

Chapter II

International trade

The below-trend recovery of world trade

World trade had declined by more than 11 per cent in 2009 (figure II.1). The 3.6 per cent rebound of global output in 2010 was accompanied by a 10.5 per cent expansion of the worldwide volume of imports of goods and services. Monthly data for world trade in goods, produced by the CPB Netherlands Bureau for Economic Policy Analysis, indicate that the turnaround in trade took place in mid-2009 (see chap. I, figure I.6). The recovery was particularly strong between mid-2009 and mid-2010 when the trade volume increased at an annualized rate of nearly 20 per cent. Since then, however, world trade growth has lost steam along with the slowdown in the recovery of the world economy.

Compared with the average growth rates attained between 2004 and 2007, cumulative losses of world gross product (WGP) and world trade volume of about 8 and 26 percentage points were seen during 2008 and 2009, respectively, as a result of the global financial crisis. In the outlook, growth of world income is expected to average 3.3 per cent between 2011 and 2012 and that of world trade to be about 6.7 per cent. As the rates of recovery between 2011 and 2012 do not make up for the cumulative losses of income and trade experienced during the crisis, such losses can be said to be permanent. This state of affairs also corroborates the hypothesis that economic recoveries following financial crises tend to be protracted and also keep import demand depressed for several years.¹

The recovery of world trade decelerated in the second half of 2010

Growth of world trade will be far too slow to return to the levels it would have reached at continued pre-crisis trends

Figure II.1
Growth of world income and of the volume of imports,^a 2002-2012



Source: UN/DESA and Project Link.

a Growth rates are calculated on the basis of GDP and import values in constant 2005 United States dollars. Imports cover both goods and non-factor services.

b Partly estimated.

c Projections based on the United Nations World Economic Forecasting Model and Project LINK.

¹ See, for example, Caroline Freund, "The trade response to global downturns: historical evidence", World Bank Policy Research Working Paper, No. 5015 (Washington, D. C.: World Bank, August 2009).

Trends in the volume and dollar values of world trade have started to converge during 2010, a pattern that is expected to continue in the forecast period (figure II.2). In the pre-crisis years, the dollar value of world trade increased much faster than the volume, as a result, in particular, of steep rises in commodity and energy prices and the depreciation of the United States dollar during that period. During the crisis, collapsing commodity prices and an appreciation of the dollar caused a stronger decline in the value than in the volume of world trade. During the recovery, the rebound in commodity prices was initially not accompanied by renewed dollar depreciation. The latter trend returned from mid-2010, when upward pressure on commodity prices had weakened considerably. As a result, the rates of growth in the volume and value of trade have converged.

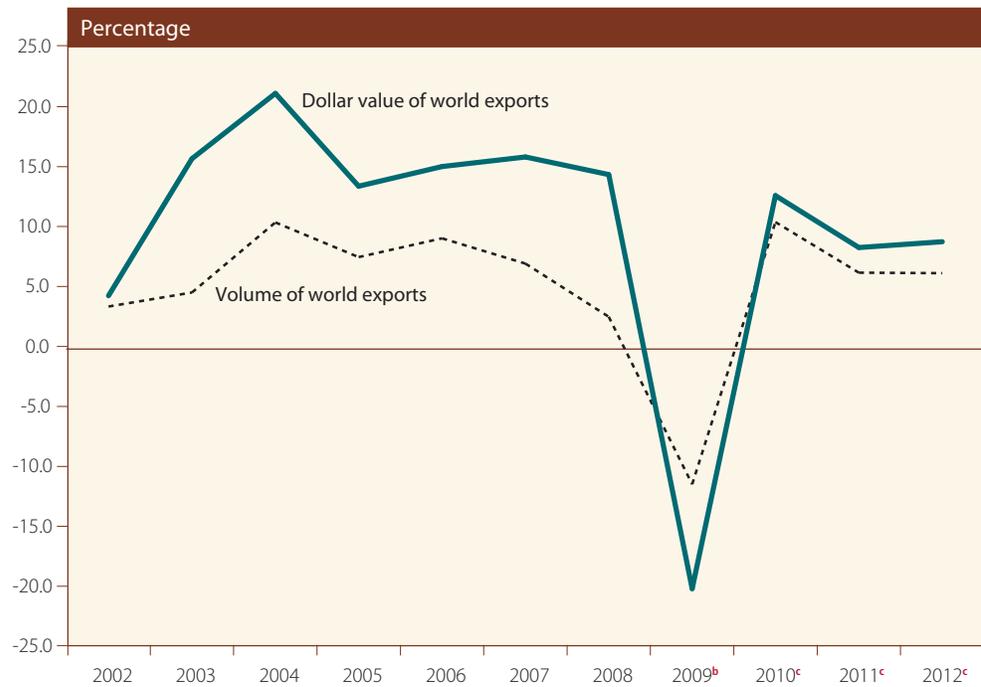
Distinct patterns can be observed among different types of products...

During the crisis, import demand for consumer durables and investment goods saw the sharpest decline and, by mid-2010, the demand for these goods was, on average, still about 20 per cent below trends (in other words, the level that would have been reached given continued pre-crisis trends). Trade in non-durable consumer goods was not affected as much, and the decline was short-lived. During 2010, international demand for these goods was back up to near pre-crisis levels. Demand for intermediate and primary commodities is still 10 per cent below pre-crisis trends.²

...as well as across regions

Across regions, the speed of the recovery of international trade remains uneven. Developing countries have been leading the recovery, in line with the stronger expansion of their economies. By September 2010, the trade volume of this group as a whole had already surpassed the pre-crisis peak of April 2008 by 7 per cent, owing in particular to strong trade growth in developing Asia. At the same time, trade by developed economies was still 9 per cent below the pre-crisis peak, with Europe's trade volume showing the largest gap,

Figure II.2
Growth of the volume and dollar values of world exports,^a 2002-2012



Source: UN/DESA and Project Link.

^a Growth rates are calculated on the basis of export values in constant 2005 prices and current United States dollars. Exports cover both goods and non-factor services.

^b Partly estimated.

^c Projections based on the United Nations World Economic Forecasting Model and Project LINK.

² International Monetary Fund (IMF), *World Economic Outlook: Recovery, Risk, and Rebalancing* (Washington, D. C.: IMF, October 2010).

at 11 per cent. As a result, the developing country share in global trade increased from about one third to more than 40 per cent between 2008 and 2010 (see annex tables A.16 and A.17 for annual figures per region).

Terms of trade of developing and transition economies

Primary commodity prices have fluctuated strongly compared with prices of manufactures. As a result, countries specializing in exports of primary commodities and those with high shares of imports of energy, food and industrial raw materials have had large swings in their terms of trade. During 2010, the terms of trade of the fuel exporters and exporters of minerals and mining products improved significantly along with rebounding commodity prices, but stayed below the peaks reached in 2008 and 2007, respectively. Concomitantly, exporters of manufactures saw part of the gains in their terms of trade dissipate. In 2010, exporters of agricultural products experienced an increase in the unit prices of both their exports and imports but, on balance, saw a modest improvement in their terms of trade. The countries that are net food importers and that do not export oil or mining products on a significant scale suffered a slight deterioration in their terms of trade during 2010, continuing a longer trend (figure II.3a).

Trends across regions show similarly diverging patterns, depending on the predominant trade structures (figure II.3b). The economies in transition, Africa, Western Asia and Latin America and the Caribbean saw a significant rebound in their terms of trade, having suffered important losses in 2009 following trends in primary commodity prices. The predominantly manufactured exports in East and South Asia, in contrast, saw stagnant or slightly declining terms of trade in 2010, after a modest improvement during the global recession. Greater export diversification explains the mild fluctuations in the terms of trade among these economies. Similarly, developed countries saw little movement, on average, in their terms of trade.

Broadly, terms-of-trade indices moved back to 2007 levels. This may be seen as a correction of the exceptionally large spikes (upward and downward) in commodity prices during 2008, caused by the global crisis and exacerbated by large-scale financial speculation. The present levels seem to be more in line with the upward trend in primary commodity prices relative to those of manufactures that had set in in the late 1990s. This trend has been strongly influenced by the fast economic growth in the large economies in developing Asia, which has pushed down world market prices of manufactures through the vast expansion of the supply of a large range of low-priced industrial products and has pushed up demand for and prices of primary commodities.

Future trends remain uncertain, however, given the high degree of “financialization” of commodity markets and the influence on prices of speculative investments in commodity futures markets (see box II.1), as well as the uncertainties regarding the global economic recovery, as discussed in chapter I.

The large terms-of-trade fluctuations of the past few years have had measurable effects on national income and the balance of trade of many economies. Countries lacking the means (such as adequate foreign-exchange reserves or stabilization funds) to cope with swings of this magnitude tend to suffer adverse long-term growth consequences because of the macroeconomic volatility caused by these shocks. Table II.1 shows the income gains and losses caused by swings in the terms of trade (with all other things being equal) relative to the income of selected developing countries and economies in transition.

While primary commodity-exporting countries benefited the most from the turnaround in the terms of trade, they also suffered from price falls during the crisis

Greater volatility affecting countries with a higher concentration in exports of primary commodities necessitates the preservation of adequate foreign-exchange reserves or stabilization funds

Figure II.3a
Net barter terms of trade, selected developing and transition economies, by trade structure,^a 2000-2010

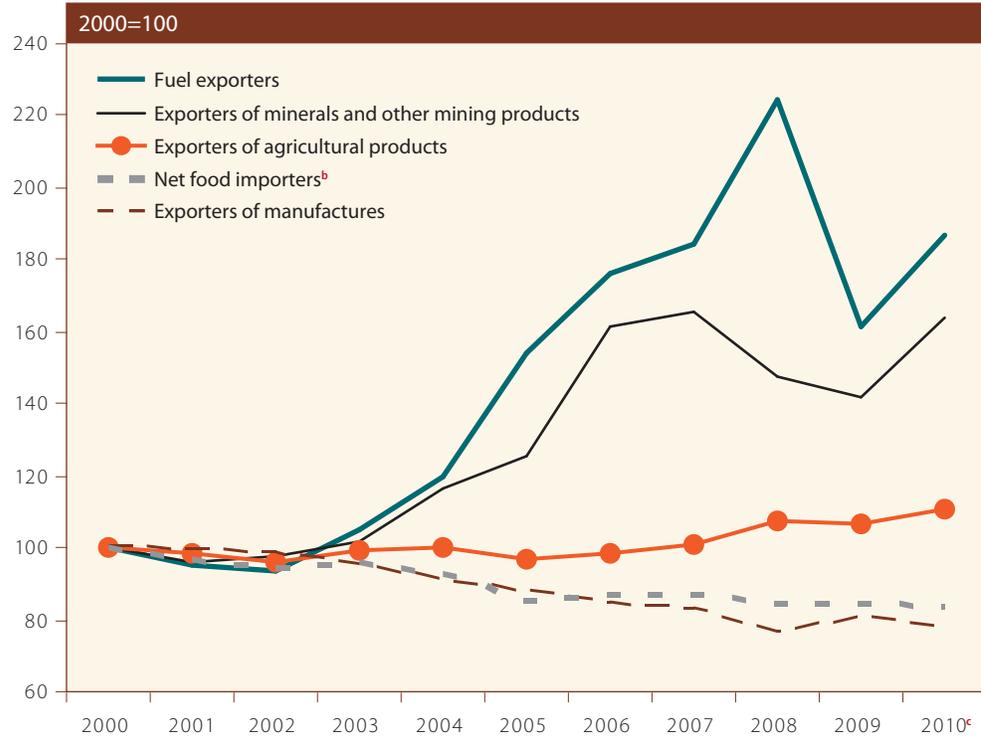
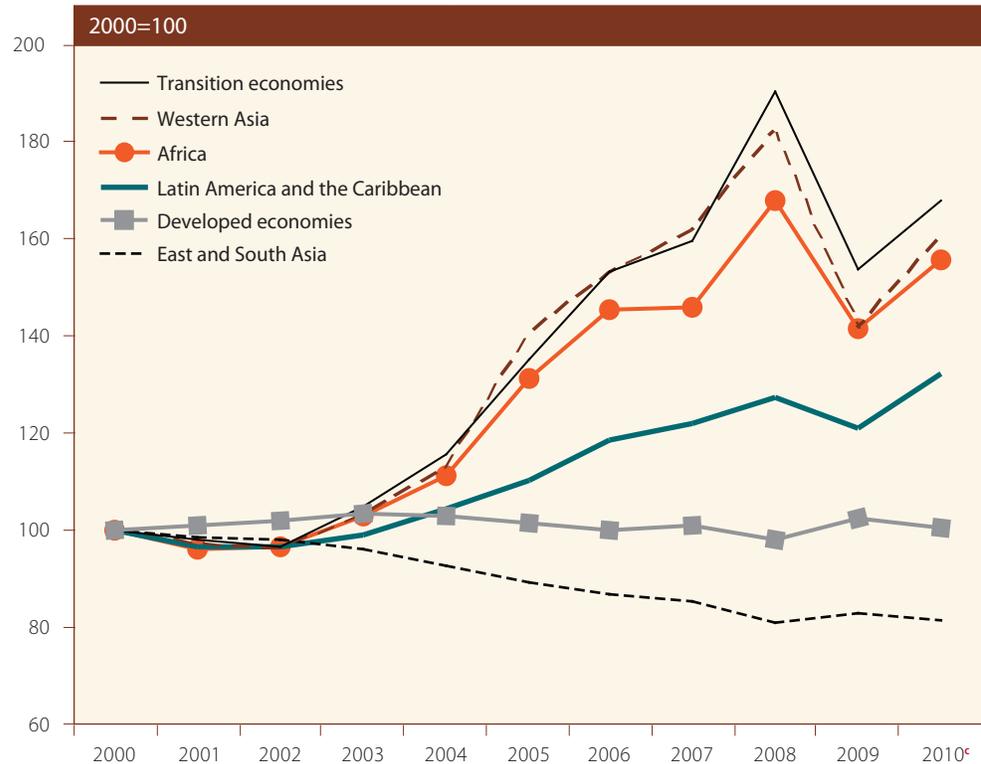


Figure II.3b
Terms of trade, selected developing and transition economies, 2000-2010



Sources: UNCTAD secretariat calculations, based on UNCTADstat, United Nations Commodity Trade Statistics Database, United States Bureau of Labor Statistics, Japan Customs, IMF, International Financial Statistics database, and ECLAC, Balance of Payments Statistics database.

a Grouped by product of export concentration.

b Net food importers are food-deficit countries, excluding exporters of fuel, minerals and other mining products.

c Partly estimated.

Table II.1
Income gains or losses from the terms of trade of selected developing and transition economies, by trade structure, 2002-2010

Percentage of GDP				
	2002-2007	2008	2009	2010
Exporters of manufactures	-0.9	-2.6	1.8	-1.0
Fuel exporters	4.6	7.7	-10.5	5.0
Exporters of minerals and other mining products	3.0	-4.4	-1.0	4.6
Exporters of agricultural products	0.2	1.6	-0.5	1.0

Source: UNCTAD secretariat calculations, based on UNCTADstat.

Exporters of minerals and other mining products, and above all fuel exporters, saw particularly large income effects because of changes in the terms of trade. This is the result not only of the large swings in their export prices but also of the high dependence of their economies on those products. More diversified economies, which generally also have a greater share of manufactured exports, typically suffer much less from terms-of-trade shocks.

The pattern of total trade shocks, which combines the fluctuations in the terms of trade and export demand, confirms the marked effect caused by price fluctuations alone (figure II.4).³ Countries dependent upon exports of primary commodities experienced far greater trade shocks (positive or negative) than those with more diversified export structures or reliance on manufactured exports. Shocks of any significance among the latter are typically driven by fluctuations in import costs of energy and other raw materials, but show little volatility in export earnings and demand. Agriculture exporters are typically in the mid-range of fluctuations in both prices and demand.

Trends in primary commodity markets

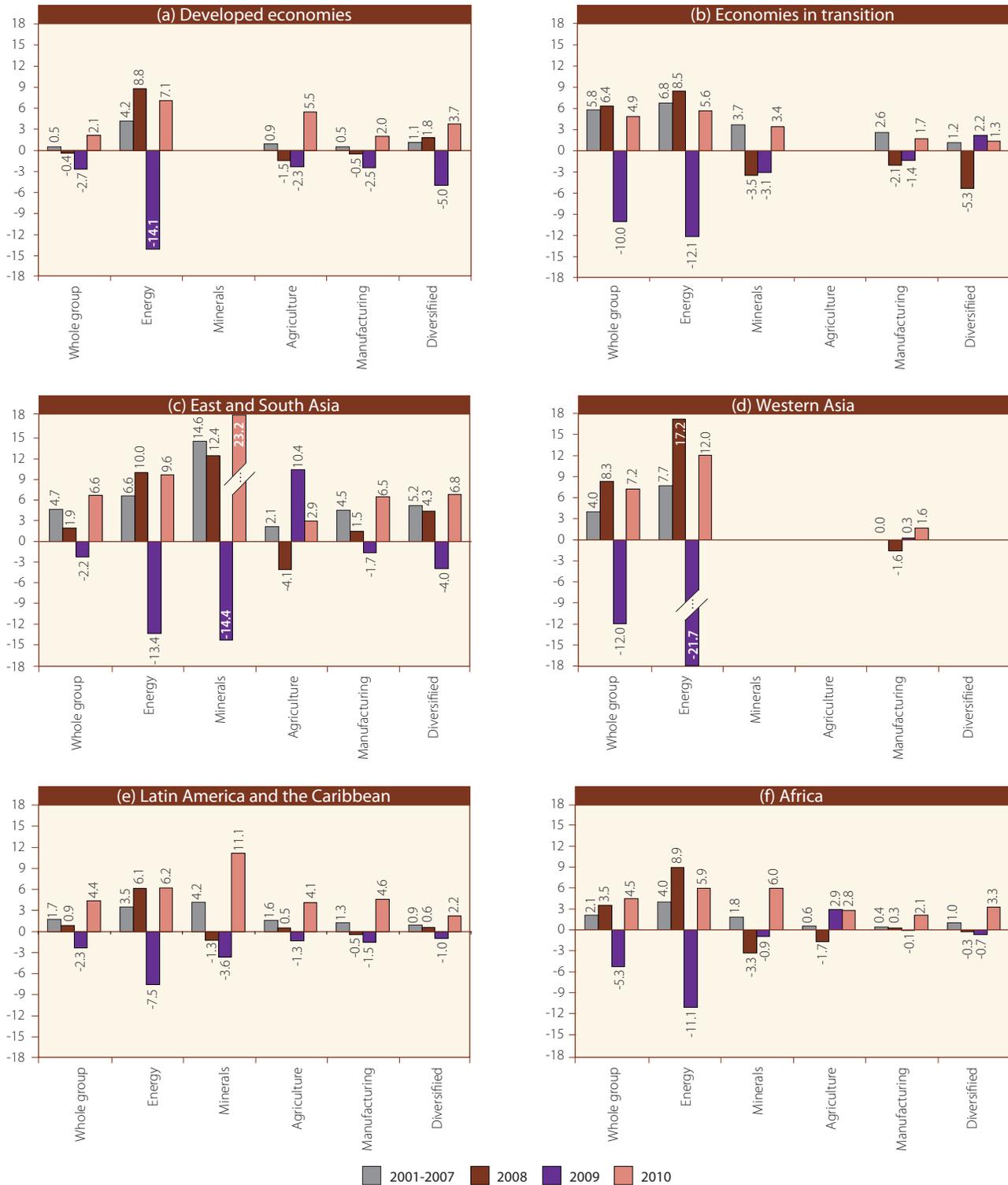
Markets for non-oil commodities

The non-oil commodity sector is still reeling from the sharp slide of primary commodity prices that started in the second half of 2008. Prices progressively recovered during 2009, but receded, in dollar terms, during the second quarter of 2010 owing to the financial turmoil in Europe. In the second half of 2010, prices surged again (figure II.5) as a result of rising demand for commodities in emerging Asian economies, replenishment of industrial inventories in advanced countries, the depreciation of the United States dollar amidst greater exchange-rate volatility and increasing interest from financial investors in commodity markets (see box II.1). The influences of the last two factors are particularly worrisome as they signal greater uncertainty about future price dynamics for non-oil commodities.

Significant volatility remains in primary commodity markets amidst large exchange-rate variations and greater financialization of trading

³ The analysis in the following paragraphs is based on the world economic vulnerability framework of UN/DESA. Demand shocks are defined by the change in the volume of merchandise exports. Terms of trade shocks refer to the income gains or losses emanating from the change in export prices relative to that of import prices, as defined in figures II.3a-b, in any given year. The total trade shock is the sum of these two types of shocks. For further details of the related methodology, see the technical note available from http://www.un.org/esa/policy/publications/wespwvwm/monitor_note.pdf.

Figure II.4
Trade shocks by export specialization, country groups, 2001-2010
(percentage of group GDP)



Source: UN/DESA, World Economic Vulnerability framework based on Comtrade and UNCTAD data, available from http://www.un.org/esa/policy/publications/wespwvfm/monitor_note.pdf.

Note: Economies are considered “diversified” in terms of export structure if there is no major commodity category that makes up more than 40 per cent of the total. For manufactures, this limit is set at 50 per cent because of the great range of products falling into that category. Any concentration above these limits defines the specialization by type of commodity.

Figure II.5
Non-oil commodity price index, all groups, in dollar and SDR terms,
January 2006–September 2010



Source: UNCTADstat.

Box II.1

The financialization of commodity trading

The traditional function of the commodity exchanges has been to facilitate price discovery and allow for the transfer of price risk from producers and consumers to other agents that are prepared to assume such risk. But these functions have become impaired by the growing “financialization of commodity trading”. This term refers to the increasing role of financial motives, financial markets and financial actors in the operation of commodity markets. It is visible, for example, in the increased correlation between commodity and equity prices, as well as between commodity prices and the exchange rates of currencies important in carry trade (in particular, the dollar, the yen and the euro).^a

Many financial investors enter commodity markets with the motive of diversifying their portfolios, their position-taking being typically unrelated to the fundamentals of supply and demand in commodity markets. They regard commodities merely as an alternative class of assets, next to equities, bonds and so forth. As a result, conditions in financial markets have been increasingly influencing commodity prices.

Financialization has had a number of adverse effects on commodity exchanges. First, it has led to greater volatility in commodity market prices. Second, it has caused shifts in price trends that are unrelated to the relative scarcity of primary commodities. Third, it has made hedging against commodity price risk more complex and expensive. For example, as the risk increases with greater price volatility, so do margin payments—the normally small payments made to clearing houses by suppliers and buyers of a commodity to cover the risk assumed by the clearing house. Fourth, increased margins owing to volatility and greater transaction costs owing to more complex trading have substantially reduced the affordability of price hedging for many developing country actors in the market.

Financial investors can choose from a range of instruments through which to invest in commodity markets. Index investment is one of the more popular ones. This type of investment tends to drive up commodity prices as it implies taking long positions; that is to say, positions that indicate an interest in buying commodities at a future date. At the same time, money managers (especially hedge fund managers) have become increasingly important players in commodity derivatives trading, particularly in the market for crude oil.^b In contrast to index investors, money managers tend to have a shorter investment horizon and may alternate between taking long or short positions. Much

^a For further discussion, see, UNCTAD, *Trade and Development Report 2009: Responding to the global crisis; Climate change mitigation and development* (United Nations publication, Sales No. E.09.II.D.16), chap. 2.

^b R.K. Kaufmann, “The role of market fundamentals and speculation in recent price changes for crude oil”, *Energy Journal*, forthcoming.

Box II.1 (cont'd)

of this short-term position-taking relies on automatic trading, which is determined by pre-defined algorithms based on standardized trading strategies. These strategies combined tend to multiply responses in one particular direction, allowing such automatic trading to easily ignite self-reinforcing speculative bubbles.

In theory, arbitrage should help eliminate price changes that are not justified by changes in fundamentals. In practice, however, the overoptimism and overconfidence of market players affect the decision-making processes, forming expectations that prices will tend to move upwards indefinitely (as is typical of speculative financial markets). Moreover, there are limits to arbitrage—for example, constraints on the risk-bearing capacity of rational arbitrageurs.^c As risks increase with the degree of perceived under- or overpricing of commodities, individual arbitrageurs may lack the funds to hedge against large risks and will be outcompeted by financial investors who typically have less funding constraints. Given their increasingly dominant role, financial investors are enacting a substantial and often lasting impact on commodity prices.

Holding physical positions in commodities would be an alternative strategy to bet against perceived mispricing of commodities. However, taking physical hold of commodities would add significant transportation and storage costs. In addition, information asymmetries regarding quality, for instance, may drive up costs further. These factors are likely to discourage financial arbitrageurs from taking “physical” market positions.

While its growing importance is clear, it is nonetheless difficult to quantify the precise impact of financialization on price trends. This is in part because it is not easy to disentangle the impact of financial market developments on supply and demand conditions (since they may affect overall economic growth and, hence, commodity demand) from the more direct impact of financial market conditions on commodity prices through speculative behaviour. It is also difficult because financial speculation is intrinsically unpredictable. One prominent recent empirical study that made a respectable attempt to disentangle the impacts of fundamental and financial factors has refuted the notion that the growing demand for commodities from emerging economies was the main driver of the commodity price hike in 2006–2008 and supported the hypothesis that financialization was at least equally as important.^d

Containing the influence of financialization on commodity price volatility is equally challenging. Some action is under way, however, including through stricter regulation. Debates on measures in other areas are ongoing.

It is widely recognized that much of the commodity trading activities of financial investors is not recorded. Scheduled changes in financial regulation in both the United States of America and the European Union should help to address this deficiency and improve transparency in commodity exchanges. The question remains whether over-the-counter (OTC) trading will also be subject to the regulated exchanges. Difficulties herein are exemplified by the divergence in the views of regulators and industry representatives regarding which market players can be identified as swap dealers in order to subject them to the new regulation. It is hoped that in the United States, regulation of commodity trading will become stricter through the application of upper limits on the positions that can be taken in energy and agricultural commodity trading across futures markets and equivalent OTC markets, as mandated by the Wall Street Reform and Consumer Protection Act.

Beyond tighter regulation, new commodity price stabilization schemes have been proposed. These include, for instance, the creation of a virtual reserve and intervention mechanism that would intercede in the futures markets if market prices differed significantly from the estimated dynamic price band based on market fundamentals. In addition, a multitier transaction tax system for commodity derivatives markets has been proposed. Under this scheme, transaction tax surcharges of increasing scale would be levied as soon as prices start to move beyond the price band defined either on the basis of commodity market fundamentals^e or on the basis of the observed degree of correlation between the price changes of equities, currencies and commodities. Both proposals deserve due consideration, even though putting them into practice appears to be difficult both for administrative reasons and because they face strong opposition from vested interests in the industry.

Mitigating the adverse effects of financialization in commodity trading would seem imperative, but more research is needed into the kinds of measures that would be the most effective to this end. The Government of France has placed both commodity price and exchange-rate stabilization priorities in the agenda for the Group of Twenty (G20) meeting to take place in 2011 under its presidency. Political recognition of the problem thus exists, but workable options are urgently needed.

^c See, for example, A. Shleifer and R.W. Vishny, “The limits of arbitrage”, *Journal of Finance*, vol. 52, No. 2, pp. 737–783; and Denis Gromb and Dimitri Vayanos, “The ‘limits of arbitrage’ agenda”, available from <http://www.voxeu.org/index.php?q=node/4841>.

^d Kei Tang and Wei Xiong, “Index investment and financialization of commodities”, NBER Working Paper, No. 16385 (Cambridge, Massachusetts: National Bureau of Economic Research, September 2010).

^e On both proposals, see Joachim von Braun and Maximo Torero, “Physical and virtual global food reserves to protect the poor and prevent market failure”, IFPRI Policy Brief, No. 4 (Washington, D. C.: International Food Policy Research Institute, June); and M. Nissanke, “Mitigating the commodity-dependence trap in LDCs through global facilities”, mimeo, School of Oriental and African Studies, University of London.

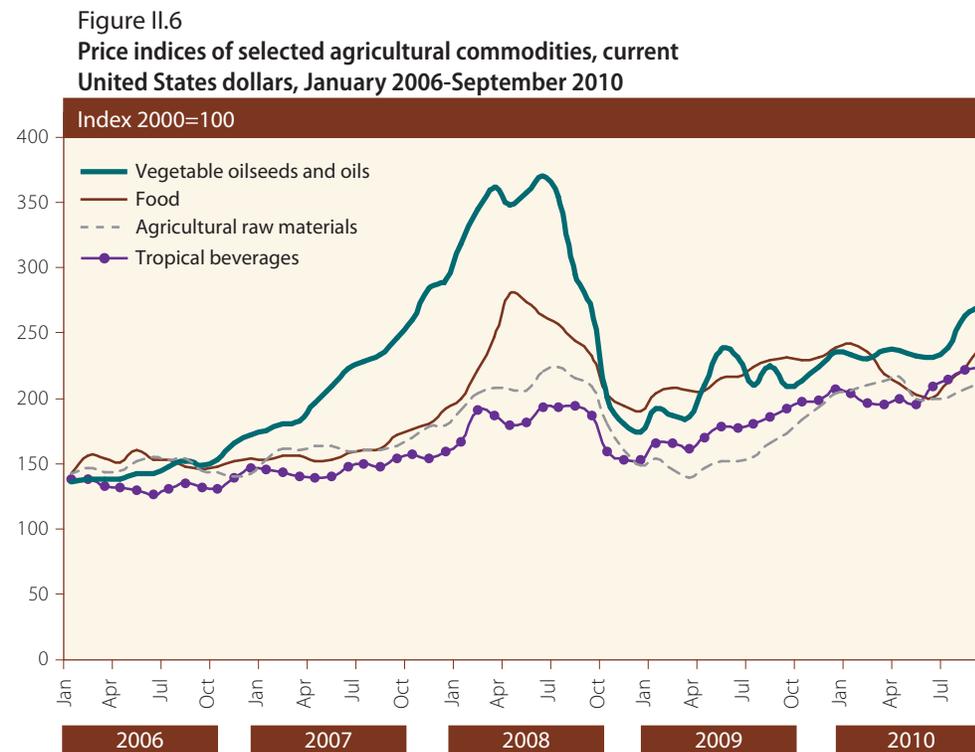
Agricultural commodities

During 2009 and up until the third quarter of 2010, the price of agricultural commodities fluctuated around an upward trend (figure II.6). The trend reflected rising global demand, while the volatility around the trend resulted from commodity-specific supply shortfalls caused by adverse climatic conditions, policy measures in some countries to restrict exports of commodities in short supply, and speculative behaviour.

Specifically, *wheat* prices reached a two-year high in September 2010, owing to adverse weather conditions in major producing and exporting countries (Argentina, Canada, France, Germany, Pakistan and countries in the Black Sea region). The emerging supply shortage was only partly offset by robust harvests in Brazil. Preliminary United Nations Conference on Trade and Development (UNCTAD) estimates, based on data from the International Grains Council, show that the stock-to-use ratio for total grains was about 20 per cent in 2009-2010, while for wheat it stood at 28 per cent in 2010, compared with 17 per cent and 20 per cent, respectively, during the food crisis of 2007 and 2008. Thus, grain prices, in general, and wheat prices, in particular, are not likely to increase sharply again in the near term.

Meanwhile, the prices of *rice*, *corn* and *sugar* followed a downward trend during the first half of 2010, although they are still higher than the average for the decade. More recently, however, price trends reversed slightly owing to a variety of factors, including adverse weather conditions in major Asian rice-producing countries, growing world demand for corn amidst concerns about the sufficiency of yields in corn fields in the United States of America, increased interest in biofuels as the rise in oil prices resumes, and higher world demand for refined sugar in a context of stocks' approaching critically low levels.

Adverse climatic conditions and export bans pushed up the prices of several agricultural commodities amidst increased speculative behaviour



Source: UNCTADstat.

Over the 15 months up to July 2010, the index for *oilseeds* and *vegetable oils* remained more or less flat, after spiking to record highs during the 2007-2008 food crisis. From mid-2010, prices started to rise again (figure II.6). Prices of soybeans, soybean oil and palm oil recovered following fears of tightening supplies owing to droughts in South America and delayed planting for the production of soybean oil in the United States. This upward trend in prices is expected to moderate as soybean production has resumed in Argentina, Brazil and the United States.

Developments in food prices will continue to be influenced by further diversion of land use for biofuel production

Developments in food prices will continue to be influenced by further diversion of land use for biofuel production, encouraged by government subsidies.⁴ Brazil, China, the European Union (EU), India and the United States have all set targets to increase the production and use of biofuels. Considering that biofuel production is competitive above the threshold price of fossil fuels (in Europe, for instance, this threshold stands at about \$70 per barrel (pb) of oil), future prices of food crops that could alternatively be useful for biofuel production would remain linked to the evolution of oil prices. In addition, increased demand for production inputs has led to increased world prices for other food crops.

Weather-induced factors affected supply and price trends of *tropical beverages* in 2010. Coffee prices steadily increased over the first nine months of 2010 as world coffee production decreased by about 6.6 per cent in 2009/2010 owing to the fall in output in several major producing countries (such as Brazil, Colombia and Viet Nam) as a result of bad weather conditions. If demand for coffee increases at existing trend rates, stocks of the commodity will continue to fall to critical levels, particularly for the highest grades of Arabica, thereby exerting additional upward pressure on prices.

Cocoa prices peaked at \$1.60 per pound in January 2010, mainly owing to supply deficits. Prices dipped to a three-month low of \$1.39 per pound in August 2010, however, but rallied again for three months following the speculative behaviour of a hedge fund which had bought a stake in cocoa beans equivalent to about 7 per cent of the global supply. Prices have since fallen and are likely to remain subdued in the coming year based on reports of improved cocoa harvests in Côte d'Ivoire and Ghana and despite concerns over the potential impact of black pod disease in West Africa.

The price index of *agricultural raw materials* rose steadily from 139 in March 2009 to 212 in September 2010 on the back of strong world demand. Commodity-specific factors affected rubber prices, which rose because of a forecast fall in world production following adverse weather in the main producing countries. Cotton prices reached historic peaks as a significant drop in world cotton production was recorded in 2009/2010, while demand for fibres from Asian emerging economies increased sharply. As stocks will remain low, prices are likely to remain high.

Looking ahead, price developments for agricultural commodities are uncertain as they are largely influenced by weather-induced supply shocks and the speed of stock depletion, which depends on the strength of demand in a context of uncertainty about the global recovery. For food items, additional sources of uncertainty lie in the possible implementation of national trade policies such as export bans, and the scope for greater demand for biofuels which, in turn, is influenced by uncertain trends in crude oil prices.

⁴ See "The future energy matrix and renewable energy: implications for energy and food security" (TD/B/C.1/MEM.2/8).

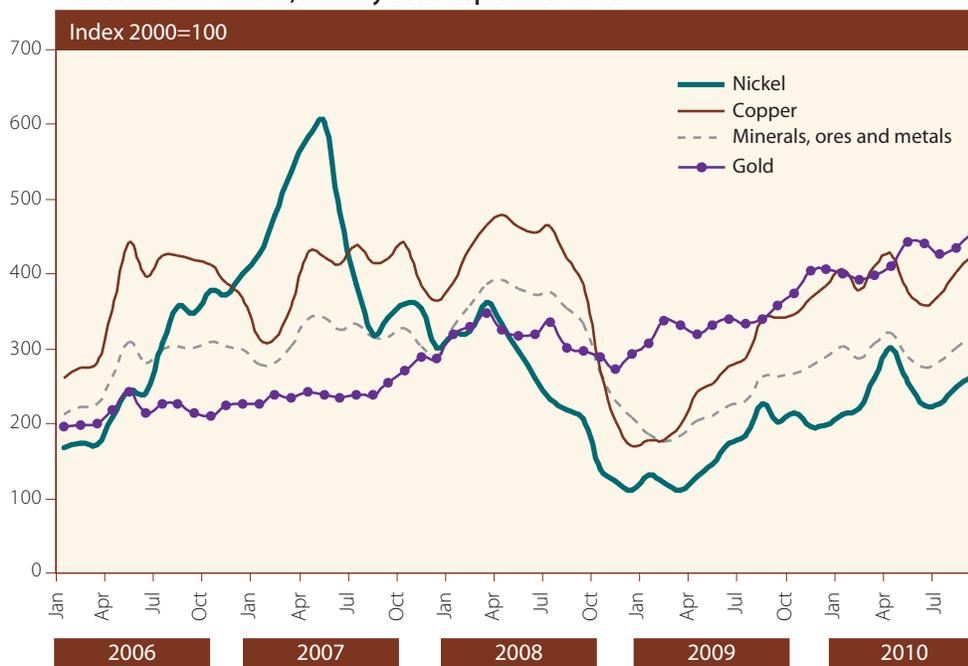
Minerals and metals

The price index of *minerals, ores and metals* increased sharply from early 2009 onwards (figure II.7) in response to the stronger-than-expected recovery in emerging economies, coupled with decreasing inventories. The largest price gains were posted for copper, lead and zinc. Further increases in metal prices would depend on the growth prospects of large, metal-intense economies, such as China, Brazil, India and the Russian Federation. If current demand trends prevail, prices are expected to remain high over the short-to-medium term.

Copper prices reached historic highs in the months prior to the global financial crisis, fell by about two thirds in the following few months, but have started to rise again since early 2009 owing to a combination of stronger-than-expected industrial production worldwide and strikes in key copper mines in Chile. By end-2010, it is estimated that the world copper price will have returned to its pre-crisis peak.⁵ Zinc prices were on a decline in the years before the global financial crisis, but reversed trend from early 2009 and had effectively doubled by the end of 2010, pushed by global demand. Tin prices reached historic highs in the early months of 2008 but had fallen by half by early 2009; they have since recovered to nearly pre-crisis levels, however. The rebound was underpinned by a combination of a drop in production in Indonesia and increased demand from China's electronic sector. The price of gold continued to soar, surging to an average price of \$1,180 per troy ounce during the first nine months of 2010, at times reaching levels above \$1,400. An estimated 8.5 per cent fall in world supply during 2010, plus sustained increases in demand by the jewellery (15.5 per cent) and the electronic (21 per cent) sectors, combined with its character as a safe portfolio investment in times of uncertainty, contributed to

The rebound of industrial activity in emerging economies boosted prices of minerals and metals

Figure II.7
Price indices of selected minerals, in current
United States dollars, January 2006-September 2010



Source: UNCTADstat.

⁵ United Nations Conference on Trade and Development (UNCTAD) and International Copper Study Group (ICSG) statistics, October 2010.

the surge in gold prices. Because of the uncertainty inherent in each of these factors, the outlook for gold remains uncertain in the medium run. In the short run, however, the price is likely to remain high.

The partial recovery of the world economy, boosted by the robust, albeit moderating, growth of the major emerging economies, is likely to support a slight upward trend in the prices of basic and precious metals and minerals. This may continue in the medium term, with further price increases being fed by expected declines in productivity of existing mines and concerns over the environmental impact of metal smelting that may weaken the capacity of supply to respond to increases and shifts in demand. While sluggish supply conditions could attract investments in new mines, the impact on supply would be felt only in the medium-to-long run, considering the lengthy gestation periods of typically more than 10 years for investments to mature in base and precious metal mines.

The oil market

Oil demand picked up owing to acceleration in the growth of major non-OECD economies

Oil demand mirrored trends in global economic growth. During the crisis, demand fell from 86.0 million barrels per day (mbd) in 2008 to 84.7 mbd in 2009.⁶ With the global economic recovery, oil demand is estimated to have picked up again, to reach 86.6 mbd in 2010.

These headline figures for oil demand mask marked differences in the driving forces behind global oil demand. Demand in Organization for Economic Cooperation and Development (OECD) countries, which makes up 54 per cent of global demand, fell by 4.6 per cent in 2009, but increased only modestly, by 0.4 per cent, in 2010. The non-OECD economies, in contrast, registered an increase in oil demand of 2.3 per cent in 2009, which strengthened to 4.3 per cent in 2010.

OPEC and non-OPEC countries increased their production

On the supply side, the Organization of the Petroleum Exporting Countries (OPEC) announced significant cuts in its production quotas in 2008 in response to the emerging global crisis. Initially, the compliance rate with the new quota was high and the total supply of oil by OPEC member States fell from 31.2 mbd in 2008 to 28.7 mbd in 2009. Increasing crude prices and greater needs for revenues eventually eroded compliance with the reduced production quota. As a result, OPEC output increased somewhat to 29.0 mbd in the second quarter of 2010. Nevertheless, spare capacity in OPEC remained at a relatively high level of almost 17.3 per cent of potential.

Oil supply by non-OPEC countries remained flat, at 50.9 mbd, during the trough of the economic crisis in 2008 and 2009. By the second quarter of 2010, non-OPEC output had increased to 52.6 mbd. The increase came mainly from fuel-exporting developing countries. Oil production in OECD countries remained virtually unchanged, with that in North America increasing modestly to offset a continued decline in European output.

As further evidence of a well-provisioned market, total stocks of oil in OECD countries remained at relatively high levels, falling only modestly from 96 days of forward demand coverage in the second quarter of 2009 to 95 days in the second quarter of 2010.⁷

Oil prices rebounded from their 2009 levels as expectations regarding an accelerating global economic recovery carried over into 2010, though only briefly. Supported by exceptionally cold weather in the northern hemisphere, oil prices reached a 15-month high of \$80.67 pb in January 2010, a jump of 15.0 per cent from the low in December of the previous year. However, prices subsequently reversed course and fell by almost 14.0 per

⁶ Data for demand and supply are provided by the International Energy Agency.

⁷ These figures refer to inventories of both industries and governments.

cent, to \$69.50 pb, in early February in view of concerns about possible slower economic growth as a consequence of the potential fallout from fiscal instability in the euro area as well as fears of a premature withdrawal of fiscal stimulus policies.

From February onwards, however, oil prices were back on an upward trend, peaking at \$88.09 pb in early May. A number of factors underpinned this turnaround. Global equity markets boomed based on perceived expectations of a continued global economic recovery and the strong rebound in emerging market economies, which created a generally more positive outlook for oil demand. This, in turn, also helped support a tighter market for gasoline in anticipation of stronger demand in the summer months. In a second-round effect, the resulting higher crack spreads fed back into rising crude demand and crude prices. In the geopolitical sphere, increasing political tensions in some major suppliers, such as the Islamic Republic of Iran and Iraq, intensified fears of possible supply disruptions.

But oil prices subsequently declined by more than 23.0 per cent in less than a month, to \$67.61 pb at the end of May, resulting from continued instability in financial markets triggered by the Greek debt crisis. The downward spiral came to a halt as EU Governments showed support for the public debt of member States. Subsequently, prices crept higher with the continued recovery of equity markets, the threat of supply disruptions from the hurricane season and a weakening dollar. However, after reaching a high of \$85.28 pb in early August, prices again receded in tandem with equity markets following weak job numbers in the United States and general doubts about the strength of the global economic recovery.

In the outlook, global oil demand is assumed to increase by 1.5 per cent in 2011, to 87.8 mbd, stoked by a jump in demand from non-OECD countries by 3.7 per cent. Demand from China and India will continue to provide the bulk of the expansion in the market and is projected to increase by 4.3 per cent and 3.1 per cent, respectively. In these economies, efforts to increase energy efficiency are outweighed by the effects of continued subsidies of fuel prices as well as the impact of strong economic growth. In contrast, OECD demand will register a modest decline of 0.2 mbd owing to economic weakness and further efficiency gains, as well as the ongoing substitution of conventional fuel with ethanol and biofuels. On the financial side of the oil market, the continued environment of low interest rates creates both the liquidity and the motivation for seeking higher yields that will preserve interest in crude oil as an investment asset (see box II.1 above).

On the supply side, non-OPEC countries are expected to post an increase in output of 0.6 per cent in 2011, to 52.9 mbd, driven by non-OECD producers such as Azerbaijan, Brazil, Colombia and Ghana. However, OECD producers, which provide about 35.0 per cent of non-OPEC output, will see their production fall by 1.6 per cent in 2011, to 18.4 mbd. The bulk of this decline will be the result of maturing oil fields in Europe. In the United States, the explosion of the Deepwater Horizon drilling rig in April 2010 has had only a limited effect on total national output. The main output risks pertain to future projects that depend on the evolving regulatory environment.

For 2011, oil prices are assumed to average \$75 pb in a market characterized by ample spare capacity among OPEC producers, eroding quota compliance by OPEC members as well as relatively high levels of inventories. While continued solid demand expansion in markets such as China and India will provide support to crude prices, the fading of stimulus measures in developed markets and limited potential for any additional such initiatives in light of growing fiscal constraints will constitute a significant offsetting demand factor. In parallel, financial investors are expected to tread rather cautiously.

Unless the dollar depreciates markedly, no further significant increase of oil prices is expected in the outlook

Consequently, upward pressure on crude prices resulting from these forces will likely be limited as well.

This outlook is subject to significant uncertainty, however. Weaker-than-expected economic activity would also create significant downward pressure on oil prices. Possible sources for such economic weakening include a premature tightening of monetary policy and a more pronounced slowdown of the Chinese economy. Conversely, a number of geopolitical factors could lead to an unexpected jump in oil prices. In particular, a further rise in international tensions regarding the Islamic Republic of Iran's nuclear programme could also affect expected or actual oil supply. In addition, more pronounced swings in the value of the dollar would have a significant impact on oil price volatility.

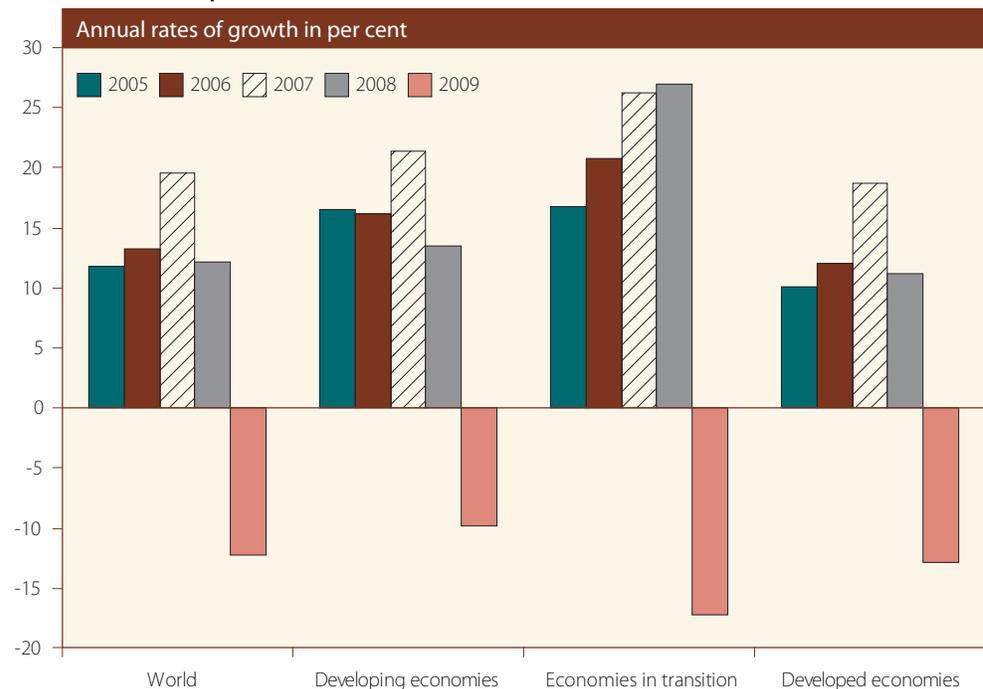
Trade in services

Trade in services was more resilient than trade in goods, although some sub-categories within this group were badly hit in 2009

World trade in services has been severely hit by the financial and economic crisis. It is presumed to have recovered during 2010, but insufficient data were available at the end of the year to confirm this. UNCTAD data indicate that the value of international trade in services fell by 12 per cent in 2009, a significant drop, but less than the 23 per cent decline in merchandise trade during the same year. The weaker downturn in services trade during the global crisis could reflect a lesser dependence on intermediate inputs as much as a lesser reliance on trade finance of certain services sectors like communications.

During 2009, international trade in services decreased by 13 per cent in developed countries, by 10 per cent in developing countries and by 17 per cent in the economies in transition (figure II.8). The worst performance of the economies in transition reflects a greater contraction in all services sectors, but especially those related to construction, travel and transportation.

Figure II.8
Growth of exports of trade in services in current United States dollars, 2005-2009



Source: UNCTAD Secretariat calculations, based on UNCTADstat.

Disaggregated data for 198 countries reveal that all types of services trade, with the exception of two, faced negative growth in 2009 (table II.2). Trade in computer and information services increased by 3 per cent and services earning royalties and licence fees expanded by 19 per cent. The largest drop was in the construction services sector, which shrank by 20 per cent, followed by financial services, which contracted by 16 per cent. Travel and transportation services, which account for about half of world trade in services, also suffered heavily from the global crisis and declined by 16 per cent and 9 per cent, respectively.

A large share of trade in manufactured goods is shipped around the world through container ships. The annual UNCTAD Liner Shipping Connectivity Index (LSCI)⁸ indicates that the average maximum vessel size per country has seen a continuous increase since July 2010 (figure II.9), and was 7 per cent higher than the year before and more than 20 per cent higher than it had been in July 2008. While ship sizes have increased, the number of companies providing services has decreased. The average number of shipping companies per country dropped by one fifth, from 21.8 in 2004 to 17.6 in 2010. The increased concentration in the shipping industry is also visible in the fact that, in 2010, 41 countries were receiving ships from only four companies or fewer, an increase of 25 per cent over 2004. Mergers and acquisitions have led to less competition in the market and are of particular concern to countries with lower trade volumes, which have seen visible increases in unit costs. In contrast, the number of ships, and especially their total twenty-foot equivalent unit (TEU) carrying capacity, rebounded in 2010, as China—the country with the highest LSCI—expanded notably. In July 2010, the number of ships that included a Chinese port in their liner shipping route was 13 per cent higher year on year, while their TEUs registered an increase of 17 per cent.

Of the top 10 developing country providers of international services, the Republic of Korea felt the greatest impact from the crisis (table II.3). The poor performance

Increased concentration in the shipping industry remains of particular concern for developing countries with lower trade volumes

Table II.2
Growth of trade in services by category, 2006-2009

Category	2006	2007	2008	2009
Communication services	13	10	13	-4
Computer and information services	36	29	18	3
Construction services	11	13	24	-20
Financial services	8	27	25	-16
Government services	4	6	7	-8
Insurance	2	36	5	-2
Other business services	15	24	12	-9
Personal cultural and recreational services	24	24	6	-11
Royalties and licence fees	7	6	9	19
Transport	11	12	15	-16
Travel	12	18	14	-9
Other services	12	17	13	-6

Source: UNCTAD secretariat calculations, based on UNCTADstat.

⁸ The index is published in UNCTAD, *Review of Maritime Transport 2009* (United Nations publication, Sales No. E.09.II.D.11), p. 121, available from http://www.unctad.org/en/docs/rmt2009_en.pdf. Data are available from <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=92> (accessed on 29 November 2010).

Figure II.9
Components of liner shipping connectivity, country averages, July 2004-July 2010

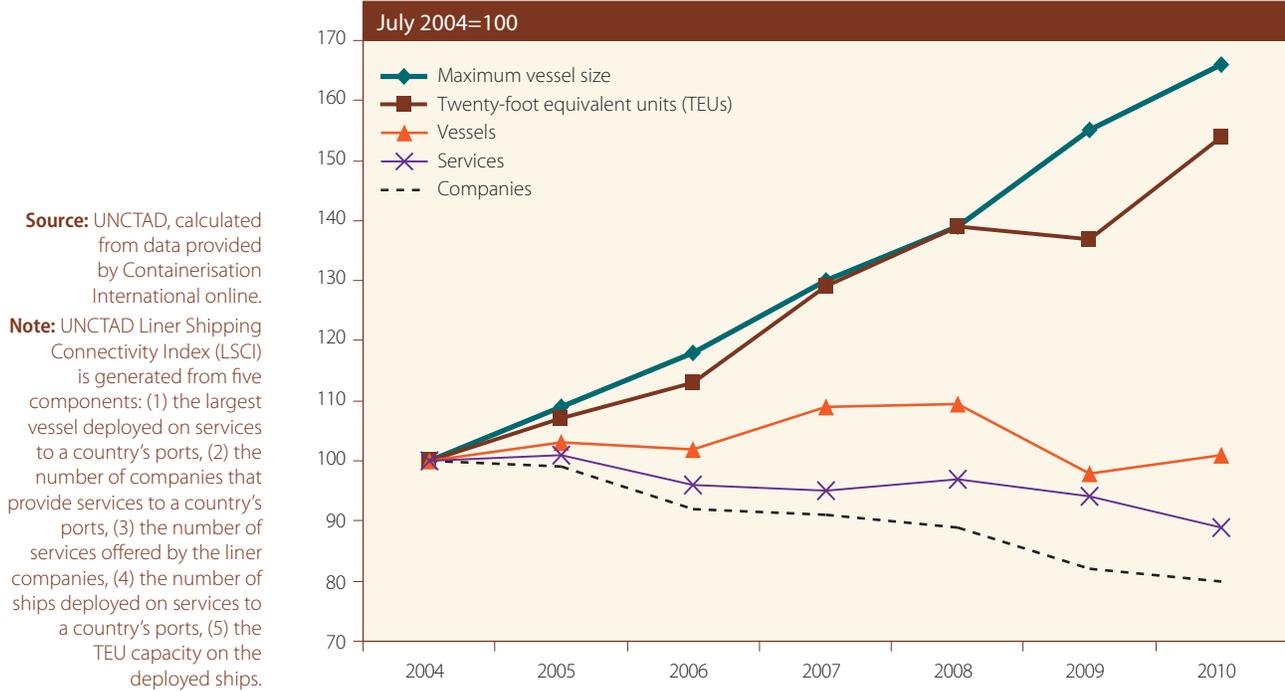


Table II.3

Major providers of international services among developing countries, 1990, 2000, 2007, 2008 and 2009

	1990			2000			2007			2008			2009		
	Val	ST	SWT	Val	ST	SWT	Val	ST	SWT	Val	ST	SWT	Val	ST	SWT
Developing economies	150.0	100.0	18.0	348.0	100.0	23.0	881.6	100.0	25.0	1000.3	100.0	26.0	902.5	100.0	26.0
China	5.9	3.90	0.71	30.4	8.74	1.99	122.2	13.86	3.53	147.1	14.71	3.78	129.5	14.35	3.79
Hong Kong SAR ^a	17.9	11.93	2.16	40.4	11.62	2.65	84.7	9.61	2.44	92.1	9.21	2.37	86.3	9.56	2.53
India	4.6	3.08	0.56	16.7	4.79	1.09	87.0	9.86	2.51	102.9	10.29	2.65	91.1	10.09	2.67
Singapore	12.8	8.54	1.55	28.2	8.09	1.84	80.7	9.15	2.33	83.2	8.32	2.14	73.9	8.18	2.16
Republic of Korea	9.6	6.43	1.17	30.5	8.77	2.00	63.3	7.19	1.83	77.2	7.72	1.98	58.5	6.48	1.71
Taiwan Province of China	7.0	4.67	0.85	20.0	5.75	1.31	31.3	3.55	0.90	33.9	3.39	0.87	31.0	3.43	0.91
Thailand	6.4	4.28	0.78	13.9	3.98	0.91	30.4	3.44	0.88	33.4	3.34	0.86	30.2	3.35	0.88
Malaysia	3.9	2.57	0.47	13.9	4.01	0.91	29.5	3.34	0.85	30.3	3.03	0.78	28.7	3.18	0.84
Turkey	8.0	5.35	0.97	19.5	5.61	1.28	29.0	3.29	0.84	35.0	3.50	0.90	33.2	3.68	0.97
Brazil	3.8	2.51	0.46	9.5	2.73	0.62	24.0	2.72	0.69	30.5	3.04	0.78	27.7	3.07	0.81
Egypt	6.0	3.98	0.72	9.8	2.82	0.64	19.9	2.26	0.58	24.9	2.49	0.64	21.5	2.38	0.63
Mexico	8.1	5.40	0.98	13.8	3.95	0.90	17.6	2.00	0.51	18.5	1.85	0.48	15.4	1.71	0.45
Saudi Arabia	3.0	2.02	0.37	4.8	1.37	0.31	16.0	1.81	0.46	9.4	0.94	0.24	9.7	1.07	0.28
Macao SAR ^a	1.5	0.98	0.18	3.6	1.03	0.23	13.9	1.57	0.40	17.5	1.75	0.45	17.1	1.90	0.50
South Africa	3.4	2.27	0.41	5.0	1.45	0.33	13.8	1.57	0.40	12.8	1.28	0.33	12.0	1.33	0.35
Lebanon	0.1	0.1	1.41	1.2	0.3	7.71	12.8	1.4	36.80	17.6	1.8	45.19	16.9	1.9	49.45

Source: UNCTAD secretariat calculations, based on UNCTADstat.

Abbreviations: Val, value (billions of US dollars); ST, share in trade by developing countries (percentage); SWT, share in world trade (percentage).

^a Special Administrative Region of China.

was reflected in declines in trade of all major services. The Republic of Korea's exports of construction, financial and transport services dropped by 43 per cent, 37 per cent and 35 per cent, respectively. Services exports from least developed countries (LDCs), in contrast, were affected only marginally by the global crisis, decreasing by no more than 2.9 per cent in 2009 (table II.4). Services provided by the poorest countries are only weakly integrated into the global economy, however, and the growth of their services trade has been well below the average for developing countries as a whole.

Tourism (which is part of trade in travel and transportation services) provides an important source of income to many developing countries. International tourism declined during 2009 but picked up again during 2010, in some cases returning to levels reached in 2008 (see box II.2).

Tourism, an important source of income to many developing countries, returned to 2008 levels

Table II.4
Growth rate of export services of LDCs and comparison with developing countries, 2005-2009

Percentage					
Country	2005	2006	2007	2008	2009
Least developed countries	11.1	14.2	21.5	23.0	-2.9
African LDCs and Haiti	13.2	12.4	22.3	23.6	-1.6
Asian LDCs	14.0	13.6	20.5	24.7	-5.6
Island LDCs	-16.6	37.1	18.8	10.4	-2.8
Heavily indebted poor countries (HIPCs)	14.5	12.4	23.1	18.2	-1.4
Developing economies	16.6	16.1	21.4	13.5	-9.8
Share of exports of LDCs in relation to developing countries as a whole	2.8	2.1	1.9	2.1	2.2

Source: UNCTAD secretariat calculations, based on UNCTADstat.

Box II.2

International tourism

International tourism started to pick up again at the end of 2009, having declined starkly from the second half of 2008. The global economic recession, aggravated by the uncertainty created by the AH1N1 influenza pandemic, turned 2009 into an exceptionally difficult year for a sector accustomed to continuous growth over recent decades. International tourist arrivals for business, leisure and other purposes worldwide totalled 880 million in 2009, down from 919 million in 2008. This corresponds to a decline of 4.2 per cent, compared with a growth of 2.0 per cent in 2008 and about 6.0 per cent per year during 2004-2007. With the exception of Africa, which bucked the global trend with a 3 per cent growth, all regions of the world closed 2009 in negative territory, Europe (-6.0 per cent), the Middle East (-5.0 per cent) and the Americas (-5.0 per cent) being hit hardest.

Visitor expenditures are an important source of revenue and employment for many destination countries. Worldwide international tourism receipts reached \$852 billion in 2009, down from \$941 billion in the previous year. The revenue decline corresponded closely with the drop in arrivals in 2009, suggesting that the slowdown in tourism proceeds has more to do with tourists taking less trips on holiday than with their spending less per trip they make.

International tourism receipts are recorded as services exports (travel credit) in balance-of-payments statistics. Receipts from international passenger transport contracted from companies outside the travellers' countries of residence are not included, but reported under a separate category (passenger transport credit). After adding international passenger transport, total tourism receipts worldwide exceeded \$1 trillion in 2009, thus contributing close to \$3 billion a day to worldwide export earnings.

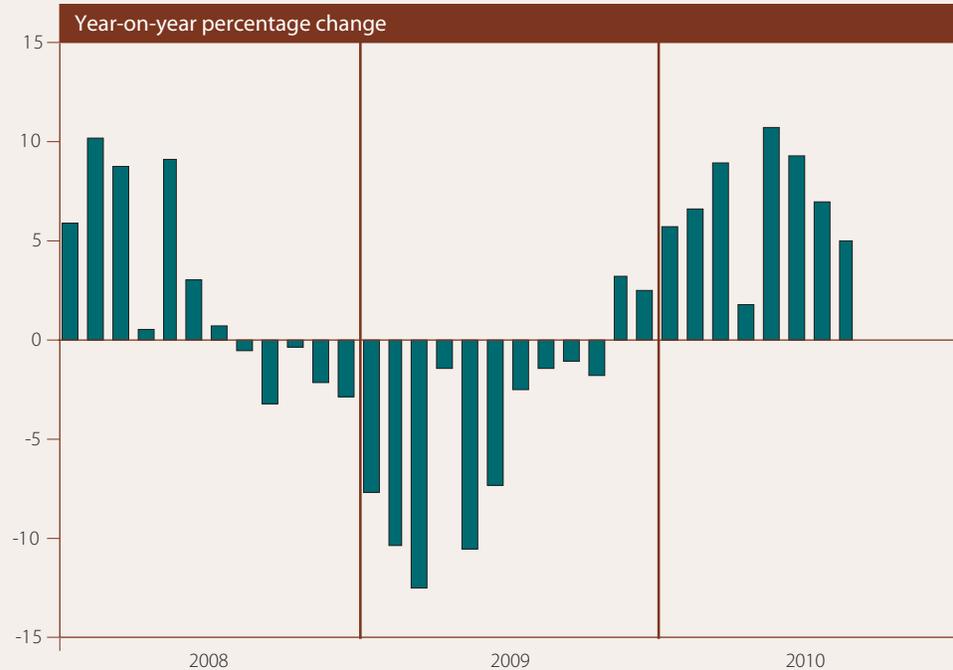
As an internationally traded service, tourism exports account for as much as 30.0 per cent of the world's exports of commercial services and 6.0 per cent of the overall exports of goods and services. Globally, as an export category, tourism ranks fourth after fuels, chemicals and automotive products, while for many developing countries it is the number one export category. Although 2009 results were below standard, this performance can also be read as a sign of comparative resilience,

Box II.2 (cont'd)

given the extremely difficult economic environment in which it was achieved. This becomes even more evident when compared with the estimated 11.0 per cent slump in overall exports resulting from the global crisis.

The rebound in international tourism, which started at the end of 2009, continued in 2010. Based on preliminary data available at end-October 2010 for almost 150 destination countries, international tourist arrivals are estimated to have grown by 7.0 per cent in the first eight months of 2010 (see figure). Growth was positive in all regions of the world, led by a robust performance in emerging economies (8.0 per cent compared to 6.0 per cent for advanced economies).

World international tourist arrivals, monthly evolution, 2008-2010



Source: World Tourism Organization (UNWTO).

Asia and the Pacific showed resilience and a quick recovery. Tourism in the region suffered early on in the global economic crisis but it was also first to rebound, posting an impressive 14.0 per cent growth in international arrivals through August 2010. Growth was also strong in the Middle East (17.0 per cent), but this reflected a rebound from a deep downturn in the first part of 2009. Africa (10.0 per cent) maintained momentum, further helped by the worldwide exposure created by the FIFA World Cup hosted by South Africa. The Americas (8.0 per cent) just exceeded average worldwide growth, while Europe posted the weakest recovery (3.0 per cent). By August 2010, total international tourist arrivals were back to the record level registered in August 2008. Many destinations have already received more tourists than during their pre-crisis peaks, but Europe and parts of the Americas are still lagging in the recovery.

For the remainder of 2010, international tourism growth is expected to have slowed down, with a projected increase in the range of 5.0-6.0 per cent for the year as a whole. The preliminary assessment for 2011 points to a growth close to the long-term average of 4.0 per cent, based on the current trend and the continued rising level of confidence as expressed by the World Tourism Organization (UNWTO) Panel of Experts.

The precise impact of international tourism on employment is difficult to track because, in most contexts, providers service both residents and international visitors at the same time. Taking national and international tourism together, the related services are estimated to generate about 6.0-7.0 per cent of jobs worldwide.

Developments in trade policy

The Doha Round

The global financial and economic crisis has brought to the forefront new realities in the international trading environment, including risks of resurgent protectionism, and has distracted the attention of policymakers from the Doha Round of multilateral trade negotiations, which was launched almost a decade ago, in November 2001, by the World Trade Organization (WTO). In 2010, there were several attempts, including by two summit meetings of the Group of Twenty (G20), to push for the Round's successful and prompt conclusion. In practice, however, little progress has been made on key issues of the negotiations, including in the areas of agriculture, non-agricultural market access (NAMA), services and special and differential treatment for developing countries. The precarious state of the Doha Round and the uncertainty in its development outcome constitute a major challenge for the credibility of the multilateral trading system.

Many observers coincide—even more so after the November 2010 summit of the G20 in Seoul—that there exists only a very narrow window of opportunity to conclude these negotiations in 2011.

It has been widely acknowledged that a balanced and ambitious outcome of the Doha negotiations would send a powerful signal that Governments acting jointly are capable of providing adequate multilateral trade policy responses by adopting new rules which would correct the existing asymmetries and become more development-oriented, including through the provision of more policy space to developing countries. Such an outcome is necessary not only for the stability of international trade, but also for reforming the global monetary and financial system, which requires new multilaterally agreed arrangements.⁹ The absence of visible progress in building a cohesive regulatory system for international finance, along with the limited ability of current practices to ensure a contribution of international finance to growth and stability in the real economy, poses the risk that emerging and developing countries might feel compelled to erect higher protection barriers against unfettered global finance.¹⁰ The communiqué of the G20 Seoul Summit recognized this risk and suggested alternatively that, “policy responses in emerging market economies with adequate reserves and increasingly overvalued flexible exchange rates may also include carefully designed macro-prudential measures”.¹¹

One expectation was that the poorest developing countries would obtain early benefits from the Round, in particular by introducing a largely duty-free and quota-free (DFQF) treatment for LDC exports and by adopting measures to facilitate their trade through both negotiating new rules for trade facilitation and providing targeted aid-for-trade programmes. Indeed, there has been some progress, as several developed and developing countries have increased DFQF to LDCs. But the increases still fall well short of the targets set. An “early harvest” for LDCs is needed to allow them more time to adapt to the inevitable preference erosion process following the Doha Round's final completion. For the time being, according to UNCTAD estimates of relative market access conditions, a number of LDCs have faced an increase in their average effective preference margins

The Doha Round has delivered little progress on key development areas

New rules for trade facilitation for the least developed countries still fall well short of established targets

⁹ See UNCTAD, *Trade and Development Report 2010: Employment, globalization and development* (United Nations publication, Sales No. E.10.II.D.3), p. 24.

¹⁰ *Ibid.*, p. 25.

¹¹ The Seoul Summit Document, para. 6, available from <http://www.g20.utoronto.ca/2010/g20seoul-doc.pdf>.

over recent years.¹² However, a growing concern is that DFQF treatment is becoming less relevant, since main competitors have embarked upon free trade agreements (FTAs) with major importing countries, thus reducing the effective preference margin of LDCs when measured, on a trade-weighted basis, against competitors' trade within FTAs.¹³ Finally, reliance on preferences should not be considered as a viable long-term strategy for these countries, nor for small and vulnerable developing countries.

Resumption of the trend towards more preferential trade agreements

Regional trade agreements continue to emerge as the multilateral negotiations remain stalled

In the absence of results from the Doha Round, the trading system has moved in the direction of multiplying regional, plurilateral and bilateral preferential trade agreements¹⁴ which are crowding the trade policy landscape and making it difficult, in practice, for countries to navigate through it. According to the WTO, almost 300 preferential trade agreements are currently in force worldwide, half of which have come into effect since 2000. The global financial crisis had somehow halted the negotiation of new agreements but, with the recovery, the process appears to have regained momentum and several new initiatives were launched in 2010, such as the Trans-Pacific Partnership Agreement.

Despite proclaimed benefits for the participants, preferential trade agreements through bilateral or regional FTAs tend to discriminate against other trading partners by eroding the most favoured nation (MFN) principle, the cornerstone of the multilateral trading system. Today, more than half of world trade is subject to multiple preferential arrangements. Furthermore, there are worrying signs that the private sector, both in developed and developing countries, may consider preferential agreements more desirable than the multilateral trade liberalization and rule setting, which is deemed lengthy, unpredictable and overly politicized. For instance, tariff reductions under preferential agreements are considered "real" in the sense that they cut applied tariff rates, while they can also provide some "WTO-plus" rules to areas of business concerns such as investment protection, environmental regulations, labour standards and government procurement. Ideally, the WTO multilateral rules should have provided an overarching regulatory framework for all types of trade agreements, within which preferential agreements could have specific rules according to the needs of their own members and economic operators.¹⁵ Since this is not the case, there is a serious risk that the multilateral trading system could gradually lose its relevance.

A common problem facing LDCs, and to a lesser degree other developing countries, relates to their limited capacity to contribute actively to the trade policy debate

¹² M. Fugazza and A. Nicita, "Policy issues in international trade and commodities", Study Series No. 51 (UNCTAD/ITCD/TAB/51), forthcoming.

¹³ See C. Carrere and J. de Melo, "The Doha Round and market access for LDCs: scenarios for the EU and US markets", *Journal of World Trade*, vol. 44, No. 1, pp. 251-290.

¹⁴ All of these preferential agreements are termed "regional trade agreements" (RTAs) by the WTO.

¹⁵ In the Doha Round, the situation with the WTO rules on FTAs has recently been described as follows: "The situation at present is that while we have a growing spaghetti bowl of regional trade agreements, some more comprehensive than others, and a well functioning Mechanism to promote transparency and our understanding of these RTAs, we are not making much progress in the substantive part of our work to define WTO rules on RTAs. The problem, it would seem is that we are trying to negotiate rules on RTAs, without a complete understanding of the market access pursued by RTAs and implications of RTAs on the parties' and multilateral trade." (from "The situation of the RTA negotiations", communication from Ambassador Valles Galmés, Chair of the WTO Negotiating Group on Rules (TN/RL/25), 6 May 2010).

and, furthermore, to take proper advantage of negotiating trade agreements, owing to the lack of institutional capacity and the lack of relevant trade data, in general, and data on trade in services, in particular.¹⁶

Developing countries may see preferential agreements with developed countries as a way to attract foreign direct investment (FDI) and improve their access to export markets. However, obvious downsides to such a strategy are the substantially increased pressure on developing countries to open markets beyond what is agreed to at the WTO and the imposition on them of a WTO-plus regulatory framework by their developed partners. For example, a typical North-South preferential trade agreement today would involve a full and reciprocal tariff liberalization of trade in industrial products (that is to say, zero tariffs), a more comprehensive liberalization of key services sectors (including financial services) and the inclusion of specific rules in areas which are either not covered by the WTO agreements (for example, investment, environment and labour standards) or which go beyond what has been agreed multilaterally (for example, protection of intellectual property and government procurement). In this context, UNCTAD suggested that “when assessing the potential economic and social benefits and costs of entering into such agreements, they should take into account not only the potential impact on exports and imports arising from market opening, and possible increases in FDI, but also the impact of these agreements on their ability to use alternative policy options and instruments in the pursuit of a longer term developing strategy”.¹⁷

The continuation of low-intensity protectionism

At the G20 summits in Toronto (June 2010) and Seoul (November 2010), leaders reaffirmed their pledge to renew their commitment to refrain, at least until the end of 2013, from increasing or imposing new barriers to investment or trade in goods and services, from imposing new export restrictions or from implementing WTO-inconsistent measures to stimulate exports, and committed themselves to rectifying any such measures should they arise. In the early stages of the crisis, such commitments helped to avoid slippage into extended protectionist measures. However, in the present situation of fragile and uneven recovery, the risk of rising protectionism should not be underestimated. Indeed, persistent high levels of unemployment, shrinking fiscal space in developed countries, competitive devaluations of exchange rates to support exports, and the eventual probability of resurging global imbalances in the absence of serious adjustment efforts are all policy factors that can fuel protectionist pressures.

One hedge against protectionism lies in the unbroken resilience of existing multilateral trade rules. The other defence probably lies in global supply chains and

In the present situation of a fragile and uneven recovery, the risk of rising protectionism should not be underestimated

¹⁶ A survey is currently being conducted by the secretariat of the United Nations Committee for Development Policy in the context of a project aimed at improving the capacity of LDCs to gain access to and benefit from the special support measures adopted by the international development community (<http://www.un.org/esa/policy/devplan/ldcproject.html>). Preliminary observations reveal that poor data availability remains a major shortcoming in many LDCs, particularly in relation to the implementation of WTO processes (Survey question No. 15). More generally, lacking the capacity to actively participate in the negotiating processes and, moreover, lacking data to ensure effective results deriving from the reform, many developing countries risk giving concessions without getting anything in return or without properly understanding their development implications, as also noted by C. Raghavan, *Developing Countries and Services Trade: Chasing a Black Cat in a Dark Room, Blindfolded* (Penang, Malaysia: Third World Network, 2002).

¹⁷ UNCTAD, *Trade and Development Report 2007: Regional cooperation for development* (United Nations publication, Sales No. E.07.II.D.11), chap. 3.

production networks, through which producers, exporters and importers have developed increasing mutual dependence and support. Over the past two decades, a growing share of international trade is taking place in components and intermediates of final products transacted through the supply chains and intrafirm trade. This phenomenon has likely diminished the importance of traditional arguments for protectionism.

The most recent joint WTO-OECD-UNCTAD report indicates that new import restrictions, introduced in the period between May and October 2010, applied to 0.2 per cent of total world imports, much less than during the trough of the crisis when such trade measures covered about 0.8 per cent of total world imports. The most affected sectors were electrical machinery and equipment, chemical products, machinery and mechanical appliances, iron and steel, and dairy products.¹⁸

At the same time, however, more subtle and not-so-subtle non-tariff measures (NTMs) are being erected under various permissible pretexts (such as the protection of health and the environment), but these have a much more ambiguous effect on trade than tariffs that are based on price or transparent policy measures. The majority of such NTMs fall into two categories: technical barriers to trade (such as technical regulations and standards) and sanitary and phytosanitary measures. Moreover, in spite of their growing importance, there is little understanding of the exact implications of NTMs on trade flows, export-led growth, and social welfare in general. A recent UNCTAD/International Trade Centre (ITC) survey of over 2,000 small and medium-sized firms in several developing countries (Brazil, Chile, India, the Philippines, Thailand, Tunisia and Uganda) revealed that the majority of NTMs perceived to be restrictive for exports could in fact be categorized under technical barriers to trade or sanitary and phytosanitary regulations. These measures particularly affected such sectors as electrical and machinery products, textiles and clothing, chemical and allied industries, base metal, and agriculture and fisheries.¹⁹

While the increase in tariffs remains marginal, the erection of non-tariff measures have more adverse effects on trade

¹⁸ See "Reports on G20 Trade and Investment Measures", issued on 4 November 2010 by the World Trade Organization, the Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development, available from http://www.unctad.org/en/docs/unctad_oecd2010_fourthsummary_en.pdf.

¹⁹ UNCTAD, *Developing Countries in International Trade Studies 2009* (UNCTAD/DITC/TAB/2009/3), forthcoming.