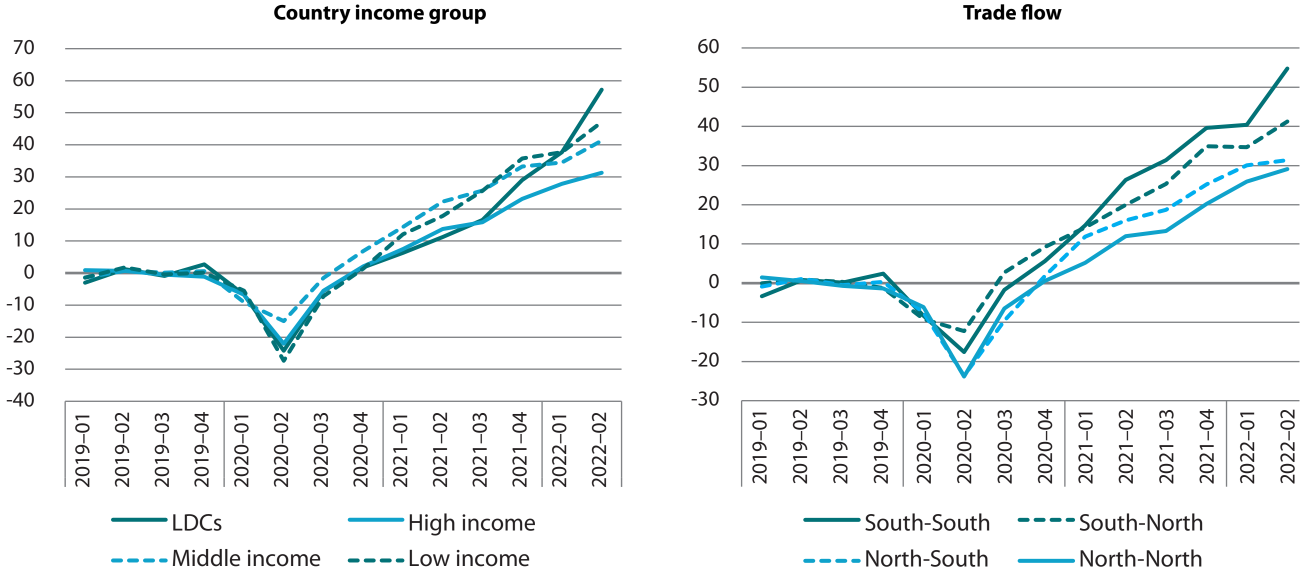
Maritime transport costs remain elevated due to continued shipping capacity shortages. Container shipping rates, as reflected in the Shanghai Containerized Freight Index, peaked in mid-2021, four times higher than pre-pandemic levels (figure III.D.6). Rates have since fallen but remain elevated due to the slow recovery of shipping service capacity post-pandemic coupled with the rebound in trade volumes.[16] High freight rates are underpinning higher prices of imported goods worldwide.

Trade facilitation

Progress on implementing trade facilitation measures has advanced but implementation is uneven, with LDCs needing more support. The 2017 WTO Agreement on Trade Facilitation (TFA) aims to simplify, standardize, harmonize and modernize procedures for the cross-border trade in goods. A total of 154 out of 164 WTO members had ratified the Agreement by February 2022, while the overall implementation rate stood at 74 per cent at the end of 2022 (figure III.D.7). Developed country WTO members have implemented all their commitments, while the implementation rate for developing country members stood at 77 per cent and that for LDCs at 38 per cent. Coupled with their less advanced starting point, LDCs face additional constraints such as knowledge gaps and limited resources and support, partly due to COVID-19 restrictions. To improve their implementation rate, LDCs require more support, particularly in complex areas such as border agency cooperation, risk management, authorized operators, single window systems and test procedures.

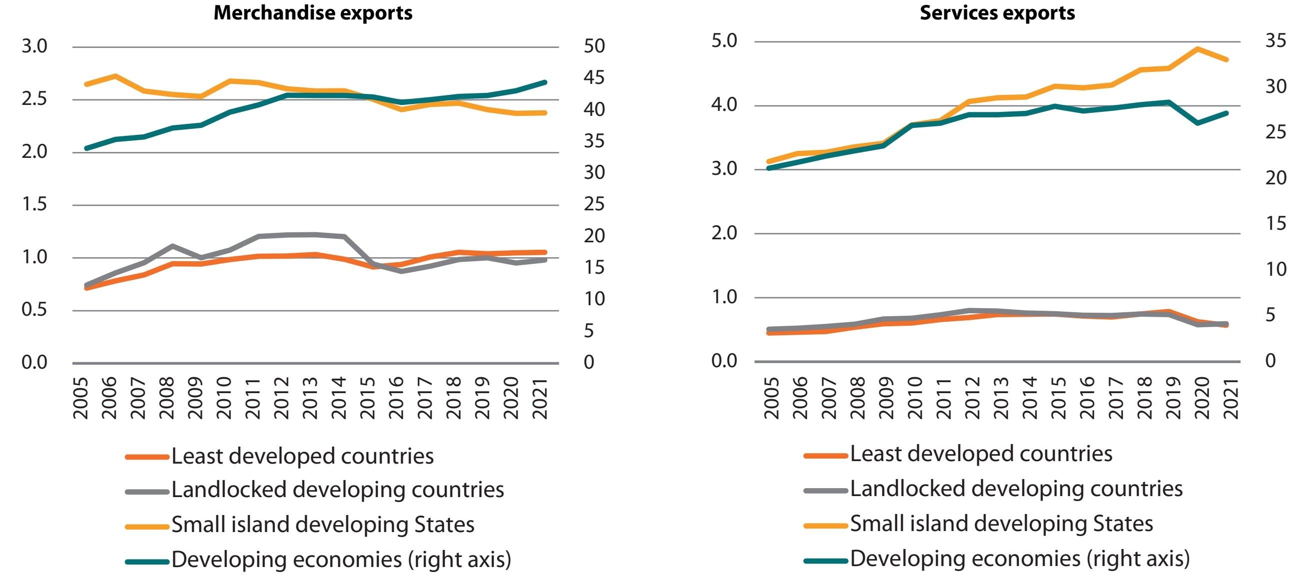
Strengthening collaboration among key actors within and across borders is crucial to trade facilitation. National Trade Facilitation Committees can help to bring together all relevant stakeholders, including the private sector, to advance reforms needed for trade facilitation as well as for crisis preparedness and risk management. Establishing regular contacts with neighbouring countries can also help to coordinate cross-border procedures in a transparent manner, including ensuring digital interconnectivity and the interoperability of systems (see chapter IV) as well as improving trade compliance, risk management and revenue collection. For example, through the UNCTAD Automated System for Customs Data (ASYCUDA), Bangladesh and Burundi were able to increase their customs revenues by 33 per cent and 19 per cent, respectively, between 2020 and 2021, while Djibouti had increased them by 95 per cent by 2021.[17]

Figure III.D.4
Trade trends by country income group and by trade flow
(Percentage difference relative to 2019)



Source: UNCTAD.

Figure III.D.5
Share in world exports by country group, 2005–2021
(Percentage)

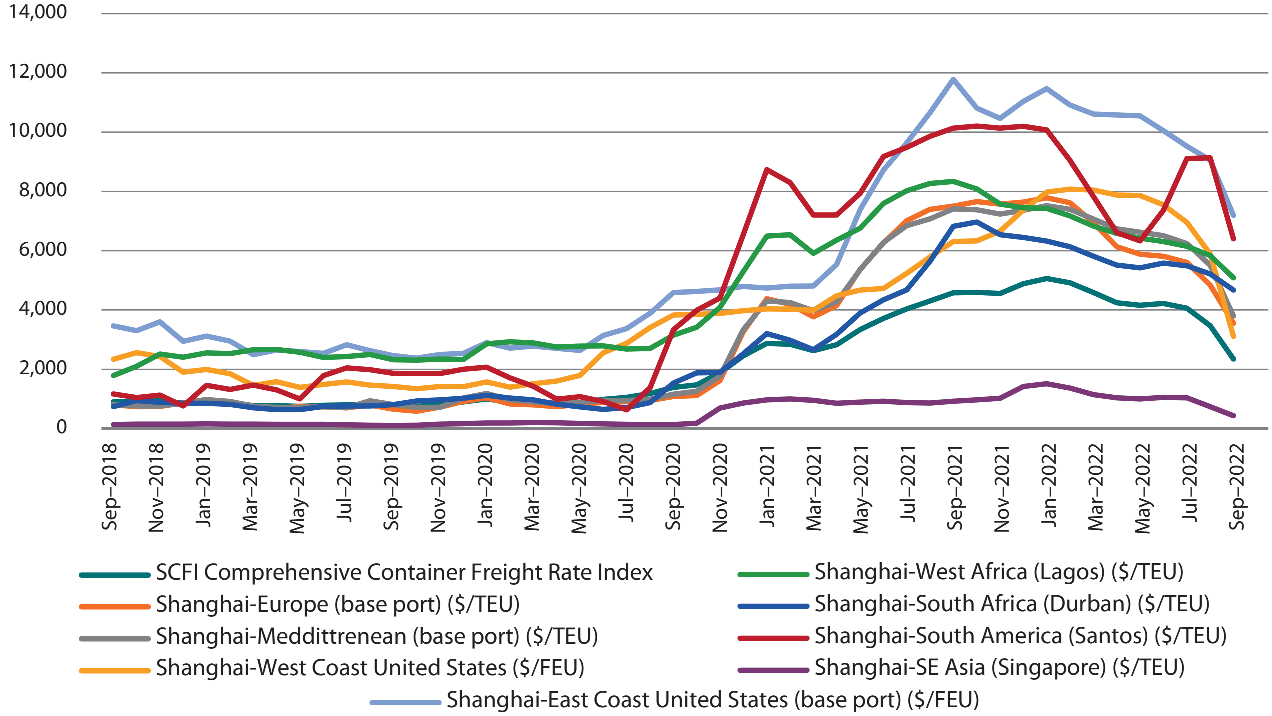


Source: UNCTAD.

Trade finance

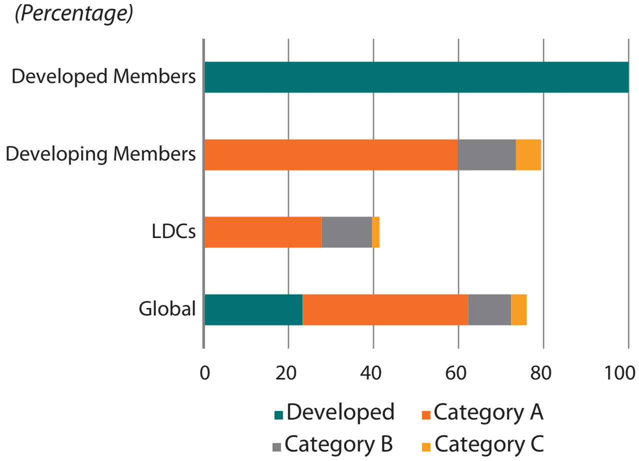
Current global challenges are expected to widen the trade finance gap. Trade finance—credit facilities used by importers and exporters to transact business—is important for enabling trade. Although trade finance is routinely provided by banks to importers and exporters in advanced economies, developing countries face chronic shortages.[18] In 2020, the trade finance gap widened to $1.7 trillion, affecting small- and medium-sized enterprises (SMEs), especially those run by women.[19] Collateral requirements, lack of credit history and archaic and bureaucratic application processes hinder SMEs' access, disproportionately affecting women-owned SMEs.[20] The war in Ukraine, inflation and the food and fuel crises are expected to exacerbate the gap. Country risk has increased in

Figure III.D.6
Shanghai Containerized Freight Index (SCFI), September 2018–September 2022
(Index)



Source: UNCTAD.
Note: Monthly spot rates for selected routes; TEU—20-foot container; FEU—40-foot container.

Figure III.D.7
Progress on the WTO TFA implementation commitments
(Percentage)



Source: WTO.
Note: Developing and LDC members can request more time and capacity-building support to implement the TFA. To benefit from these flexibilities, they must designate all measures into categories A, B and/or C which have the following implementation timings: Category A – developing members will implement the measure by 22/02/2017 and LDCs by 22/02/2018; Category B – members will need additional time to implement the measure; Category C – members will need additional time and capacity-building support to implement the measure.

some regions due to a more uncertain international political environment and the prospect of global stagflation. Local currency values have fallen, in some cases dramatically, making trade finance in foreign currency scarce. The strain can be seen through dwindling foreign exchange reserves.

Multilateral development banks (MDBs), development finance institutions and their trade finance programmes can help to bridge the trade finance gap. During the pandemic, MDBs rallied to support trade flows, providing an estimated $35 billion in trade finance.[21] However, this constitutes only a fraction of the trade finance gap. The International Finance Corporation (IFC) and the WTO are working together to explore ways to improve the availability of trade financing for regions in need. They are looking to improve the estimation and analysis of trade finance gaps with a view to directing capacity-building and other resources where unmet demand is greatest, particularly in Africa (box III.D.1). They are also working with governments and other multilateral institutions to support SMEs and strengthen the ability of local financial institutions to meet compliance challenges, similar to efforts by the Asian Development Bank, the African Development Bank and the European Bank for Reconstruction and Development.

Digital trade finance has the potential to address the growing trade finance gap. Digital trade finance has the potential to narrow the trade finance gap by providing a more efficient, resilient and inclusive trading system. The Pan-African Payment and Settlement System is an example of how the use of new technologies and working practices can cut transaction times to minutes and reduce depository requirements to those sufficient for overnight settlements. Digital trade finance costs less and is easier to manage, potentially making trade finance more readily available to new SME entrants. Digital trade finance can also support the tracking and mapping of trade flows, improving the transparency of trade finance. Important steps must be taken to realize its potential: (i) Global standards are needed to drive interoperability between various platforms and components of the trade ecosystem (from exporters to shippers, ports, customs, warehousing and logistics, and finance to importers).[22] (ii) Governments need to adopt legislation that recognizes digital documents in law. The United Nations Committee for International Trade Law has drafted model legislation and a few governments have adopted the Model Law on Electronic Transferable Records.[23]

Box III.D.1
Trade finance in West Africa

A survey of banks in the four largest economies of the Economic Community of West African States (ECOWAS)—Côte d'Ivoire, Ghana, Nigeria and Senegal—found that these countries' trade expansion was vastly constrained by limited and costly access to trade finance. Trade finance supported only 25 per cent of trade in these countries, lower than the African average of 40 per cent and the global average of 60-80 per cent. Rejection rates by banks for trade finance applications are high, averaging 21 per cent of requests and 25 per cent in value terms. Rejections fall disproportionately on SMEs, particularly those owned by women. The unmet demand for trade finance—the trade finance gap—is around $14 billion annually for the four economies combined.

Banks report that common barriers to trade finance availability include difficulty meeting the requirements of foreign correspondent banks, insufficient collateral for the high perceived risk of borrowers and shortages of low-cost funding. Increasing the availability of trade finance and lowering its costs could boost ECOWAS merchandise exports and imports by around 8 per cent, or around $14 billion in annual trade.

Source: World Trade Organization. 2022. *Trade Finance in West Africa*.

3.3 Trends in regional trade agreements and international investment agreements

Regional trade agreements

RTAs have steadily expanded. By the end of 2022, 355 RTAs had been notified to the WTO (figure III.D.8), the majority in Europe (159), East Asia (101) and South America (70) (figure III.D.9). The WTO Secretariat estimates that there are 60 additional RTAs that are currently in force but have not been notified to the WTO, including the Regional Comprehensive Economic Partnership Agreement in the Asia-Pacific region[24] and the African Continental Free Trade Area.[25] While the main component of RTAs is market access in goods and services, RTAs increasingly cover "behind the border" regulatory issues, such as competition, state-owned enterprises, government procurement, e-commerce, environment and labour.

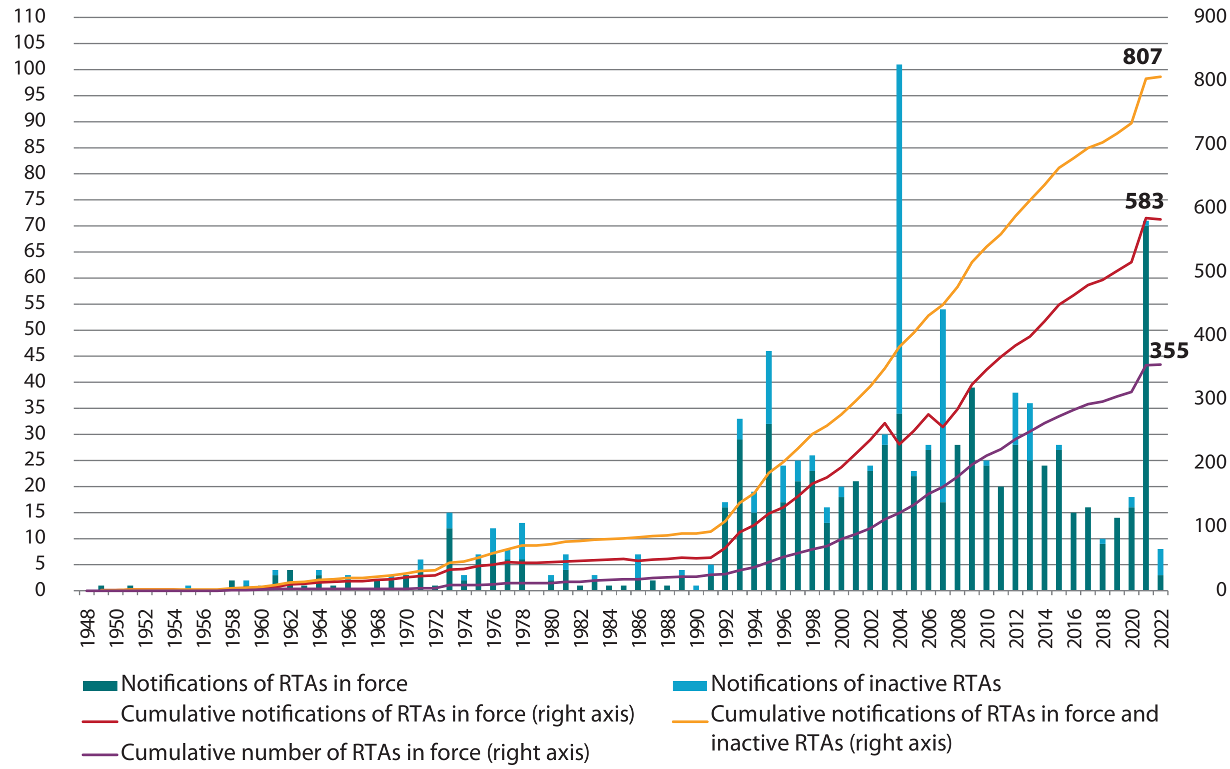
Environment and labour issues are an increasingly important feature of RTAs. In 2022, almost 60 per cent of RTAs notified to the WTO and in force contained provisions on trade and the environment and 35 per cent on trade and labour (see section 5.3). For example, as of 15 October 2022, 127 of 223 signed and enforced preferential trade agreements in Asia and the Pacific had sustainable development-related provisions, including provisions related to labour protection, human rights, gender, health, the environment and SMEs.[26] There are varied approaches in how these provisions are included in RTAs. For example, the European Union has a stand-alone trade and sustainable development chapter that includes environment and labour provisions, while other RTAs treat them separately. These provisions generally commit parties to honour their international commitments, such as those under multilateral environmental agreements. They also typically recognize that parties have a right to set their own laws but that they should not be used to restrict investment or trade. In 65 per cent of RTAs with trade and environment provisions, there are commitments to prevent a "race to the bottom" to ensure that partners do not weaken their environmental legislation to attract investment or trade. To ensure implementation, recent RTAs have made these commitments subject to consultations and/or dispute settlement through various mechanisms. However, around a third of RTAs with environment provisions exclude them from dispute settlement.

Recent trends also show a new wave of sectoral agreements based on regulations mechanisms. These include mutual recognition agreements to make it easier to meet trade conformance testing requirements. There are also non-market, access-based agreements on trade and technology, including: the digital trade agreements between Singapore and several countries; the digital economy partnership agreement between Chile, New Zealand and Singapore; the EU-US Trade and Technology Council, which meets regularly to discuss trade and investment issues related to technology standards and data governance; and the Smart African Alliance which includes 32 African countries, international organizations and global private sector players and aims to accelerate the digitalization of the African continent. In other areas, the Supply Chain Ministerial Forum involving 19 partners was set up in 2021 to tackle supply chain challenges. There are also broader initiatives that have emerged, such as the Americas Partnership for Economic Prosperity, which aims to address labour standards, supply chain issues and pandemic responses and cooperate on climate issues;[27] and the Indo-Pacific Economic Framework for Prosperity, which aims to address digital economy and technology standards, labour standards, energy efficiency standards and cooperation on tax, among other areas.[28]

International investment agreements

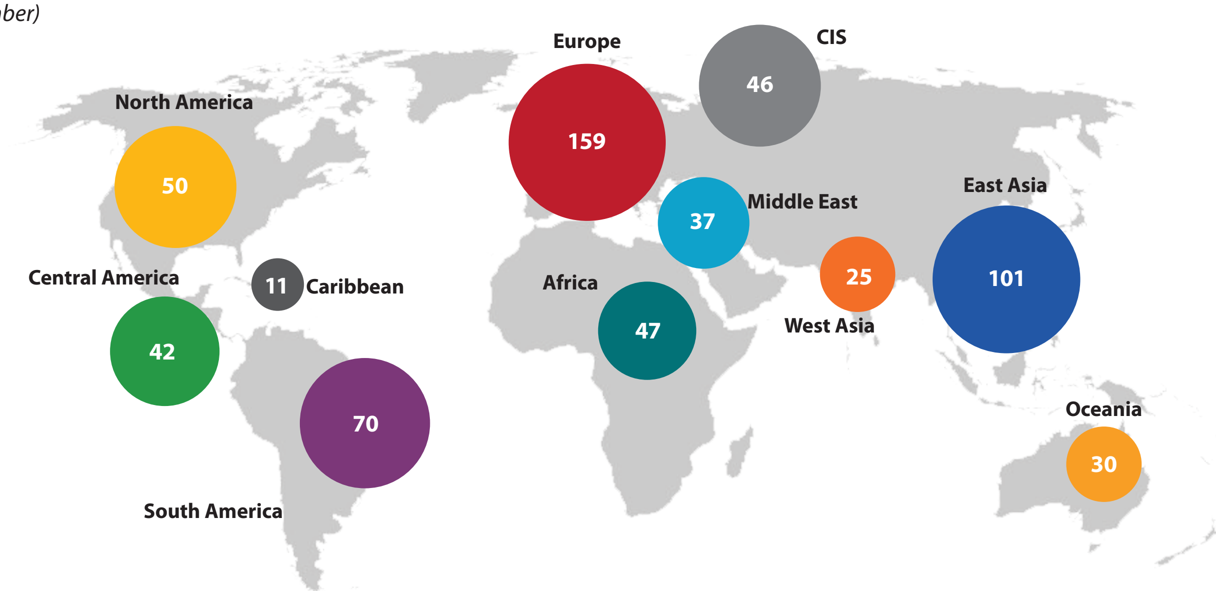
More IIAs are being terminated than new ones signed (figure III.D.10). In 2021, for the fourth consecutive year, the number of treaty terminations exceeded new IIAs. There were 13 new IIAs (six bilateral investment treaties and seven treaties with investment provisions), compared to 86 IIA terminations, of which 75 were terminated by mutual consent, four were unilateral terminations, four were replacements (as newer treaties entered into force) and three IIAs expired. By the end of 2021, there were a total of 2,558 IIAs in force.

Figure III.D.8
RTAs notified to the WTO, 1948–2022
(Number)



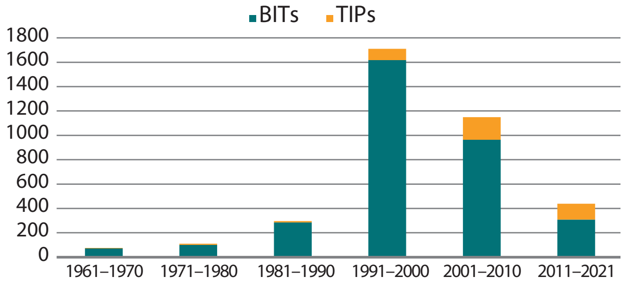
Source: RTA Section, WTO Secretariat, 31 December 2022.
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative line shows the number of RTAs/notifications that were in force for a given year. The notifications of RTAs in force are shown by year of entry into force and the notifications of inactive RTAs are shown by inactive year.

Figure III.D.9
RTAs by region
(Number)



Source: RTA Section, WTO Secretariat, December 2022.
Note: CIS – Commonwealth of Independent States.

Figure III.D.10
Number of IIAs signed, 1961–2021
(Number of IIAs by decade)



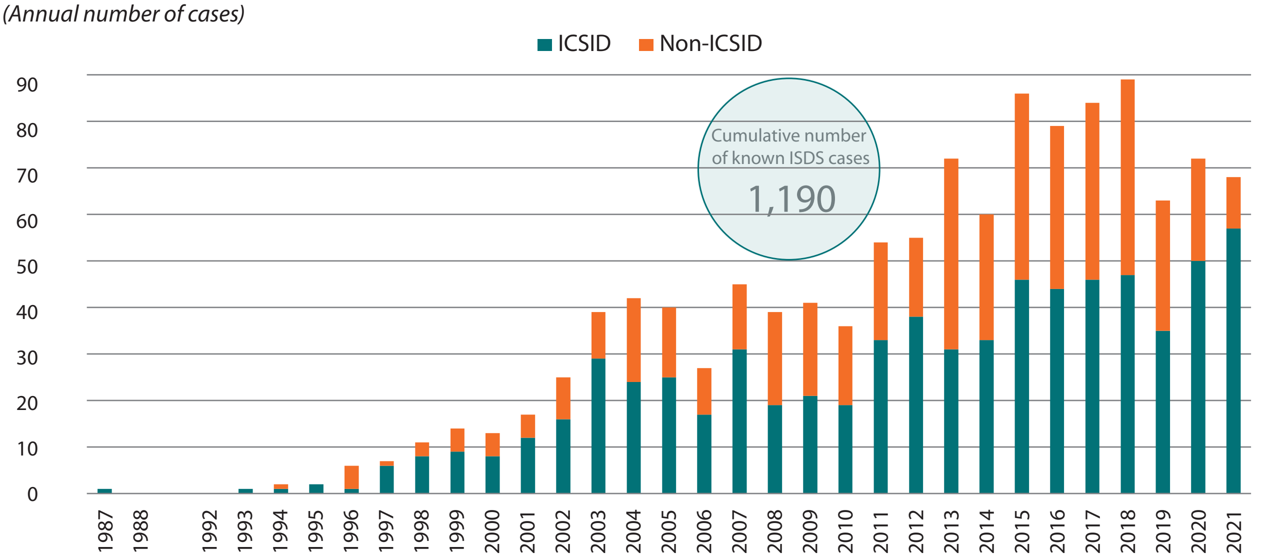
Source: UNCTAD.
Note: BITs – bilateral investment treaties; TIPs – treaties with investment provisions.

Newly concluded IIAs feature reform-oriented provisions to preserve regulatory space and promote investment for development.[29] For example, some IIAs have provisions to promote corporate social responsibility standards as well as gender equality and women's economic empowerment. There is also greater attention to investment promotion and facilitation, climate change, anti-corruption and human rights. Investor-State arbitration remains at the core of broader IIA reform actions, and countries continued to implement many related reform elements in IIAs signed in 2021.

The number of new investor-State dispute settlement (ISDS) cases remained high. In 2021, investors initiated 68 publicly known ISDS cases under IIAs (figure III.D.11). As some arbitrations can be kept confidential, the actual number of disputes filed in 2021 and previous years is likely to be higher. To date, 130 countries and one economic grouping are known to have been respondents to one or more ISDS claims. Two IIAs signed in the 1990s—the Energy Charter Treaty and the North American Free Trade Agreement—continued to be the instruments invoked most frequently. The cumulative number of known ISDS claims reached 1,190 by 1 January 2022.

More immediate IIA reforms are needed to better support climate action. The current IIA regime, largely based on old-generation IIAs, can constrain States from taking measures to combat climate change and protect the environment, with a high risk of ISDS.[30] For example, investors in the fossil fuel sector and more recently in the renewable energy sector, are frequent ISDS claimants against different types of State conduct. The 1994 Energy Charter Treaty is often invoked by fossil fuel investors to mitigate the losses incurred due to government policies on environmental protection, human rights and local communities. Around 92 per cent of claimants are from high-income countries, with 70 per cent of arbitrations initiated against developing countries.[31] Around 53 per cent of the total arbitration claims were issued on the legal basis offered by the Energy Charter Treaty. While new-generation IIAs are better in safeguarding the States' right to regulate, both old and recent IIAs lack provisions that support climate action. States are, however, willing to take action to align their investment policies with their climate goals. For example, despite a reform proposal, many States have withdrawn from the Energy Charter Treaty. More immediate IIA reform steps are needed to alleviate ISDS risks and create the necessary policy space for States to take urgent climate action.

Figure III.D.11
Trends in known treaty-based ISDS cases, 1987–2021
(Annual number of cases)



Source: UNCTAD, ISDS Navigator.
Note: (i) Information has been compiled from public sources, including specialized reporting services. UNCTAD's statistics do not cover investor-State cases that are based exclusively on investment contracts (State contracts) or national investment laws, or cases in which a party has signalled its intention to submit a claim to ISDS but has not commenced the arbitration. Annual and cumulative case numbers are continually adjusted because of verification processes and may not match exact case numbers reported in previous years. (ii) ICSID – International Centre for Settlement of Investment Disputes.

4. Current Issues in the multilateral trading system

4.1 Agreements and decisions at the Twelfth WTO Ministerial Conference

Fisheries subsidy agreement

The sustainability focus of the new WTO Agreement on Fisheries Subsidies represents a historic achievement. The Twelfth WTO Ministerial Conference (MC12), held on 17 June 2022, adopted a binding multilateral agreement on fisheries subsidies, the first-ever multilateral trade agreement with environmental sustainability at its core, and only the second agreement reached at the WTO since its inception. The WTO Agreement on Fisheries Subsidies tackles some forms of harmful fisheries subsidies, a key factor negatively influencing the sustainability of the world's fish stocks. The new rules will become operational when the Agreement enters into force, which requires two thirds of WTO members to deposit their instruments of acceptance. WTO members have also agreed to continue negotiations on the mandate on fisheries subsidies set forth in the 2001 Doha Ministerial Declaration, including subsidies contributing to overcapacity and overfishing and the associated special and differential treatment provisions for developing countries.

By curbing harmful fisheries subsidies, the WTO Agreement on Fisheries Subsidies is expected to significantly contribute to global efforts to preserve oceans and reverse the decline in fish stocks. Based on FAO's assessment, the fraction of fishery stocks within biologically sustainable levels decreased to 64.6 per cent in 2019, 1.2 per cent lower than in 2017. This fraction was 90 per cent in 1974. In contrast, the percentage of stocks fished at biologically unsustainable levels has increased since the late 1970s, from 10 per cent in 1974 to 35.4 per cent in 2019.[32] Fisheries subsidies create perverse incentives to fish in unsustainable ways and levels, regardless of operational costs in many cases. The WTO Agreement on Fisheries Subsidies creates a new multilateral framework by: (i) curbing subsidies to illegal, unreported and unregulated fishing,[33] which will support the combat and elimination of such detrimental practices; (ii) prohibiting fisheries subsidies on overfished stocks, an essential element to facilitate the recovery of stocks; and (iii) prohibiting fisheries subsidies when the high seas are not regulated for fishing activities, reinforcing the importance of fisheries management and cooperation between countries towards the global sustainability of stocks. The Agreement supports achieving SDG 14 (conserve and sustainably use the oceans, seas and marine resources for sustainable development), particularly SDG target 14.6.[34]

The WTO Agreement on Fisheries Subsidies also created a Fisheries Funding Mechanism to support WTO members in meeting the new obligations. With the new regulatory framework, countries must meet various new obligations, including notification issues, implementation and adjustments in multiple national fisheries policies. Some areas may be challenging to adapt for compliance, especially for developing countries and LDCs, including fisheries management elements, monitoring, control and surveillance, and setting up or strengthening fisheries information and management systems. The WTO Fisheries Funding Mechanism has been established to provide technical assistance and capacity-building to support WTO members in meeting these new obligations. The WTO, in collaboration with the FAO, the World Bank and the International Fund for Agricultural Development, will bring their collective expertise together within the fund framework to support WTO members and to maximize the expertise of each agency, avoiding duplications.

COVID-19 vaccines

WTO members adopted the Pandemic Declaration and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) COVID-19 Vaccines Decision at MC12. These two instruments—the Ministerial Declaration on the WTO response to the COVID-19 pandemic and preparedness for future pandemics (Pandemic Declaration) (box III.D.1) and the Ministerial Decision on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS COVID-19 Vaccines Decision)—provide the trade-related framework to improve access to COVID-19 vaccines and medical technologies as well as to enhance technology transfer and the geographical diversification of manufacturing capacities.

Box III.D.2

The Ministerial Declaration on the WTO response to the COVID-19 pandemic and preparedness for future pandemics (Pandemic Declaration)[a]

The Pandemic Declaration covers a wide range of trade policy areas:[b]

- Ministers recognized "the role of the multilateral trading system in supporting the expansion and diversification of production of essential goods and related services needed in the fight against COVID-19 and future pandemics". They affirmed their commitment to transparency and timely information sharing on trade-related measures taken to identify potential disruptions in supply chains.
- The Declaration highlighted that emergency trade measures to tackle COVID-19 be "targeted, proportionate, transparent, temporary, and do not create unnecessary barriers to trade or unnecessary disruptions in supply chains"; and encouraged regulatory cooperation and information sharing to expedite access to essential medical goods.
- The Declaration reiterated the Doha Declaration on the TRIPS Agreement and Public Health (2001); that the TRIPS Agreement should be interpreted and implemented in a manner supportive of WTO members' right to protect public health; and that members have the right to fully use the flexibilities provided for in the TRIPS Agreement and the Doha Declaration.
- The Declaration underscored the importance of promoting technology transfer and for developed members to provide incentives to transfer technology to LDC members. Several programmes reported under this provision cover health technologies.[c]

Source: UNCTAD.

a WTO. 2022. Ministerial Declaration on the WTO response to the COVID-19 pandemic and preparedness for future pandemics, WT/L/1142.

b Other issues not covered below include balance of payments, development, export restrictions, food security, intellectual property, regulatory cooperation, tariff classification, trade facilitation, trade in services and transparency.

c See IP/C/R/TTI series of documents, available on e-TRIPS.

Box III.D.3
The Ministerial Decision on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS COVID-19 Vaccines Decision)[a]

The Decision provides a platform for eligible members to work together to overcome potential intellectual property obstacles to expanding and geographically diversifying COVID-19 vaccine production capacity.

According to the Decision, eligible members may produce vaccines without consent or consultation with right holders and can export any proportion of the resulting production to other eligible members, either directly or through international humanitarian programmes. Thus, the Decision enables eligible members to collaborate and exploit economies of scale by establishing production hubs that are designed to serve the needs of other members, free from the obligation to retain the predominant portion of production within the borders of the producing member.

The Decision is not self-executing, and its implementation depends on domestic action as intellectual property rights are granted and administered at the domestic level; and depends on specific domestic plans to establish or expand vaccine production. Members of regional intellectual property systems (e.g., *l'Organisation Africaine de la Propriété Intellectuelle*) could take advantage of regional coordination to implement regional plans to expand vaccine production capacity and could benefit from partnerships with technology holders.

While the Ministerial Decision is limited to COVID-19 vaccines, the decision to extend coverage to the production and supply of COVID-19 diagnostics and therapeutics will be considered in 2023.[b]

Source: WTO.
a WTO. 2022. Ministerial Decision on the TRIPS Agreement, WT/L/1141.
b See report of the TRIPS Council to the General Council as agreed on 16 December 2022, IP/C/95.

4.2 Negotiations on agriculture

WTO members agreed to exempt food purchases by the World Food Programme from export restrictions and addressed issues on the emergency response to food security. At MC12, there were two major outcomes to address food insecurity.[35] The first, the Ministerial Decision exempting food purchases by the World Food Programme for humanitarian purposes from export restrictions,[36] is expected to save time and money in delivering critical relief to people in need. The Decision also acknowledges the right of members to ensure their domestic food security. The second, the Ministerial Declaration on the emergency response to food insecurity,[37] aims to achieve a fair and market-oriented agricultural trading system, support food security and improved nutrition, and promote sustainable agriculture and food systems, considering the interests of small-scale food producers in developing countries (box III.D.4).

Discussions are ongoing on ways to advance negotiations on several agricultural issues. These issues include: domestic support provided to farmers; public stockholding for food security purposes under which procurement is made at administered prices; market access for food and agricultural products; export-related mechanisms such as export finance regrouped under the export competition pillar; export restrictions applied to food and agricultural products; cotton, a product of particular importance for cotton-producing LDCs; the special safeguard mechanism to allow developing countries to temporarily raise tariffs in response to a sudden surge in import volumes or a price depression; and the cross-cutting issue of transparency. Negotiations on these issues have been affected by intractable differences on domestic support. The WTO Director General convened an agriculture retreat in October 2022 to discuss ways to advance negotiations, building on the MC12 momentum.

Box III.D.4
Ministerial Declaration on the emergency response to food insecurity[a]

The Declaration underscores that trade—along with domestic production—plays a vital role in improving global food security. It expresses members' commitment to take necessary steps to facilitate trade and improve the functioning and long-term resilience of global markets for food and agriculture, including for fertilizers and other inputs. It stresses the importance of members not imposing export restrictions in a manner inconsistent with WTO disciplines, and of ensuring that emergency measures introduced to address food security concerns minimize trade distortions as far as possible and are temporary, targeted and transparent. The Declaration also encourages members with available surplus stocks to release them on international markets. In addition, it reaffirms the importance of ensuring that information is properly available to ensure markets function well and to mitigate against volatility. It acknowledges in this regard the importance of fulfilling WTO notification requirements as well as the positive role played by the Agricultural Market Information System, which was initiated over a decade ago by the G20.

The Ministerial Declaration also acknowledges the specific needs of LDCs and net food-importing developing countries (NFIDCs), and launched a dedicated work programme in the WTO Committee on Agriculture (CoA) to examine how the Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on LDCs and NFIDCs could be made more effective and operational, taking into account the needs of LDCs and NFIDCs to increase their resilience in responding to acute food instability.[b] A working group has been set up to deliberate on the thematic areas approved under the work programme and to finalize its report and recommendations by 30 November 2023 for the approval of the CoA.

Source: WTO.
a WTO. 2022. Ministerial Declaration on the emergency response to food insecurity, WT/MIN(22)/28.
b WTO. 2022. Work Programme Pursuant to Paragraph 8 of the Ministerial Declaration on the Emergency Response to Food Insecurity. Document G/AG/35.

4.3 Negotiations on special and differential treatment

Despite divergent views, many members are committed to continuous engagement on special and differential treatment (S&DT) provisions. Members reaffirmed the S&DT provisions for developing country members and LDCs (box III.D.5) as an integral part of the WTO and its agreements in the MC12 outcome document. In February 2023, at an informal meeting on WTO reform, members discussed the opportunities, challenges, and way forward for development within the WTO context. Members raised the following elements to frame the work on development: inclusivity; member-driven consensus decision-making; transparency; respect for the principle of self-determination of developing country status; and of S&DT as an established principle in the WTO architecture. The aim of this work would be to deliver an outcome by the Thirteenth WTO Ministerial Conference.

Box III.D.5
Issues on special and differential treatment in the WTO

S&D provisions are flexibilities granted to developing countries and LDCs with the aim of increasing their trade opportunities and safeguarding their interests, e.g., by providing longer periods for the implementation of WTO agreements and provision of technical assistance. Over 100 such provisions exist in the WTO's agreements and decisions.

In the 2001 Doha Ministerial Declaration, ministers agreed that all S&D provisions would be reviewed with a view to strengthening them and making them more precise, effective and operational. Since then, the G90 has made several proposals on the S&D provisions, with recent discussions focused on 10 agreement-specific proposals on topics including transfer of technology, trade-related investment measures, technical barriers to trade, sanitary and phytosanitary measures, customs valuation, subsidies and countervailing measures, and the accession of LDCs to the WTO.

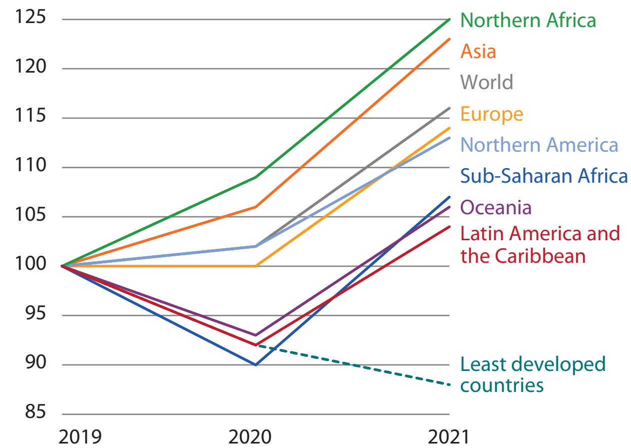
There are divergent views on the 10 proposals. Some members support the proposals and continue to believe that they provide a good basis to take the discussions in the CTD SS forward. However, other members continue to repeat their concerns about the proposals. For example, it is felt that progress in the discussions on S&D will require a focus on the smaller and most vulnerable developing countries—which is not appropriately reflected in the proposals—and that the proposals appear to suggest that trade rules are not conducive to development.

Source: WTO.

4.4 Cross-border e-commerce

Digitally delivered services experienced strong growth during the COVID-19 pandemic. While the pandemic greatly disrupted trade in other services (such as transport and travel), digitally deliverable services remained resilient, increasing as a share of total services exports (figure III.D.12). These services include telecommunications, computer and information services, financial and insurance services as well as various business services such as professional and management consulting. Worldwide, their share rose from 52 per cent in 2019 to 63 per cent in 2021. The share of digitally deliverable services in total services exports increased across all regions. However, digitally deliverable services in LDCs declined during the 2019-21 period, likely due to low pre-existing digitalization levels and poor digital connectivity issues that may have worsened as a result of increased demand during the pandemic.

Figure III.D.12
Digitally deliverable services exports, 2015–2021
(Index of export value in current prices)



Source: UNCTAD. 2022. "Supporting countries to measure the digital economy for development".
Note: 2019=100

E-commerce can benefit SMEs, women and marginalized groups. Digital trade allows firms to expand their pool of potential customers and increase their export earnings by reducing export barriers. For example, the Africa Trade Exchange, a business-to-business e-commerce platform, helps to improve cross-border trade, including by addressing agricultural and input scarcity resulting from the war in Ukraine and supporting the implementation of the African Continental Free Trade Area Agreement.[38] It has the potential to significantly reduce barriers that firms, especially SMEs, face in pursuing export opportunities.[39] E-commerce also has the potential to benefit women and marginalized groups by making available the purchase of a larger variety of products at lower cost. E-commerce can also foster the service economy, in which many women are employed, and increase access to information about entrepreneurial possibilities, knowledge and skill. Overall, digital solutions relieve mobility constraints, discrimination and even exposure to violence faced by women entrepreneurs.[40] Yet, there are several barriers affecting women's participation, including shortcomings in education, skills and knowledge, limited access to productive resources and networks, time poverty and discriminatory gender norms. It is estimated that e-commerce markets in Africa and Southeast Asia, for example, could grow by around $14.5 billion and $280 billion, respectively, between 2025 and 2030 if better training is provided to women digital entrepreneurs.[41]

Efforts are being made to reinvigorate the Work Programme on Electronic Commerce, both in the General Council and in the WTO bodies[42] charged with its implementation. At MC12, members agreed to reinvigorate discussions under the Work Programme and extend the moratorium on customs duties on electronic transmissions until the 13th Ministerial Conference or March 2024. Discussions on the moratorium—including on scope, definition and impact of the moratorium—are expected to continue until then. The General Council has had several discussions since MC12, including on issues ranging from bridging the digital divide and the legal and regulatory framework, to cooperation with other stakeholders and sharing of experiences. Some members have also presented submissions to advance the discussions, including ideas to reinvigorate the Work Programme, a submission on consumer protection in e-commerce and one sharing perspectives on customs duties on electronic transmissions. Discussions on these and other topics identified by members will continue in 2023.

E-commerce discussions are also advancing under the Joint Statement Initiative on e-commerce. A group of 87 WTO members continues to negotiate possible new rules on trade-related aspects of e-commerce. Negotiations are organized under six broad themes: enabling e-commerce; openness and e-commerce; trust and e-commerce; cross-cutting issues, such as transparency, domestic regulation and cooperation; telecommunications; and market access. On the margins of MC12, the co-convenors issued a ministerial statement acknowledging the progress made, underlining the importance of developing global rules on e-commerce and charting the way forward. In addition, together with Switzerland, they launched the E-commerce Capacity Building Framework to strengthen digital inclusion and help developing countries and LDCs to harness the opportunities of digital trade. Participants have also reached a consensus on articles on e-signatures and e-authentication, e-contracts, consumer protection, paperless trading, open government data, unsolicited commercial electronic messages (spam), and transparency. In addition, substantive progress has been made in the areas of open internet access, cybersecurity and electronic transactions frameworks. Building on this progress, negotiations are advancing on several other articles, such as electronic invoicing and privacy issues. Participants aim to finalize negotiations by the end of 2023 or early 2024.

5. Strengthening synergies between trade and sustainable development

Trade can contribute to sustainable development by reducing food insecurity, fostering the energy transition and creating decent jobs. Trade can help to increase the availability of food and improve nutrition and access to food by creating jobs and raising incomes. However, significant market distortions, protectionism and underinvestment in public goods continue to adversely affect the functioning of global markets. Persistent challenges also remain in the role of trade in climate action, decent jobs and gender equality. Increasing aid for trade can help developing countries, especially LDCs, to address these challenges.

5.1 Trade and food security

Maintaining open international markets is necessary to secure food supply worldwide, particularly during a crisis. At MC12, ministers emphasized the vital role trade plays in improving food security and nutrition. However, global food and agriculture markets continue to be characterized by significant distortions and high levels of protection as well as low levels of investment in public goods. Furthermore, where environmental regulations are absent, inadequate or poorly implemented, food and agricultural products in domestic and international markets may not reflect their true costs over time. Progress has been made in curbing agricultural export subsidies, which have fallen sharply since the 2000s. In contrast, harmful fisheries subsidies continue to exacerbate overfishing (see section 4.1). Many support programmes still incentivize unsustainable consumption and production patterns and undermine fair competition in global markets. At the national level, food security can be strengthened by supporting developing countries to improve trade policy. For example, the International Trade Centre is helping developing countries to strengthen the agriculture and agri-food value chain and improve their trade policies.[43] Food security can also be strengthened through adopting internationally recognized voluntary marketing standards, such as the UNECE agricultural quality standards, which facilitate market access and trade.[44]

5.2 Trade and climate change

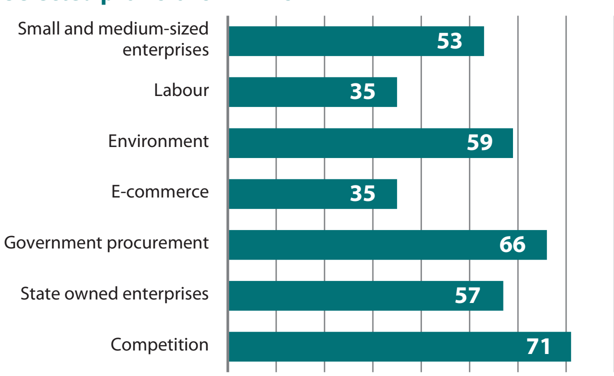
Climate-smart trade policy can help with the global energy transition. Trade and climate change are intricately connected.[45] Trade can have a negative impact on climate as trade directly contributes to emissions due to transportation and trade procedures but it can also have a positive impact as trade is crucial for spreading technologies that can help with the global energy transition. Since 2000, trade in energy from renewable sources has increased 2.7 times and trade in energy systems and components has quadrupled.[46] As tariffs on renewable energy products are generally higher than those on fossil fuels, trade policy can help to reduce trade barriers affecting environmental goods and services to support the energy transition.[47] A group of WTO members is exploring options to reach an agreement on reducing or eliminating tariffs and non-tariff measures affecting specific environmental products, including solar panels and wind turbines. These are part of broader efforts undertaken by WTO members through the Trade and Environmental Sustainability Structured Discussions (TESSD) to consider how trade policy can support environmental and climate goals and promote sustainable production. The TESSD are focusing on technical barriers to trade for environmental goods; identification of action areas for environmental services; cooperation on carbon pricing and non-pricing measures; mapping of trade aspects of the circular economy; and the environmental impact of subsidies.[48]

Maritime shipping, which accounts for over 80 per cent of global merchandise trade volume, remains heavily dependent on fossil fuels. Despite efficiency improvements, total emissions from the global fleet increased by 4.7 per cent in 2021, led by increases from container ships, dry bulk and general cargo vessels.[49] Decarbonization of maritime transport will help to reduce the carbon footprint of traded products. However, the current cost of alternative fuels (liquefied natural gas, methanol, green hydrogen or electricity) is two to five times higher than that of conventional fuel. Policy efforts should aim at incentivizing the shift to low- and zero-emission fuels and technologies, including through carbon pricing.[50] A shift away from fossil fuel subsidies to investments in renewable energy can also help the energy transition (see chapter III.A and the *2022 Financing for Sustainable Development Report*).

5.3 Trade agreements and decent work

Trade agreements can help to promote decent work priorities by including provisions to comply with international labour standards. By the end of 2022, 35 per cent of RTAs that were notified to the WTO and in force, contained provisions on trade and labour (figure III.D.13). These provisions commit parties to honour their international commitments under International Labour Organization (ILO) Conventions (box III.D.6). Much like agreements with environment provisions, agreements with labour provisions maintain national policy space without restricting investment or trade. Historically, labour provisions in RTAs have been more aspirational than legally enforceable. Around 45 per cent of RTAs with labour provisions specifically exclude them from dispute settlement. However, recent agreements involving developed economies show more willingness to enforce labour provisions. For example, the United States-Canada-Mexico Agreement (USMCA) introduced a rapid response labour mechanism to fast-track the resolution of labour disputes. Institutional mechanisms can also help to advance trade and labour considerations. For example, in January 2023, the United States and Japan launched a "Task Force on the Promotion of Human Rights and International Labour Standards in Supply Chains", a bilateral framework to combat worker exploitation and forced labour in global supply chains. Several other recent trade and economic initiatives are also looking at addressing decent work priorities through supply chain reorganization, including the Indo-Pacific Economic Framework, the Americas Partnership for Economic Prosperity, and the EU-US Trade and Technology Council.

Figure III.D.13
Selected provisions in RTAs



Source: RTA Section, WTO Secretariat, December 2022. Figures are based on a batch of 341 RTAs notified to the WTO and currently in force. For more details on these provisions: http://rtais.wto.org/.

5.4 Women in trade

Gender-based discrimination and barriers often constrain women's access to domestic and international markets, preventing them from reaping the full benefits of trade.[51] Women's involvement in international trade is still minimal compared to that of men in developing countries, as women tend to have more limited access to inputs, resources, services and opportunities in education, technology and markets, among others.[52] Trade and trade policies can have gender-differentiated redistributive impacts, which should be considered in international trade agreements and national policies on gender equality. In addition, it is essential to formulate and implement gender-responsive policies and programmes aligned across all relevant sectors, including but not limited to trade and agriculture, labour, social protection, health and education.

Achieving gender equality through trade policy has gained momentum in recent years. The first move by WTO members came through the 2017 Joint Declaration on Trade and Women's Economic Empowerment, adopted at the Eleventh WTO Ministerial Conference. The Declaration was significant in establishing the link between gender equality, women's economic empowerment and trade,[53] with commitments to make trade and development policies more gender-responsive, including by sharing experiences on women's participation in trade and improving gender-disaggregated trade data. In 2021, an informal working group on trade and gender was formed to advance these issues. Ministers further reiterated their commitments to address trade and women's economic empowerment at MC12.[54] Recent free trade agreements (FTAs) have also made efforts to address gender issues. For example, the 2021 UK-Australia FTA contains a stand-alone chapter on trade and gender equality,[55] which aims to promote women's access to online business tools and strengthen digital skills, reinforced through the digital trade chapter.

5.5 Aid for trade

Aid for trade rose steeply in 2020 but fell below pre-pandemic levels in 2021. SDG target 8.a calls for increased aid-for-trade support for developing countries, particularly LDCs. Launched in 2005, the Aid for Trade initiative helps countries to build their supply-side capacity and trade-related infrastructure. Since the launch of the initiative,

Box III.D.6
The ILO/IFC Better Work programme

The ILO/IFC Better Work programme monitors compliance with international labour standards and national legislation, including where incorporated in labour provisions in trade agreements focusing on the garment industry.

- Launched in 2001, Better Factories Cambodia monitored compliance with labour standards at the workplace under the 1999 US-Cambodia Bilateral Textile Agreement. All exporting garment factories participated in the programme, with compliance with national law and international labour standards improving significantly under the programme.
- Established in 2009, Better Work Haiti assesses and promotes compliance with core labour standards and national labour law in the factories that are eligible for tariff advantages under the Haitian Hemispheric Opportunity through Partnership Encouragement and the Haiti Economic Lift Program.
- Better Work Jordan helps to monitor and promote decent work conditions in factories exporting to the European Union.

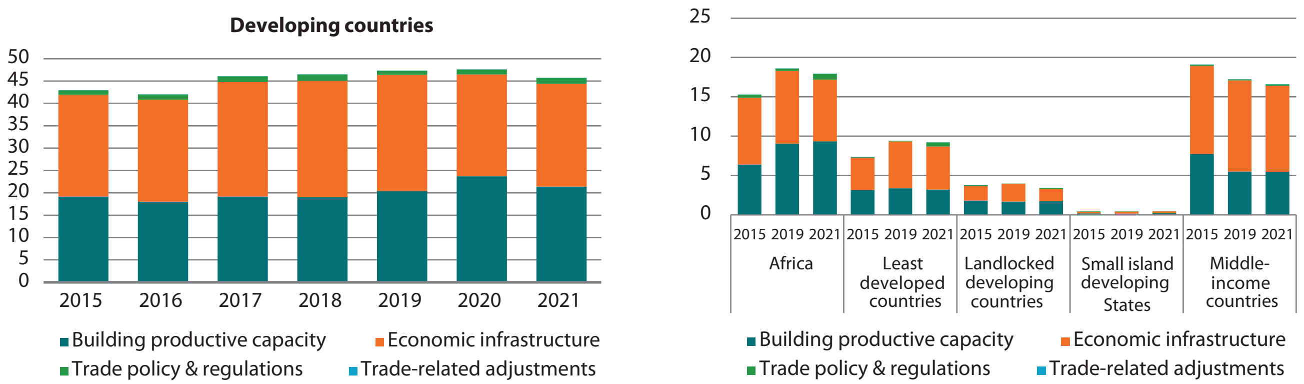
Source: ILO.

aid-for-trade disbursements have increased steadily but were relatively stagnant from 2015 before increasing to $48.7 billion in 2020, following support for the COVID-19 pandemic response. Aid for trade declined in 2021 to below pre-pandemic levels (figure III.D.14). Support for LDCs has increased although support to LLDCs requires attention (figure III.D.14). In 2022, the Eighth Global Review of Aid for Trade highlighted that aid for trade has grown in importance due to the economic and trade impacts of the pandemic, with trade facilitation the most frequently cited aid-for-trade priority.[56]

Figure III.D.14

Aid for trade disbursements to developing countries, 2015–2021

(Billions of United States dollars, 2020 constant prices)



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51 Organisation for Economic Co-operation and Development (OECD). 2021. *Trade and Gender*. Trade policy brief. May 2021.

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54 Paragraph 13 of the WTO Outcome Document states: "We recognize women's economic empowerment and the contribution of MSMEs to inclusive and sustainable economic growth, acknowledge their different context, challenges and capabilities in countries at different stages of development, and we take note of the WTO, UNCTAD and ITC's work on these issues". WTO, MC12 Outcome Document adopted on 17 June 2022 (WT/MIN(22)/24, WT/L/1135).

55 Australian Government, Australia-United Kingdom Free Trade Agreement Official Text.

56 World Trade Organization, *Aid for Trade Global Review 2022* (WTO, 2022).