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Trade and the Sustainable Development Goals

Summary

As an engine for economic growth and development, trade has the potential to contribute to job creation, poverty reduction, the elimination of hunger and inequality, the empowerment of women, the promotion of gender equality and the improvement of access by all to adequate education and health services. Trade can, therefore, be a key tool for achievement of the Sustainable Development Goals (SDGs).

This report sets out the relation between trade and many of the SDGs, presents the results of a survey of trade officials on trade liberalization and sustainable development, and provides recommendations for the Arab countries on how to enhance the role of trade in promoting development and achieving the SDGs.

Representatives of member States are invited to take note of the report and make comments and suggestions thereon.

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CONTENTS

		Paragraph	*Page*
Introduction		1-5	3
Chapter			
I.	**TRADE AND THE SUSTAINABLE DEVELOPMENT GOALS: THEORETICAL ANALYSIS**	6-25	3
	A. No poverty (SDG 1)	7-8	3
	B. Zero hunger (SDG 2)	9	4
	C. Good health and well-being (SDG 3)	10-11	4
	D. Quality education (SDG 4)	12	4
	E. Gender equality (SDG 5)	13-14	4
	F. Clean water and sanitation (SDG 6)	15	4
	G. Affordable and clean energy (SDG 7)	16-17	5
	H. Decent work and economic growth (SDG 8)	18	5
	I. Industry, innovation and infrastructure (SDG 9)	19	5
	J. Reduced inequalities (SDG 10)	20-22	5
	K. Sustainable cities and communities (SDG 11)	23	6
	L. Climate action (SDG 13)	24-25	6
II.	**TRADE AND THE SDGS: SURVEY**	26-45	6
	A. Trade performance	27-30	6
	B. Trade as a means of implementing the SDGs	31-41	7
	C. Trade challenges	42-45	8
III.	**CONCLUSIONS**	46-49	9

Introduction

1. Trade in goods and services is an important driver for development and growth. Its importance is recognized in the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Action Agenda) and the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020.

2. Services play a key role in the delivery of telecommunications, and financial, commercial and business services, and in the provision of infrastructure, health care, education and environmental services. Services account for two thirds of global GDP, but only one fifth of global trade. There is thus enormous potential to foster growth in services trade in the digital era, with service delivery no longer constrained by the distance between producer and consumer.

3. The development of global value chains (GVCs) and fragmentation of production processes has led to greater involvement of developing countries in the manufacture of goods and, to a lesser extent, in the provision of services. The GVC model has allowed countries to access specific export markets, whereby they produce parts and components that feed into products from developed countries. That has helped to create jobs and encourage technology transfer and the accumulation of know-how, which in turn leads to more growth and development.

4. Trade can have positive but difficult to quantify effects on society. It can facilitate mobility, thereby helping job-seekers, male and female, to broaden their horizons, and contributing to greater wage equality between the genders. By reaching remote areas, trade can also improve the access of their inhabitants to basic services such as education and health care.

5. How to use trade, whether in goods or services, to benefit development is a challenge for policymakers. This paper looks at the link between trade and the SDGs, analyses the results of a survey of Arab trade officials on their perception of the role of trade in achieving those goals, looks at challenges facing global multilateral trade and weighs the positive and adverse effects of trade on sustainable development.

I. TRADE AND THE SUSTAINABLE DEVELOPMENT GOALS: THEORETICAL ANALYSIS

6. In theory, trade between firms and countries promotes competitiveness and stimulates producers to increase efficiency, thereby generating revenue and employment opportunities. Trade in services has great potential to contribute to achievement of the SDGs. Trade can improve food security and nutrition by making food available in remote regions. By promoting the exchange of environmental goods and services, it can help to reduce greenhouse gas emissions.

A. NO POVERTY (SDG 1)

7. The expansion of trade and ensuing economic growth is linked with poverty reduction. However, because of the diverse and multidimensional nature of poverty, developing countries need to build capacity to measure and analyse it closely. Merely looking at gross domestic product (GDP) or export growth is insufficient. Poverty reduction requires a complex socioeconomic and policy response to “leave no one behind”.

8. Trade liberalization provides incentives to innovate and invest but also increases the vulnerability of an economy to external shocks. However, it has also been asserted that trade liberalization aids the poor by lowering import prices for basic foods, medicines and health products, and also by keeping the prices of domestic suppliers in check. Much has been written on how trade barriers impeded economic growth and poverty reduction in China, India, Morocco and Tunisia before they implemented trade reforms, and how living standards rose in the wake of trade liberalization.

B. ZERO HUNGER (SDG 2)

9. Opinions are divided on the impact of trade barriers and subsidies on food security. Some argue that heavily subsidised agriculture in advanced economies exerts downward pressure on world prices and thus impoverishes farmers in developing economies, and that barriers are therefore necessary to protect the agricultural sector in such countries. The Organisation for Economic Co-operation and Development (OECD), the World Bank and the World Trade Organization (WTO) all maintain that agricultural trade liberalization can enhance food security. However, that would require profound reform of agricultural policy in the European Union and the United States of America.

C. GOOD HEALTH AND WELL-BEING (SDG 3)

10. The delivery of health care services is being globalized, as reflected in the growing cross-border movement of personnel and consumers. Liberalizing trade means that developing countries with a strong tradition of natural and traditional health care can market products more effectively to a wider consumer base. The domestic health system in developing economies is also improved, contributing to the achievement of SDG 3.

11. Not all countries have absolute, relative or comparative advantages in health services trade and there is no one-size-fits-all policy. Trade in health services can have significant positive spillover effects for the public if a country's health services, national health care system, regulatory environment and government policies are structured to provide equitable access. The down sides of trade in health care services are endogenous and not a result of trade per se. Developing countries should consider prudential trade policies that do not discriminate against the poor but ensure timely and cost-effective delivery of health services.

D. QUALITY EDUCATION (SDG 4)

12. Skilled human capital is a key to economic development. Studies have shown, for instance, that the lack of quality education and the large share of unskilled foreign workers in Gulf countries, such as the United Arab Emirates, constitute a major impediment to economic growth. Building up skills in the labour force contributes to economic diversification, technological development and structural change in the division of labour. Poor education has stifled the formation of skilled human capital, and thereby economic development and growth, in many developing countries.

E. GENDER EQUALITY (SDG 5)

13. The liberalization of international trade can foster the participation of women in the labour market, depending on how countries adapt national industrial policy and productive capacity to international competition. However, evidence from developing countries shows that international trade generates formal but low-skill, labour-intensive jobs, mostly filled by women in recent decades. Female workers are particularly sought after in export industries because, generally, they tend not to be unionized and thus have comparatively little power to bargain over wages and working conditions, which are often substandard.

14. Ensuring that women benefit fully from employment opportunities arising from international trade integration requires appropriate education and training policies to ensure that they acquire the necessary skills, especially in non-traditional occupations making use of advanced technologies. That would help them to climb the ladder of value chains in manufacturing and services, thereby contributing to gender equality and better living standards for women.

F. CLEAN WATER AND SANITATION (SDG 6)

15. Trade liberalization can have a positive impact on the environment, provided that effective environmental policies are in place, by making resource allocation more efficient, promoting economic growth

and increasing general welfare. However, it has also been argued that, in relatively poor countries, increased economic growth and interdependence degrades the environment, with worsening pollution and rapid depletion of natural resources. Only in countries with higher per capita income can resources be devoted to conservation and pollution control. All governments need to balance trade and environment and assess the costs and benefits of pollution abatement policies.

G. AFFORDABLE AND CLEAN ENERGY (SDG 7)

16. Energy accounts for 13 per cent of all international trade. Natural gas, oil and coal constitute 14 per cent, 11 per cent and 4 per cent, respectively, of the international energy trade. Moreover, energy is crucial to all production processes.

17. Rising global demand, climate change and the depletion of fossil fuels make improved energy efficiency and greater use of alternative energy sources essential. Attaining maximum sustainability at minimum cost and with the least possible disruption to energy supplies requires predictable energy prices, clear trading rules and a robust policy and regulatory framework. Developing countries need support through comprehensive international trade measures.

H. DECENT WORK AND ECONOMIC GROWTH (SDG 8)

18. The role international trade plays in encouraging the spread of technology, through the cross-border movement of capital and human resources, should be taken into account in national trade policy. Tangible and intangible capital movement generates better employment opportunities for the underprivileged in developing countries who endure dismal employment conditions and meagre pay. Trade, via GVC participation, enables local competitors and policymakers to provide and protect labour rights and promote safe working environments, taking their cue from better working conditions among their trading partners.

I. INDUSTRY, INNOVATION AND INFRASTRUCTURE (SDG 9)

19. Lack of basic infrastructure holds back use of technology and innovation and often translates into poor access to adequate health care, sanitation and education. Developing countries can benefit from trade to apply global standards and promote regulations that ensure that corporations manage their projects sustainably. Through trade, corporations can work with national and international NGOs and the public sector to develop sustainable infrastructure, promote innovation and protect the environment in developing economies. Developing countries should thus focus on building infrastructure that will facilitate trade, and thereby will contribute to economic development, social progress and improved living standards.

J. REDUCED INEQUALITIES (SDG 10)

20. Trade has a direct and indirect impact on equality or the lack thereof. The modification of output prices is likely to affect the productive combination of factors and their respective prices. In a globalized world, participants in local or even regional markets no longer exclusively determine domestic prices. Increases in world prices are transmitted directly to domestic prices, and changing terms of trade are the primary determinants of real output and incomes. The relative price of goods exerts a powerful influence on wages and migration, and thus the welfare of households, especially those on low incomes.

21. The strong redistribution effects of trade liberalization are well established. The reduction of average tariffs from 40 per cent to 10 per cent in Sub-Saharan Africa entails real income losses of 35 per cent for urban employers and 41 per cent for recipients of trade rents, compared with a gain of 20 per cent for farmers. The overall net gain to the economy is estimated at 2.5 per cent. The relative paucity of that efficiency gain, compared with the major impact on redestribution, makes trade liberalization a tricky subject for policymakers. Trade policy reform will result in some households winning and others losing, at least in the short run, and thereby affect poverty and income distribution. One policy option is simply to accept the losses as a necessary

cost of making the economy more efficient and competitive. Alternatively reforms that hurt any group, especially the poor, can be rejected.

22. In short, although the overall benefits of more international trade are broadly acknowledged, views about its distributional effects remain divided. The issue needs to be assessed country by country.

K. Sustainable cities and communities (SDG 11)

23. International trade can contribute to building sustainable cities and foster rural development by promoting investment in infrastructure (including public transport, water and electricity projects, housing, and renewable energy), health services, sanitation and education. In order to reap the full benefits of international trade, domestic institutions need to work closely with business and NGOs to frame non-discriminatory policies that are cost effective and efficient.

L. Climate action (SDG 13)

24. The impact of trade liberalization on climate change remains unclear. It has been established that income or economic growth, which can be driven by freer trade, has three effects on the existing amount of greenhouse gas (GHG) emissions: those of scale, technology and composition. The scale effect is observed when greater economic activity lifts demand for production and thereby increases the level of emissions. The technological effect can be observed when firms are encouraged to shift to cleaner production processes, which can help to reduce emissions. Under the composition effect, income growth shifts preferences towards cleaner goods and the share of pollution-intensive goods in output falls. This therefore tends to bring a decrease in emissions. It has been argued that free trade, by leading to rising incomes, produces scale and technology effects, which offset each other. The net impact on climate change is, then, determined by the composition effect.

25. The OECD has identified two more effects of trade liberalization on the environment: product and regulatory effects. Product effects are associated with trade in specific products, which can enhance or harm the environment. Positive product effects may result from increased trade in goods that are environmentally beneficial, like energy-efficient machinery. Negative product effects may result from increased trade in goods that are environmentally sensitive, such as hazardous wastes. Regulatory effects are associated with the legal and policy effects of trade liberalization on environmental regulations, standards and other measures.

II. TRADE AND THE SUSTAINABLE DEVELOPMENT GOALS: SURVEY

26. ESCWA conducted a survey in June 2017 on the perceptions of high-ranking trade officials in the Arab region regarding how trade can facilitate achievement of the SDGs.

A. Trade performance

27. Most (60 per cent) of the survey respondents saw freer trade as an opportunity, while 37 per cent were unsure and 4 per cent considered trade a potential threat to local economies.

28. The nature of international trade has changed greatly over the past four decades, with Western dominance gradually declining and developing regions becoming rapidly more integrated into GVCs, which account for roughly 60 per cent of global trade. The centre of gravity of world trade is moving swiftly towards the south, but the countries of the Arab region have been unable to tap the potential of global trade for promoting economic growth and development. The Arab countries generally do poorly in the World Bank’s Doing Business rankings. That is equally so, except for the United Arab Emirates, in its Ease of Doing Business Index.

29. GDP growth in the Arab region slowed drastically after the revolts of 2011 and recovery since then has been sluggish. Weak external demand, especially from Europe, affected the entire region. Gulf Cooperation

Council (GCC) countries maintained huge public spending programmes to support domestic demand and growth, despite scaling back oil production in the last quarter of 2012 in order to prop up oil prices.

30. The Arab region has largely missed out on global trade integration, partly due to the restrictiveness of its trade regimes and policies, including complex and high tariffs, which also constitute the main policy-induced barrier to intra-Arab trade, in addition to high logistics costs and a shortage of skills. Overall, the region performs poorly in trade. That the trade-to-GDP or export-to-GDP ratios have been above the world average since at least the mid-1990s is due in large part to petroleum exports. The region's trade (exports and imports) excluding oil is at about the world average, but exports alone rank below the average. Indeed, exports beyond the region are at only a third of their potential (aggregate exports, non-natural exports and non-petroleum exports).

B. Trade as a means of implementing the SDGs

31. Survey respondents were upbeat about the benefits of trade, with 70 per cent saying that trade had a significant impact on sustainable development, 88 per cent that it promoted economic growth and 73 per cent that it encouraged the spread of technology. More specifically, 94 per cent said they believed that profits generated by trade could be used to promote sustainable development. If 73 per cent considered that trade generated jobs, 70 per cent also agreed that it fostered the empowerment of women and gender equality. However, only 17 per cent agreed that trade contributed to the protection of the environment.

32. On the other hand, there was concern about the adverse impact of trade, with half of respondents believing that trade led to the erosion of labour rights and working conditions and 63 per cent convinced that trade had the potential to destroy small-scale domestic industries because of foreign competition.

33. While only 16 per cent of respondents said they were well aware of the SDGs, nearly 27 per cent said they were not aware of them at all. Nevertheless, more than half (53 per cent) said that they believed that trade could contribute directly, indirectly, financially and/or non-financially to their achievement. Another 30 per cent stated that trade could have an indirect impact on the SDGs, and 17 per cent asserted that trade was an essential means of financing their achievement.

34. Some of the SDGs contain specific trade-related elements, but trade is also more generally seen as a cross-cutting means of implementation of the economic, social and environmental targets of all 17 goals. To realize that potential, trade and other policies must reinforce each other and not work at cross purposes. Trade must be part of a coherent policy framework for sustainable development.

35. National export strategies depend on global demand for a country's products. Changing prices on international markets, especially in commodities such as oil, are a major external source of vulnerability. In the wake of the 2008 financial crisis, there was also a significant drop in demand and prices for manufactured products from developing countries. All of that may explain a noticeable policy trend aimed at fostering domestic demand as the main driver of economic growth.

36. Subsidy reform in agriculture, fisheries and fossil fuels, improved functioning of the agricultural and commodities price markets, and access to markets for small farmers and fishers in developing economies are trade-related initiatives that can all contribute to achievement of the SDGs. Target 12C of SDG 12 refers to the need to rationalize and phase out inefficient fossil-fuel subsidies. The WTO Agreement on Subsidies and Countervailing Measures addresses the elimination of discriminatory agricultural subsidies.

37. Trade is a significant avenue for the diffusion of environmentally friendly technologies. With respect to medicines, for instance, the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement) has a key role to play in balancing intellectual property rights with the medical needs and health insurance challenges faced by people in developing countries.

38. Trade can also contribute to the SDGs through economic diversification and links to GVCs, particularly for small and medium-sized enterprises (SMEs). However, measuring the impact of GVCs is a challenging task for developing economies. Combating the illegal extraction and exploitation of natural resources is another area, albeit outside traditional systems of commerce, in which trade is potentially connected to the SDGs.

39. Target 17.10 of SDG 17 explicitly calls for "a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda". Specific areas of focus include improved export capacity of developing countries and better market access for least developed countries.

40. Tariffs on imports and exports, and licence fees have all traditionally been major sources of finance for the governments of developing countries, but in the past decade taxes on international trade have fallen considerably across the Arab region. In some Arab countries, oil exports have been a key source for financing public-sector projects. Trade can also generate finance through investment, such as foreign direct investment.

41. Embracing liberalized trade comes with opportunity costs, which policymakers need to weigh up. In developed countries, for instance, there has been concern about sourcing certain kinds of labour in developing countries. Trade also seems to be biased towards skilled labour, which leads to wage inequality among the working class in developing economies. Foreign competition enjoying economies of scale can threaten domestic producers with cheap imports. The consumer may benefit in the short run, but the damage done to domestic producers can spark a rise in unemployment. Environmental sustainability should not be compromised for the sake of larger scale production and resource extraction.

C. Trade challenges

42. Trade, whether or not it is seen as a means of implementing the SDGs, is not free of obstacles. For developing countries, poor infrastructure, the distance between trading partners, high transaction and transport costs, tariffs and non-tariff barriers and the temptation of protectionism all contribute to impeding trade.

43. Survey respondents were asked about their views on protectionism in the new global environment and 64 per cent expressed the view that it could undermine the potential of trade to support sustainable development, while 30 per cent felt that recent developments presaging a rise in protectionism would have little impact on global trade. Major regional bilateral agreements would, said 40 per cent of respondents, become more prominent, while 40 per cent asserted that multilateral global trade agreements under the WTO would remain relevant and continue to evolve. Interestingly, 20 per cent expressed the belief that efforts to further liberalize trade would dwindle in the face of a rising wave of protectionism.

44. The withdrawal of the United States from the Trans-Pacific Partnership (TPP) and its decision to renegotiate the North Atlantic Free Trade Agreement (NAFTA), along with talk of building a wall along the border between the United States and Mexico, have all fuelled the spectre of a return to protectionism. Tighter immigration laws in Australia, Canada and the United States, as well as the decision by the United Kingdom to leave the European Union, are seen in the same light.

45. The idea of protectionism stands in stark contrast to the spirit of the SDGs, and SDG 17 in particular, and poses a serious challenge to multilateral trade. A decline in multilateralism would imply a weakening of the WTO. A shift to bilateralism and regional trade could prove detrimental to the growth of isolated economies and lead to unpredictability in the world trading system. Moving from rule-based to deal-based trading would run counter to the idea of global sustainability. The exclusion of developing economies from world trade could undo the balance of global economic growth and hamper the growth of developed economies. Trading between large economies and neglect of the smaller ones could lead to global disintegration and conflict.

III. CONCLUSIONS

46. The impact of trade goes beyond creating jobs and generating revenue. With the right policies in place, trade can have a positive influence on all other sectors of the economy and, by extension, many areas of society. Countries need to devise and implement policies that favour trade. That will lead to more investment in essential sectors and services, efficiency gains in services provision and, ultimately, improved chances of achieving the SDGs.

47. A global trade agenda is necessary to enable developing countries to reap the benefits of more open trade regimes and encourage them to further integrate into the world economy in a manner conducive to the achievement of their own development goals and the SDGs. That includes working to prevent protectionism and the reversal of trade liberalization, which would have dire consequences for global development.

48. The proliferation of bilateral and regional trade agreements could have an adverse impact on global development and hamper achievement of SDGs. By circumventing the multilateral system, such agreements could preclude developing countries from active and equal participation in international trade.

49. ESCWA plans to develop a conceptual framework linking trade instruments in order to help Arab countries to achieve the SDGs. Several scenarios will be generated through this new framework to assess the impact of trade reforms in certain Arab countries. The analysis could also address what other specific policies should be implemented in order to address potential adjustment costs in areas such as the labour market, the environment and public finances, and how to finance such policies without inflicting damage on the economy at large. The ultimate objective of the framework will be to help countries to mainstream balanced trade policies, designed to maximise the benefits of trade and mitigate its potentially adverse effects, into their sustainable development strategies.
