D Inclusive trade and international cooperation

This chapter discusses how the multilateral trading system has helped some economies to take advantage of trade to further their development, but has not succeeded in helping others to harness trade for growth and considers what could be done to ensure that the WTO leaves no economy behind. It also examines the effect of the WTO on how the benefits of trade are shared out within economies, and discusses how the WTO and trade can be made more inclusive for people and firms. Finally, the chapter outlines the areas in which work at the WTO could be coordinated with work at other international organizations to help make trade more inclusive, such as by enhancing infrastructure and digital connectivity to bridge the digital gap or by ensuring coherence between trade and environmental policies.

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Key points

- The WTO's rules-based trading system supports all economies, especially the less powerful, by promoting non-discrimination between trading partners. To promote development, WTO rules also provide flexibilities to developing members and least-developed countries (LDCs) to help them to implement the WTO agreements and benefit from trade.

- More can be done for economies that have not yet derived all the benefits from trade. Further commitments in key areas, such as digital and services trade, could help improve their integration and income convergence. However, implementing special and differential treatment provisions in WTO agreements should be made more effective so that developing economies and LDCs can benefit more fully from trade.

- To develop a more inclusive economy, policies are required to reduce the obstacles currently preventing marginalized regions and groups, such as low-income households and micro, small and medium-sized enterprises (MSMEs), from participating fully in and benefitting from global markets. Domestic policies are also needed to lower the costs of adjusting to trade or technology shocks. At the international level, more active monitoring and more exchanges of information and best practices learning could help to make national policies more effective.

- Because different international organizations deal with complementary policies that could enable trade to better support development and inclusiveness – such as competition policy or infrastructure development to help make digital trade more inclusive – broadening and strengthening international cooperation could make these complementary policies more effective.

1. Ensuring that the WTO leaves no economy behind

(a) The WTO has contributed to convergence, but participation in the WTO has been uneven

Evidence discussed in this section shows that the WTO has helped reduce trade barriers and increase the predictability of trade policy, boosting trade flows and reducing their volatility. It also shows that the WTO has contributed to convergence by fostering reforms and good governance. While there are several arguments in support of specific flexibilities for developing countries, there is little evidence on the use and effects of such flexibilities. Available information, however, indicates that participation of low-income economies in the WTO has been limited.

(i) WTO membership and commitments have contributed to trade and economic growth

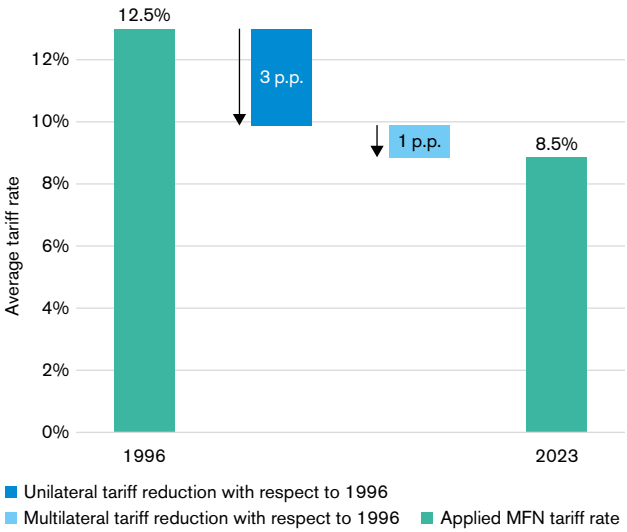
Being a member of the WTO involves making commitments on trade-related policies that can help to avoid mutually damaging "beggar-thy-neighbour" policies. Without international trade agreements, large economies might be tempted to raise tariffs unilaterally, reducing the price of their imports at the expense of their trading partners. Such actions could prompt trading partners to retaliate, and could lead to a trade war that harms all involved (Bagwell and Staiger, 1999; 2006; Broda, Limão and Weinstein, 2008). In the absence of international cooperation, a large economy could also impose a unilateral tariff to shift profits towards its domestic firms at the expense of foreign ones (Ossa, 2011, 2012). Thus, international trade agreements, such as those overseen by the WTO, can prevent large economies from setting their tariffs so as to increase their terms of trade (i.e., the export price to import price ratio), and from gaining economic benefits at the expense of their trading partners.[1]

Strong commitments in international trade agreements, including those overseen by the WTO, enhance the credibility of trade policy reform programmes and help lock them in. Without this credibility, governments may struggle to open up to trade due to potential objections from domestic interest groups. According to the economic theory of trade agreements, by participating in an international trade agreement, a government can credibly announce its intention to open up to trade, while signalling to domestic producers that it cannot subsequently back down from those commitments without facing retaliation from its trading partners (Maggi and Rodríguez-Clare, 1998). Commitments in international agreements act as an "external anchor" or "signalling device", ensuring that trade reforms are enduring.

Non-discrimination provisions in the WTO agreements aim to foster the development of all members, leveraging their comparative advantages, through a trading system based on "equality of opportunities". Non-discrimination provisions establish legal conditions for "equal" or "no less favourable" treatment between exporting economies and between domestic and imported goods and services. They do not aim to eliminate competition, but to ensure that it is based on the intrinsic aspects of goods and services, such as price or quality.

Economies benefit from joining the WTO through several channels. First, the WTO contributes to reducing trade barriers, which promotes trade-led growth. Second, WTO membership increases the predictability of trade policies, which fosters more stable trade flows. Third, the WTO agreements support trade reforms and efforts to improve domestic governance. This enhances economic performance and global integration for all members collectively. Beyond those pecuniary benefits, the WTO also gives all its members a voice at the negotiating table. It helps

Figure D.1: Contribution of multilateral and unilateral reductions to the global average MFN tariff rate, 1996-2023



Source: Authors' calculations, based on WTO data on applied MFN and bound tariff rates.
Note: The figure displays the decomposition of the reduction in the average applied MFN tariff rate between multilateral and unilateral reductions expressed in percentage points (p.p.).

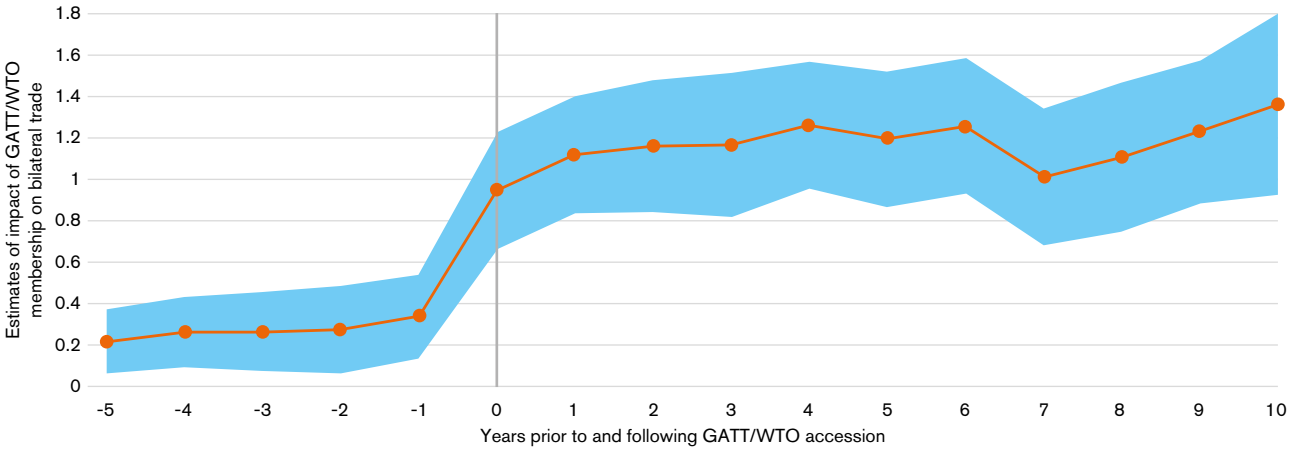
to level the playing field and it promotes the rule of law through a binding dispute settlement system system.

The WTO has helped to reduce trade barriers and foster trade growth. While unilateral action and regional agreements have largely contributed to dismantling trade barriers and promoting trade, the role of multilateral integration cannot be understated. As discussed in Chapter B, trade-opening has enhanced productivity and enabled income convergence across economies. Since the creation of the WTO, global average applied most-favoured-nation (MFN) tariffs have decreased by 4 percentage points, with one percentage point of this reduction directly attributed to multilateral integration (see Figure D.1). Part of the multilateral tariff reduction has come from economies that joined the WTO after its establishment in 1995. For example, the average tariff rate of China, which became a WTO member in 2001, dropped from 21.4 to 7.9 per cent due to China's commitment upon joining the WTO to bind all tariffs below their prior rates (Ianchovichina and Martin, 2001). Alongside multilateral tariff reductions, the rise in regional trade agreements (RTAs) has significantly lowered tariffs, bringing average effectively applied rates down to 2 per cent.

Membership of the General Agreement on Tariffs and Trade (GATT)/WTO has, on average, boosted trade between members by 140 per cent. International trade agreements aim to support economic growth by reducing trade barriers and promoting international trade. Larch et al. (2024) show that the WTO promotes trade among members effectively, with a particularly strong impact on developing economies. The positive effects of WTO membership on trade increase over time, up to the 10th year after accession (see Figure D.2), highlighting the long-term benefits of WTO membership in fostering trade integration.

The WTO has increased the predictability of trade policy, boosting trade flows and reducing their volatility. By lowering trade policy uncertainty, it positively impacts exports, consumer price affordability and supply chain integration. The increased transparency fostered by the WTO, such as by means of precise tariff schedules, significantly decreases export volatility and boosts trade (Mansfield and Reinhardt, 2008). Predictable trading rules further reduce trade volatility and facilitate global value chain participation (Handley and Limão, 2022). For example, research finds that China's WTO accession, through which China obtained MFN status, accounted for over one third of China's export growth to the United States between 2000 and 2005 (Handley and Limão, 2017). This reduction in trade policy uncertainty lowered US prices and increased consumer incomes to the same extent as a 13-percentage-point permanent tariff reduction. The multilateral aspect of the WTO, unlike an RTA, reduces trade volatility not only among direct trading partners, but also across multiple trading partners through spillover effects (Chowdhury et al., 2021). WTO commitments also reduce protectionist reactions to import shocks, thereby lowering trade policy uncertainty (Jakubik and Piermartini, 2023).

Figure D.2: Lasting positive impact of GATT/WTO membership on trade



Source: Larch et al. (2024).
Note: The figure depicts the evolution of the average bilateral trade effects of GATT/WTO membership before and after joining the GATT/WTO. The annual bilateral trade effects were estimated using a structural gravity model. The shaded area represents the 95 per cent confidence interval. Time 0 refers to the year of joining the GATT/WTO.

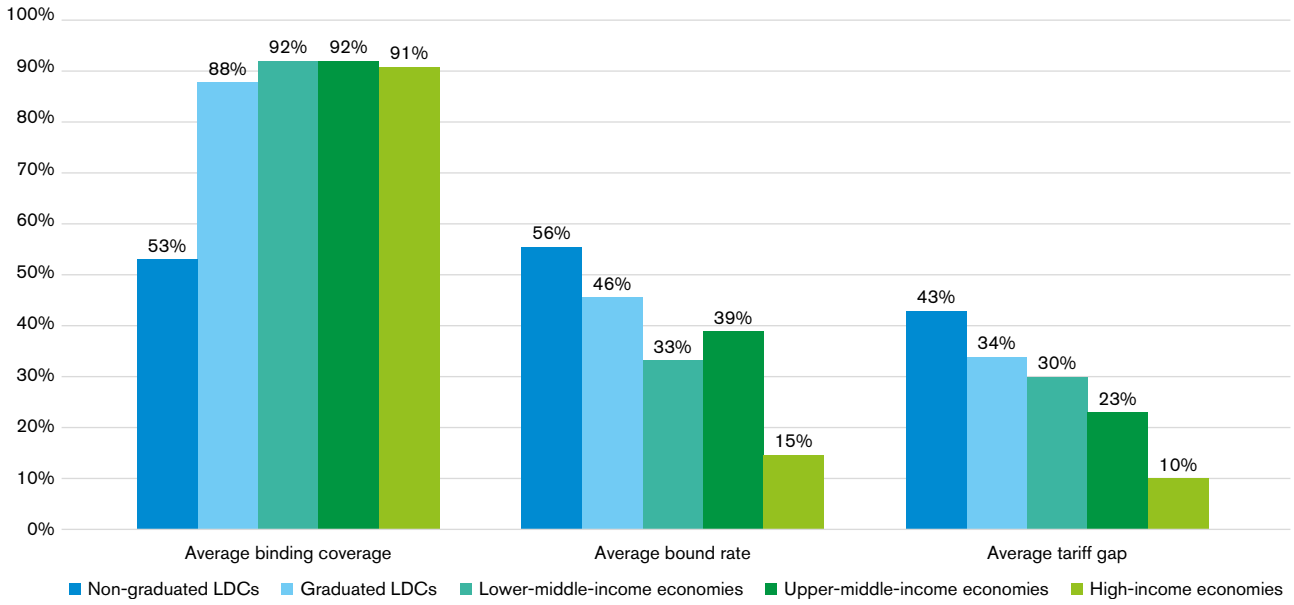
Lower trade policy uncertainty has also played an important role in facilitating imports. Firms are more willing to pay the fixed costs of importing new inputs when the risk that future trade barriers will raise input prices is low. Easier adoption of new inputs can enhance the efficiency and profitability of firms by promoting the use of complementary inputs. Empirical estimates suggest that China's WTO accession, by reducing uncertainty, significantly contributed to Chinese import growth, to an even greater degree than the tariff reduction associated with the accession. Additional post-WTO tariff reductions have further increased imports, as low trade policy uncertainty reduces importers' concerns about a possible increase in future trade protectionism (Handley et al., 2024).

WTO commitments help to diversify both exports and imports. Thanks to the commitments made by economies during their WTO accession process, WTO membership enables economies to diversify their buyers, stabilizing export growth. WTO accession has been found to increase the number of products traded because it facilitates the formation of new trading partnerships (Dutt, Mihov and Van Zandt, 2013). WTO commitments also improve domestic producers' access to imported intermediate inputs by reducing reliance on only a few economies, thereby mitigating the impact of negative foreign supply shocks on economic growth (WTO, 2021b).

Low- and lower middle-income economies tend to have higher tariff flexibilities, on average, but also greater tariff uncertainty. In multilateral trade negotiations on market access, least-developed countries (LDCs) typically benefit from exceptions to the reciprocity principle (i.e., the need to offer tariff concessions equivalent to those they receive), which allows them to avoid lowering their tariffs or to reduce them less than other economies. As a result, least-developed WTO members, in particular those that have not joined the WTO through the accessions process, have significantly fewer bound tariff lines (i.e., tariff lines for which they have committed not to apply a duty exceeding a certain maximum rate). Graduated LDCs, including those proposed for graduation in 2026, tend to have, on average, higher binding coverages, which can be attributed to their WTO accession process. The bound tariff rates of LDCs are, on average, higher than those of other WTO members. In parallel, the gap (also called "water") between LDCs' bound and applied tariffs is also larger than that of other members (see Figure D.3).

Low- and lower middle-income economies tend to use tariff flexibilities to raise their applied

Figure D.3: Low tariff binding coverage and high bound tariffs and tariff gap in lower-income economies, 2022



Source: Authors' calculations, based on WTO data on bound and applied MFN tariff rates.
Note: The figure displays the average binding coverage, average bound rates and tariff gap by income group. The binding coverage is the share of tariff lines at the six-digit level of the Harmonized System (HS) that are bounded. The tariff gap is the average difference in percentage points between the bound tariff rate and the applied MFN tariff rate at the six-digit level. The income groups are based on the 2022 World Bank's classification. The LDC group is based on the United Nations (UN) classification. Graduated LDCs include those that have graduated from LDC status and those proposed for graduation in 2026.

MFN tariffs more extensively. Low-income economies have raised their tariffs by 15 per cent or more on a higher share of tariff lines than other economies between 1995 and 2023 (see Figure D.4). While this trend reflects the trade policy flexibility provided by the WTO, it also points to greater tariff policy uncertainty, all things being equal.

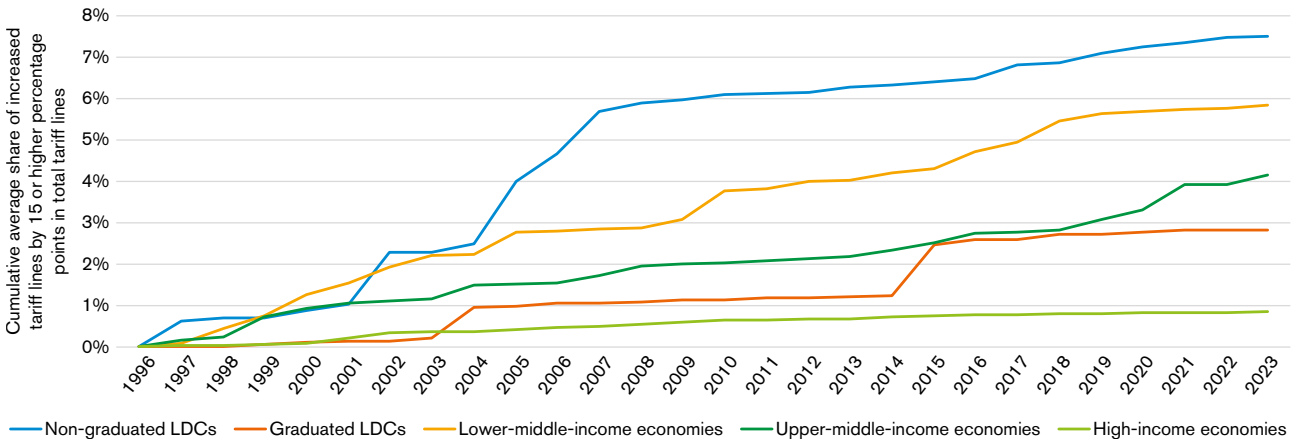
The WTO has contributed to convergence by fostering reforms and good governance. When acceding to the WTO, economies commit to wide-ranging reforms in trade policy, economic institutions and domestic governance. These include reducing tariffs and non-tariff measures (NTMs), regulating state-owned enterprises, protecting intellectual property (IP) rights, establishing independent tribunals and ensuring uniform treaty application (Scalera, 2017). Such commitments can lead to meaningful changes in domestic institutions and economic outcomes. Governance metrics closely linked to those covered by WTO commitments, such as non-discrimination, transparency, and administrative due processes, have been shown to improve as a result of accession (Aaronson and Abouharb, 2014). Furthermore, the growth and investment boost that results from WTO accession tends to be stronger in economies with weaker institutions, as they benefit more from possible "policy anchoring" (Tang and Wei, 2009).

The economic growth effect of WTO accession depends on the extent of WTO commitments. Economies that have made more commitments outperformed those that did not (Tang and Wei, 2009; Brotto, Jakubik and Piermartini, 2021). New contracting parties to the GATT – which preceded the WTO – were not systematically required to make substantial commitments and they automatically became WTO members.[2] Economies that were not GATT contracting parties, however, must, when seeking to join the WTO under Article XII of the Marrakesh Agreement Establishing the World Trade Organization (Marrakesh Agreement), make significant commitments, including structural reforms. Developing countries that acceded to the WTO after 1995 under Article XII have outperformed original WTO members in investment and GDP growth (see Figure D.5). This suggests that commitments are important for developing economies' economic convergence. WTO econometric analysis suggests that economies undergoing rigorous accession negotiations grew 1.5 percentage points faster during the accession period than they would have otherwise and continue to grow faster after accession (Brotto et al., 2024).

(ii) LDCs seem to have benefited disproportionately from the TFA, but they have not yet realized the full potential of the TRIPS Agreement

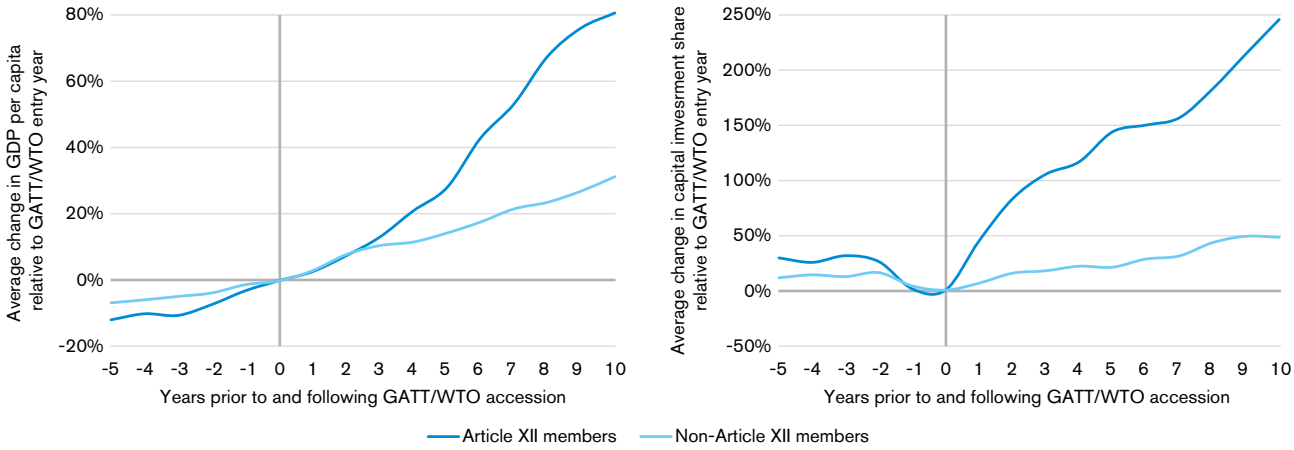
The Trade Facilitation Agreement (TFA) has boosted trade and contributed to economic convergence. The TFA, which aims to simplify, modernize and harmonize export and import processes, came into force in 2017. It includes provisions for speeding up the movement, release and clearance of goods, including those in transit. It also promotes effective cooperation between customs and other relevant authorities on trade facilitation and

Figure D.4: Higher cumulative share of peaked tariff lines in lower-income economies, 1995-2023



Source: Authors' calculations, based on WTO data on applied MFN tariff data.
Note: The figure displays the cumulative average share of the number of tariff lines increased by 15 percentage point or higher in the total number of tariff lines at the eight- or ten-digit level by income group. The income groups are based on the 2022 World Bank's classification. The LDC group is based on the United Nations (UN) classification. Graduated LDCs include those that have graduated from LDC status and those proposed for graduation in 2026.

Figure D.5: Higher economic growth and capital investment in WTO members with more extensive commitments



Source: Authors' calculations, based on Penn World Table data and Brotto et al. (2024).
Note: The figure shows the average change in GDP per capita and the capital investment share in relation to the year of GATT/WTO entry for both Article XII WTO members and non-Article XII members. GDP per capita growth is based on expenditure-side real GDP expressed in 2017 US$ purchasing power parity. Investment rate is the share of gross fixed capital formation in GDP. Article XII members refers to members that acceded the WTO after 1995 under Article XII of the GATT. Non-Article XII refers to GATT contracting members that became WTO members without having to go through the Article XII process.

customs compliance issues, and contains provisions for technical assistance and capacity-building. The implementation of the TFA has led to a substantial increase in trade, with agricultural trade among developing economies increasing by 16 to 22 per cent (Beverelli et al., 2023). Manufacturing trade has also risen, although the impact of the TFA on manufacturing trade has been more limited. Overall, the TFA has led to a global merchandise trade increase of 1.17 per cent and a real income rise of 0.12 per cent. The most substantial real income gains have been found to benefit LDCs disproportionally, with export increases estimated at 2.4 per cent, further contributing to economic convergence. Yet, as discussed in Chapter B, low-income and lower-middle-income economies have made limited progress in implementing trade facilitation measures, underscoring the need for further improvement.

Low-income economies may not have derived much benefit from the TRIPS Agreement because of challenges with its implementation. The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) sets minimum standards for IP protection and enforcement. These common minimum standards across members aim to reduce trade barriers, create a predictable trading environment and encourage cross-border IP transactions, including the innumerable IP licences that constitute the bulk of trade in digital goods. WTO members are required to implement these standards in their domestic systems. LDCs, however, benefit from a longer transition period in implementing the TRIPS Agreement. Originally, they were given 11 years to implement the TRIPS Agreement. This transition period was extended three times (in 2005, 2013 and 2021) and is currently valid until 1 July 2034. While there is strong empirical evidence that WTO membership boosts economic growth in developing economies, including LDCs, the impact of the TRIPS Agreement's provisions on patent law on low-income economies is less clear, bearing in mind that the transition period for LDCs has been extended and that they are not obliged under TRIPS to protect patents, and that many low-income economies have negligible numbers of, or no, patents in force. Patent reforms have been found to stimulate inward technology transfer through market-based channels, raise imports of high-technology goods, and potentially stimulate export growth in large and in middle-income economies (Branstetter, Fisman and Foley, 2006; Delgado and Kyle, 2022). However, empirical evidence on the positive effects of patent reforms on inward technology transfer in the poorest and smallest developing economies is limited.[3] This is because low-income economies often lack the absorptive capacity and complementary infrastructure needed to benefit from enhanced IP regimes (Branstetter and Maskus, 2022). Stronger IP laws may not, therefore, lead to significant increases in innovation or technology transfer in this context, as local firms may struggle to adapt to the new competitive environment.

(iii) Evidence on the use and effects of WTO flexibilities is limited

While WTO membership involves a certain level of commitments, it also offers various flexibilities, some of which are only available to developing economies, including LDCs. Certain flexibilities are available to all WTO members, such as safeguard measures to respond to surges in imports or the option to introduce temporary trade barriers during balance-of-payments crises (WTO, 2009). Other flexibilities are more particularly intended to take into account the specific needs of low-income economies. WTO flexibilities specifically targeted at LDCs or developing economies fall under special and differential treatment (S&DT) (see Box D.1).[4] Currently, there are over 155 S&DT provisions across WTO agreements, including 25 specifically designed for LDCs.

There are six different types of S&DT provisions. A first type of S&DT provisions aims to increase the trade opportunities of developing countries. The Enabling Clause (see Box D.1), for example, aims to achieve a rapid and sustained expansion of the export earnings of developing economies. A second type of S&DT provisions aims to safeguard trade interests. Article 10.1 of the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement), for example, requests that WTO members take account of the special needs of developing members, including LDCs, in the preparation and application of SPS measures. A third type of S&DT provisions offers flexibility in commitments. Article 27.2 of the Agreement on Subsidies and Countervailing Measures (SCM), for instance, exempts LDCs and developing economies with a per capita income not exceeding US$ 1,000 from the prohibition to use export subsidies. A fourth type of S&DT provisions aims to provide longer transition periods for developing economies and LDCs to adjust to certain WTO rules. Most of the transition periods that had previously been established have expired. Among the few that are still valid are those under the TFA and under Article 66.1 of the TRIPS Agreement. A fifth type of S&DT provision aims to ensure that technical assistance is provided to developing economies either bilaterally or by an appropriate international organization – for example, as per Article 9 of the SPS Agreement. Finally, a sixth category of S&DT provision includes LDC-specific provisions, such as in Article 66.2 of the TRIPS Agreement (see Box D.2).

Several economic arguments support offering flexibilities to developing economies. First, the best policies for advancing technological development depend on an economy's level of technological sophistication (its proximity to the "technology frontier"). Economies that are relatively technologically sophisticated focus on research and development (R&D) and efficient public-private research collaborations, while less technologically sophisticated economies may attempt to advance by absorbing technology from other economies through trade, foreign direct investment (FDI) and direct technology transfers. Second, low-income economies tend to specialize in low value-added products with limited technological progress and spillovers into other sectors. Low levels of export sophistication adversely affect economic growth (Hidalgo et al., 2007; Hausmann, Hwang and Rodrik, 2007; Lin and Chang, 2009). Low-income economies also have limited diversification, making them more vulnerable to economic shocks (WTO, 2021b). Policies to diversify economies are essential to provide a more stable development path. Third, the extent of market failures requiring policy intervention varies according to the income level of an economy. Market failures are particularly prevalent in developing economies due to factors such as imperfect information, a lack of competition and inadequate regulatory frameworks (Atkin et al., 2022). For example, capital market imperfections, which limit the growth of high-potential sectors and knowledge spillovers, can be more severe in developing economies. Labour market failures can be more severe in low-income economies with large informal sectors. Fourth, exporting firms in low-income economies struggle to comply with trade-related policies. Compliance costs with these regulations tend to be fixed and may require high-skilled expertise. Policies that reduce compliance burdens, such as longer transition periods and technical and financial assistance, can help firms in developing economies meet higher standards and enhance their competitiveness.

While flexibilities are important for addressing specific development concerns, some of them, depending on their design, could undermine the predictability and value of commitments. Flexibilities can create uncertainty about the application of trade agreements, making future trade conditions less predictable. Temporary flexibilities can end up becoming permanent, and differing interpretations can lead to inconsistencies or disputes. Flexibilities can also erode the value of commitments for creating stable and predictable trading conditions by eroding trust and hindering long-term cooperation. Frequent use of flexibilities can make commitments seem unreliable, and can deter investment, if commitments are perceived to be easily altered. The challenge lies

Box D.1: Development considerations have progressively been integrated into the GATT and WTO

Originally, the GATT was designed as a set of "equal opportunities" or "neutral" provisions, which aimed to apply uniform rules to all contracting parties. "Development", as the term is understood today, was not clearly identified as a GATT priority in 1948, although 12 out of the 28 original GATT contracting parties still consider themselves to be developing economies. Development considerations were, however, progressively incorporated into the GATT framework.

In 1958, Article XVIII of the GATT ("Governmental Assistance to Economic Development") was revised to allow developing economies to support particular industries under certain conditions. As a number of overseas territories of GATT contracting parties gained their independence, Part IV – "Trade and Development" – was added to the GATT in 1966. The aim of GATT Part IV was to improve price stability and market access to primary products crucial for developing economies, and to support diversification by enhancing market access conditions for developing economies' processed or manufactured products exports. Part IV became fully effective in 1971 with the adoption of a system allowing developed economies to offer non-discriminatory and non-reciprocal preferential tariff treatment for products from developing economies. This was extended in 1979 by means of the "Enabling Clause" – officially called the "Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" – which allows developed economies to maintain preferential trading schemes, provides for further preferential access for LDCs, and allows developing economies to conclude RTAs with less stringent requirements.

Building on the GATT, the WTO framework, established in 1995, has taken different forms of development considerations into account over the years. For example, the preamble of the Marrakesh Agreement recalls the importance of supporting developing economies, in particular LDCs, in securing "a share in the growth in international trade commensurate with the needs of their economic development".

Other WTO agreements and decisions have also established various S&DT provisions to allow developing economies, including LDCs, to benefit from more favourable and flexible treatment. In 2001, the Doha Ministerial Declaration mandated a review to strengthen and enhance the effectiveness of all S&DT provisions, resulting in various proposals.

In the early stages of the negotiations, 88 agreement-specific proposals were submitted in the Special Session of the Committee on Trade Development by developing members, including LDCs. The monitoring mechanism for S&DT provisions was adopted in 2013, but has seen limited use by WTO members. In the decade leading up to the 13th WTO Ministerial Conference, which took place in early 2024, S&DT negotiations were at an impasse. In 2015, the coalition of the G-90, which comprises the African Group, the LDC Group and the African, Caribbean and Pacific (ACP) Group of States, submitted a shortened list of 25 agreement-specific proposals, none of which was adopted at the 10th WTO Ministerial Conference in Nairobi. In 2017, the G-90 submitted a list of 10 agreement-specific proposals aimed at industrialization, structural transformation, and economic diversification, but no progress was made at the 11th WTO Ministerial Conference in Buenos Aires. Following the 12th WTO Ministerial Conference, discussions on S&DT have been guided by the renewed ministerial mandate under paragraph 2 of the 12th WTO Ministerial Conference outcome document. In 2023, the G-90 proposed various measures, including one related to sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures, and this proposal gained traction leading up to the 13th WTO Ministerial Conference.

At the 13th Ministerial Conference in 2024, WTO members recognized that, with the necessary support, developing economy members, including LDCs could remain committed to integrating WTO rules. A ministerial declaration was adopted on the precise, effective and operational implementation of S&DT provisions of the SPS and TBT Agreements. The 13th WTO Ministerial Conference Ministerial Declaration on S&DT is the first outcome ever made on agreement-specific proposals applicable to all developing economies since the launch of the S&DT negotiations in 2001.

Box D.2: WTO measures to increase the integration of LDCs into global trade

Over the years, WTO members have taken important steps to increase the integration of LDCs into global trade. They have offered market access opportunities and flexibilities to implement WTO rules, and have given LDCs priority when delivering technical assistance.

In the area of market access, significant progress has been made in providing duty-free quota-free market access for LDC products since the adoption of the Ministerial Decisions on Duty-Free Quota-Free Market Access for LDCs at the Hong Kong Ministerial Conference in 2005 and at the Bali Ministerial Conference in 2013. Members have also taken several steps to ensure simple and transparent rules of origin for LDC products. Two sets of guidelines were adopted to contribute to facilitating market access for LDC products. In addition, most of the preference-granting members notified their preferential rules of origin using a new template. In the 12th Ministerial Conference outcome document, WTO members recognized the need to continue work on trade preferences and on identifying best practices in preferential rules of origin.

Efforts have also been made to boost the participation of LDCs in services trade. The LDC services waiver, adopted in 2011 and currently valid until 2030, enables the provision of preferential treatment for LDC services and services suppliers in terms of market access and other measures. Currently 25 members have notified measures under the LDC services waiver, covering various sectors, including business services, transport, tourism and travel. However, the lack of data prevents a comprehensive assessment of whether these measures have resulted in economic opportunities for LDCs. Increased efforts are needed to track LDC services export data and to support LDCs in building capacity in services trade.

LDCs also enjoy policy flexibilities in implementing WTO rules, including a transition period to implement the TRIPS Agreement, which currently runs until 1 July 2034. LDCs are also eligible for benefits under Article 66.2 of the TRIPS Agreement, which calls on developed members to provide incentives to enterprises to promote technology transfer. Since 2003, developed members have been providing annual reports on this matter and the WTO Secretariat has been organizing annual workshops to discuss technology transfer to LDCs.

WTO members have taken steps to support LDC accessions. They adopted two sets of guidelines, in 2002 and 2012, which call upon WTO members to exercise restraint in seeking market access from acceding LDCs and set specific benchmarks regarding market access negotiations for goods and services.

In terms of technical assistance, LDCs remain a priority for the delivery of trade-related technical assistance by the WTO. They are the second largest recipient of Aid for Trade, for a total amount of US$ 14 billion, representing 28 per cent of total Aid for Trade disbursements in 2022. LDCs also benefit from the support of the Enhanced Integrated Framework (EIF), which has disbursed over US$ 334 million to provide evidence-based analysis, strengthen trade institutions and bolster key sectors with high export potential in LDCs.

In recent years, LDC graduation – i.e., graduation of these economies from LDC status – has become a main priority of the LDC Group at the WTO. LDCs have been asking WTO members to support them in a smooth transition by extending LDC-specific market access and S&DT for additional time after their graduation from LDC status. Since then, WTO members have adopted two decisions to contribute to a better integration of LDC graduates into global trade. First, members agreed to provide a smooth and sustainable transition period before they withdraw duty-free and quota-free market access after graduation. Second, at the 13th WTO Ministerial Conference, members offered LDC graduates three additional years during which they can adjust to WTO rules and disciplines and continue to access LDC-specific technical assistance.

in finding a balance that maintains the overall integrity of the trade agreement while allowing for necessary adjustments.

Economic theory also draws attention to certain drawbacks of S&DT provisions. For example, S&DT provisions can undermine future tariff negotiations. The so-called "latecomer's problem" refers to a situation in which developing economies face a significant imbalance in market access commitments compared to high-income economies. As discussed above, developing economies have, on average, higher bound and applied MFN tariffs than developed economies.

This disparity arose as a result of decades of tariff negotiations among advanced economies, in which exemptions to the reciprocity principle allowed developing economies to opt out from reciprocal tariff reductions. In that context, future tariff negotiations may be challenging, given that developing economies would be expected to make relatively large tariff reductions, while developed economies would have fewer tariff reductions to offer in return (Bagwell and Staiger, 2014). Anecdotal and empirical evidence suggest that developing economies that have made fewer commitments have benefited less from their WTO membership.

While various WTO agreements include S&DT provisions, several factors seem to hinder their effective use. Several developing economies and LDCs have pointed to difficulties in implementing certain S&DT provisions, on the basis that the vagueness of S&DT provisions and the complexity of their reporting and review mechanisms are not conducive to efficiency and legal certainty.

Evidence on the use of S&DT provisions by developing economies and LDCs is limited, including because of capacity-related issues. More evidence is therefore needed. Members are required to notify the WTO when they use specific S&DT provisions, but the number of S&DT-related notifications remains limited.[5] It is unclear whether this indicates that few S&DT provisions have actually been invoked, or that they have been used without being notified. With several developing economies registering impressive increases in their share of global merchandise trade, the accurate tracking of the use of S&DT provisions has become even more difficult. Improving transparency in the use of S&DT provisions is important, but it may require technical assistance support.

While there is some evidence of the effectiveness of certain trade policies, economic analysis of the impact of the different types of S&DT provisions is lacking. For instance, as discussed in Chapter B, developing economies, particularly LDCs, have benefitted from preferential access to many markets for exports, even if rules of origin and other factors may impact the use of these preferences. Tariff preferences have expanded exports from developing economies and LDCs (Cernat et al., 2003; Bekkers and Cariola, 2024), despite the administrative costs associated with these preferences (Cariola and Lanz, 2022). Preference schemes have also been found to raise exports to third-party economies through learning-by-exporting effects (Cherkashin et al., 2015). As discussed below, Aid for Trade projects have also been found to increase trade opportunities. However, while all of this suggests that S&DT provisions can contribute to economic convergence, there is a lack of specific economic impact analysis of these provisions.

WTO members' views on S&DT differ. Some developed economies have questioned whether developing economies have not been granted too many exemptions and have advocated for reducing the scope of S&DT provisions in current and future negotiations (Hoda, 2021). In addition, some developed economies have expressed concerns regarding self-determination of development status within the WTO (Hoda, 2021; Ukpe and Khorana, 2021). In response, a number of developing economies have argued that the self-declaration of development status is a long-standing practice and that, despite significant economic progress among many developing members, the standards of living in these economies still significantly lag behind those of developed economies. One of the key points of discussion involves weighing the implementation of horizontal S&DT provisions applicable to all developing members against the identification of specific challenges with a view to exploring targeted solutions.

(iv) Aid for Trade and technical assistance enhance export opportunities

Aid for Trade and similar technical assistance initiatives help firms in developing economies, especially LDCs, to meet international standards and access global markets. Since 2006, the WTO-led Aid for Trade initiative has contributed US$ 648 billion to strengthen the export potential of developing economies and LDCs and help them build the trade capacity and infrastructure they need to increase their participation in international trade. Developing economies view the Aid for Trade initiative as supporting the economic growth objectives found in their development strategies, including achieving a higher income group status (OECD and WTO, 2024). Aid for Trade disbursement flows in 2022 reached an all-time high of US$ 51.1 billion (expressed in 2022 constant US$), marking a 14 per cent increase in real terms compared to 2021. After several years of decline, the share of Aid for Trade disbursements allocated to projects in low-income economies has been increasing, and amounted to US$ 15.1 billion in 2022. A large share of Aid for Trade disbursement is allocated to building productive capacity. This includes projects aimed at enhancing the skills and capabilities of developing economies to comply with international standards and other regulatory requirements. Members at the 13th Ministerial Conference underlined the vital role and ongoing necessity of the Aid for Trade initiative in building capacity for trade.

Empirical evidence points to the effectiveness of Aid for Trade in enhancing the trade potential of developing economies and LDCs. Aid for Trade projects that focus on developing trade strategies, negotiating and implementing trade agreements, and building productive capacity, have increased exports and enhanced the ability of exporters to meet trading partners' requirements (Lee and Oh, 2022; Yang, Wang and Whang, 2023). Aid for Trade helps both to expand established trade relations, in particular between recipients and contributors, and to establish new trading relations (Cadot et al., 2014; Nathoo et al., 2021; Aboushady, Harb and Zaki, 2024; Hoekman and Shingal, 2024).

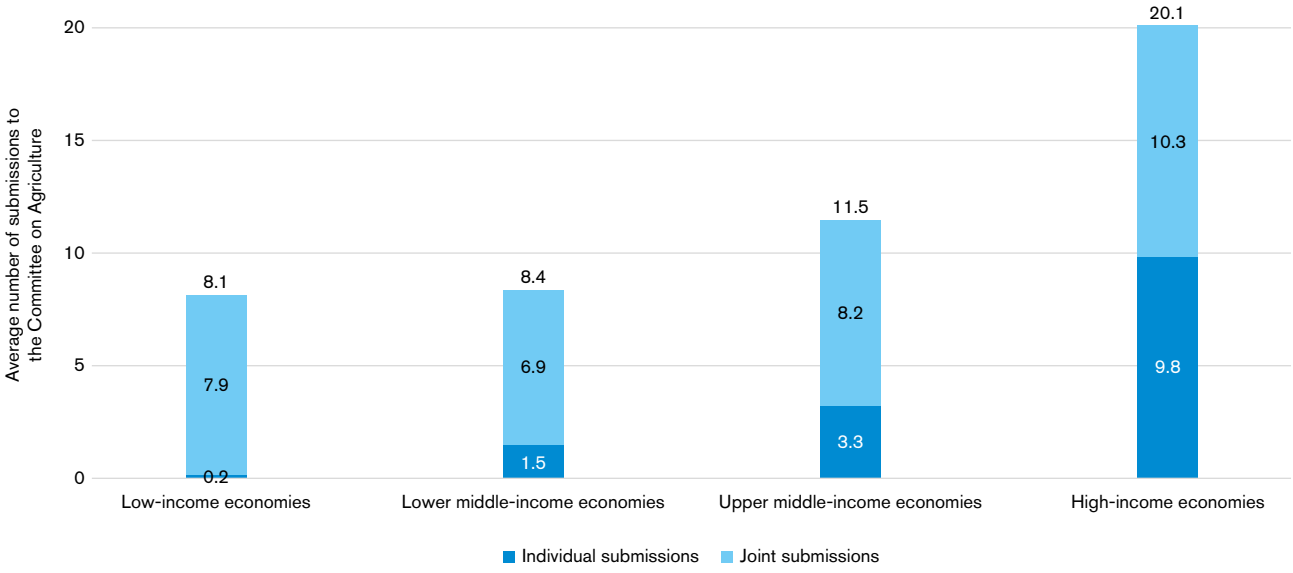
(v) The participation of low-income economies in the WTO has increased over time but remains limited

The WTO serves as a forum in which members can negotiate new trade rules, oversee the implementation of trade obligations, and resolve trade disputes among members. WTO committees facilitate discussions and allow members to raise trade concerns about specific measures adopted by their trading partners. Active participation in WTO activities is important for economies to reap some of the benefits from the WTO. Yet many developing members face financial and human resource constraints that hinder their ability to participate actively, propose measures and monitor potentially harmful policies of other trading partners.

LDCs and smaller economies tend to participate in WTO negotiations as a group. As a member-driven organization, the WTO negotiation process revolves around proposals put forth by interested individual members or groups of members, which are then discussed and negotiated among members in dedicated WTO bodies. A number of WTO members have formed coalitions, often speaking with one voice using a single coordinator or negotiating team.[6] For instance, in the WTO Committee on Agriculture, low-income and lower-middle income economies have mostly tabled joint submissions (see Figure D.6).

Capacity constraints have been holding some members back from participating in the regular WTO work. WTO transparency mechanisms enable members to monitor trade policies and resolve trade issues in a non-litigious manner, and transparency improves decision-making by reducing trade policy uncertainty. For instance, concerns raised in the TBT Committee when regulations are still at the drafting stage tend to reduce the likelihood of formal disputes (Posada, Ganne, and Piermartini, 2020). Yet participation in WTO committees by low-income members is limited. More than 60 members – mostly

Figure D.6: Greater participation of lower-middle income members in negotiations through joint proposals, 1995-2023



Source: Authors' calculations, based on WTO data on submissions in the Committee on Agriculture.
Note: The figure displays the average number of submissions in the Committee on Agriculture between 1995 and 2023 by income group. The average number of submissions for each income group is calculated by dividing the total number of proposals involving at least one WTO member from that income group by the total number of WTO members having made a submission in that income group. The income groups are based on the 2022 World Bank's classification.

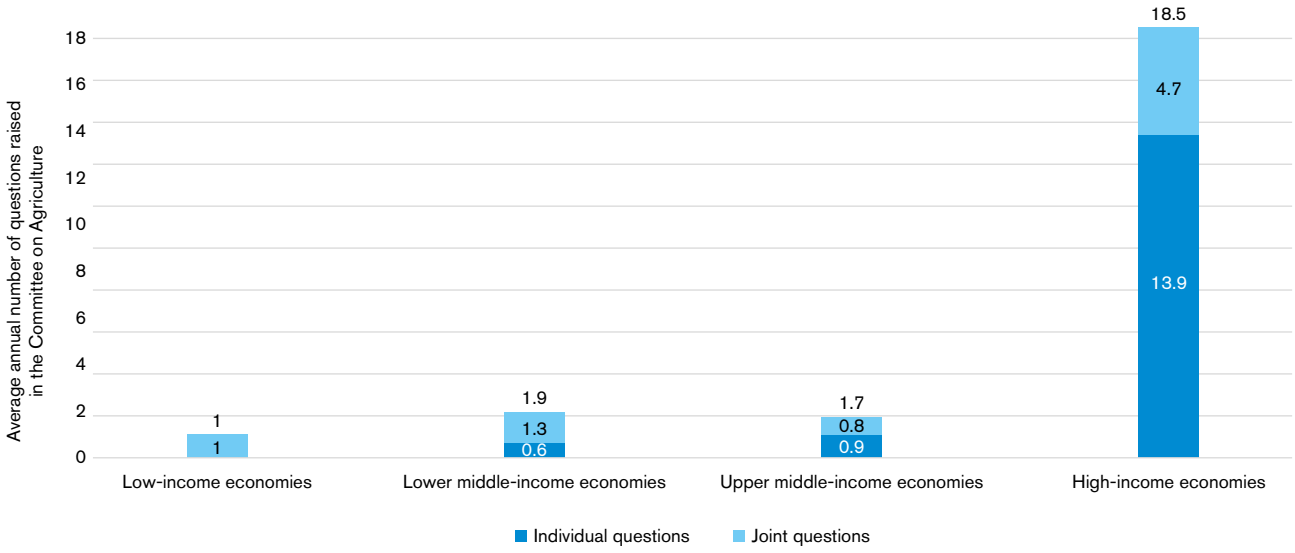
developing economies – submit, on average, less than one TBT notification per year. In the Committee on Agriculture, low- and lower-middle income members, including LDCs and many small and vulnerable economies (SVEs), also tend to ask significantly fewer questions compared to other members (see Figure D.7), and they are more likely to support other members' questions rather than initiate their own.

Low- and middle-income economies use the WTO dispute settlement mechanism less often than other members. A functioning dispute settlement mechanism is essential for maintaining a predictable trading environment. A dispute arises when a member considers that a measure adopted by another member is inconsistent with the latter's WTO obligations and nullifies or impairs the former's benefits under the WTO agreements. Since the WTO's inception, members have initiated more than 620 disputes, averaging 21 per year. Many developing members have used the WTO dispute settlement mechanism to assert their trade rights and interests, but significant disparities still exist among WTO members. Low- and middle-income members, have initiated fewer dispute proceedings than other WTO members, and have participated primarily as third parties (see Figure D.8).

Several factors may explain a relatively low participation by lower-income economies in the WTO functions. These may include limited commercial interest or trade impact, as well as a lack of financial and human resources. Although information about participation is limited, low-income members tend to participate less in WTO negotiations, as well as in transparency, monitoring and dispute settlement activities, more likely because of resource constraints than disinterest. For instance, members with limited government capacity are likely to have a greater backlog of missing annual notifications required under some WTO agreements, such as those on agriculture and support measures (see Figure D.9).[7] In addition to limited legal and technical capacity and financial constraints, factors such as information asymmetries and political and diplomatic considerations may also affect a WTO member's decision to initiate a formal dispute.

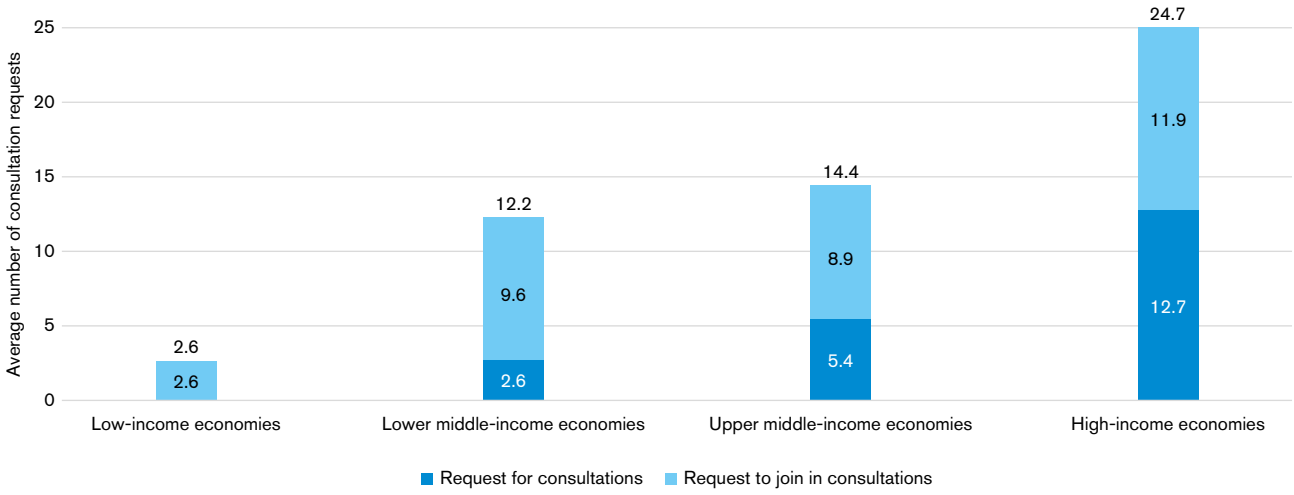
Various rules and resources contribute to facilitating the participation of lower-income members in the WTO. The relatively low participation does not imply that the WTO is not accessible to all members. The WTO provides technical assistance upon request to build the capacity of developing economies and LDCs to comply with WTO obligations and fully utilize their rights. In recent years, several technical assistance activities on transparency obligations have introduced tailored approaches to assist participants in adopting a proactive and consistent response to meet,

Figure D.7: Greater participation of less-integrated members in committee work through joint questions, 1996-2016



Source: Authors' calculations, based on WTO data on questions submitted in the Committee on Agriculture.
Note: The figure displays the average annual number of questions raised in the Committee on Agriculture between 1995 and 2023 by income group. The average annual number of questions for each income group is calculated by dividing the average annual number of raised by at least one WTO member from that income group by the total number of WTO members having raised questions in that income group. The income groups are based on the 2022 World Bank's classification.

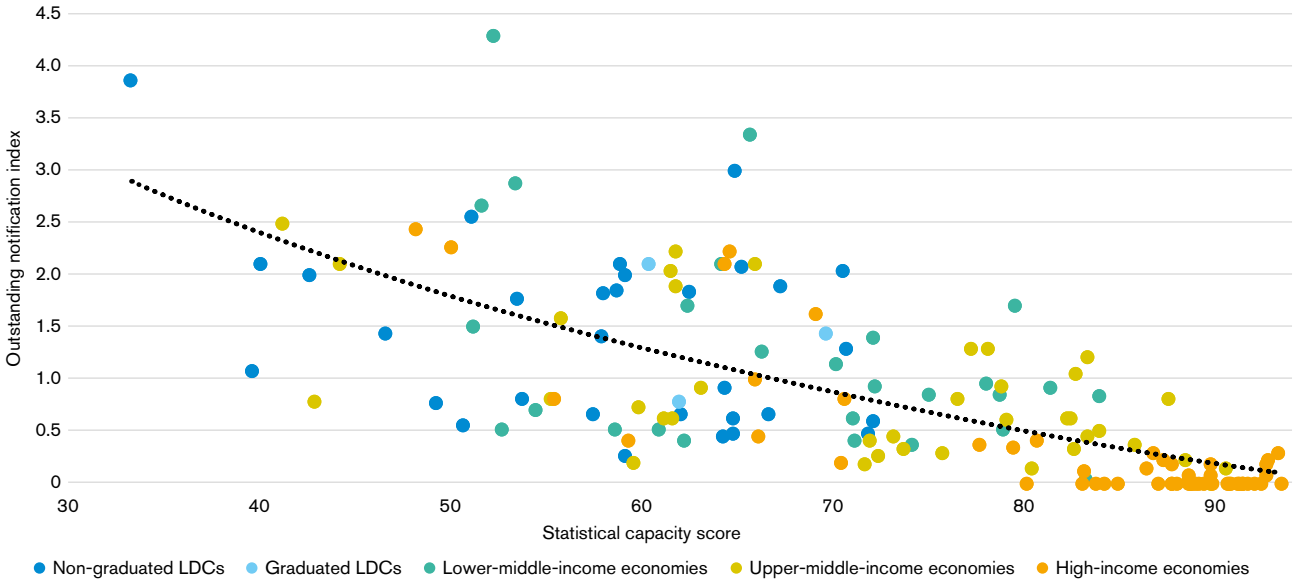
Figure D.8: Lesser participation of lower-income members in dispute proceedings, 1995-2023



Source: Authors' calculations, based on WTO data on requests for consultations.
Note: The figure displays the average number of WTO consultation and dispute proceedings between 1995 and 2023 by income group. The average number of consultation requests for each income group is calculated by dividing the total number of consultation requests involving at least one WTO member from that income group initiating a dispute or joining in consultations by the total number of WTO members in that income group having submitted a consultation request as complainant or third party. The income groups are based on the 2022 World Bank classification.

and remain in compliance with, transparency provisions (WTO, 2024c). The WTO also provides technical assistance, including training courses and advice, to support developing members' participation in the dispute settlement mechanism. In parallel, the Advisory Centre on WTO Law (ACWL), established in 2001, offers developing and LDC members advice, support and training on WTO law, including representing them in WTO dispute settlement proceedings at discounted rates. Several private sector law firms routinely represent developing members in the context of WTO disputes and sometimes offer pro-bono legal advice.

Figure D.9: Higher number of outstanding notifications in members with lower government capacity, 2022



Source: Authors' calculations, based on World Bank data on statistical capacity score and WTO data on notifications.
Note: The chart displays the relationship between a member's statistical capacity score and its outstanding notification requirement index in 2022. The statistical capacity score, ranging from 0 to 100, measures a government's ability to collect, analyse and disseminate high-quality data about its population and economy. The outstanding notification index measures the normalized annual number of pending WTO notifications (e.g., support measures). The income groups are based on the 2022 World Bank's classification.

(b) The WTO can do more to help economies that have not fully benefited from trade

Greater international cooperation is needed to foster the participation of lower-income economies in trade and to make the trading system more inclusive. While many members have benefited from the WTO through trade reforms, tariff reductions and stable trade policies, some have seen limited gains. These members, mostly developing economies or LDCs, tend to participate less in the WTO, despite available S&DT provisions. This challenge highlights the need for greater international cooperation and WTO support in the face of geopolitical tensions, the digital revolution and climate change. Maintaining an open and predictable multilateral trading system is essential to support trade-led economic convergence. Accelerating the accession to the WTO of new members could further contribute to economic convergence. It is also important to extend commitments in dynamic areas and ensure effective flexibilities, while addressing impediments to low-income members' participation in the WTO.

(i) Maintaining an open and predictable multilateral trading system

To avoid rolling back economic convergence achieved and to create new opportunities for further convergence, it is essential to ensure that the multilateral trade system remains open and predictable, for example, by reducing trade costs, establishing a fully functional dispute settlement system and enhancing transparency and information-sharing. Addressing trade barriers and improving trade facilitation are also essential to create a more open and predictable trading environment, as well as to encourage investment and technology diffusion. As discussed in Chapter B, economies that have not been converging often face higher trade costs and cumbersome customs procedures. In addition, as the share of South-South trade is growing, access for exporters from developing economies to the markets of other developing economies is increasingly important.

A fully functional and accessible dispute settlement system is crucial for enabling low-income economies with limited bargaining power to participate as complainants and respondents. This is particularly important as increasing geoeconomic tensions may disproportionately limit the access of low-income economies to global markets (WTO, 2023c). Efforts to improve accessibility to the dispute settlement system, an issue which a large majority of delegations have identified as a top priority, are part of the ongoing WTO work on reforms. At the 13th WTO Ministerial Conference in 2024, members adopted a Ministerial Decision recognizing the progress made with the view to having a fully and well-functioning dispute settlement system accessible to all members by 2024.

Enhancing trade policy transparency and information-sharing can further improve policy decision-making, business operations and investor confidence in low-income economies. All WTO members derive important benefits from the various information-sharing and transparency requirements in several WTO agreements (see opinion piece by Giovanni Maggi). Several transparency tools have been developed, such as the ePing SPS & TBT platform, developed by the WTO in conjunction with the International Trade Centre (ITC) and the United Nations (UN), and which catalogues over 50,000 TBT notifications to provide relevant regulatory information to firms exporting to new markets. However, as discussed above, given the uneven geographical coverage of notifications, the information-sharing processes could be further improved. A recent ministerial decision, adopted at the 13th Ministerial Conference, calls for reinforcing TBT information-sharing processes, encouraging early engagement in commenting on draft technical regulations to mitigate unnecessary trade barriers, and sharing best practices. Leveraging digital technologies could further enhance trade policy transparency by providing more efficient data collection, analysis and dissemination tools (Cernat, 2023), but the digital divide must be addressed to ensure that developing economies have access to the necessary digital infrastructure and skills.

In the current WTO reform debates, "reform by doing" work has the potential to facilitate the participation of LDCs in WTO work. As part of the "reform by doing" work, effective participation of all members in WTO bodies was highlighted as being important to advance work in an inclusive manner and to meet members' objectives. A number of participatory challenges and concerns were raised in members' proposals or contributions, including, for example, disparity in the use of digital tools or support to delegates, and several ideas to address these challenges and concerns were put forward. The "reform by doing" work progressed in 2023. The Goods Council, among others, implemented 127 reforms to improve its manner of functioning, as well as that of its 14 subsidiary bodies. These included significant changes to assist delegates, and the introduction of digital tools to improve productivity and exchange of information.[8] Although some of those

reforms are particularly helpful for LDCs, more could be done to ensure that LDCs can make use of the new opportunities (Wolfe, 2023).

Economies joining the WTO can, through their accession reforms, benefit from improved access to imported inputs, increased FDI, and enhanced good governance. Economies that are not yet members of the WTO would benefit from accession, provided they undertake relevant trade reforms. While WTO members account for nearly 99 per cent of global trade, 22 accessions are currently in progress, and several economies have not applied for WTO membership. The profiles of these latter economies are diverse, and include some LDCs and commodity-exporters. The WTO accession process could be improved by enhancing technical assistance and capacity-building support for aspiring members, ensuring they can more quickly align their trade policies and regulations with WTO agreements.

(ii) Updating the rulebook

In a context characterized by the digital revolution, the need to transition to a low-carbon economy, and marked geopolitical tensions, economies need to address both their own trade barriers and those imposed by others to fully capitalize on future trade opportunities and support economic convergence. As services trade and digital trade grow rapidly, upgraded commitments from both well-integrated and less-integrated economies can help low-income economies leverage services and digital trade for development. Also, with the transition towards a low-carbon economy altering comparative advantages, trade-related environmental policies need to be better coordinated to ensure that low-income countries' trade opportunities are expanded and not inadvertently reduced. Similarly, given rising geopolitical tensions, international cooperation is more than ever needed to address the use of export restrictions and tariff escalation and to find alternative approaches. Finally, new commitments could also address some of the barriers that hinder low-income economies' participation in trade, identified in chapter B.

While services-led growth is increasingly seen as a new path to development, many services sectors face significant trade restrictions, especially in lower-income economies. Trade costs in services trade are diverse, and include compliance costs imposed by "behind-the-border" regulatory measures, as well as information and transaction costs related to cultural and institutional differences and transport and travel costs (WTO, 2019). Although trade costs for services trade have decreased in the last 20 years, thanks to digital technologies, reduced policy barriers and investment in infrastructure, they still remain significantly higher than those in goods (WTO, 2021c).

Combining market-opening negotiations with international cooperation on regulatory issues can help further harnessing the potential of services trade. Expanding multilateral commitments and deepening international cooperation in services would allow economies to reap benefits beyond unilateral opening-up of services markets, and would facilitate global value chain (GVC) participation (WTO, 2019; 2023c; World Bank and WTO, 2023a). International cooperation on regulatory issues can also contribute to reduce unnecessary differences in domestic regulatory frameworks, as well as lower unintended trade costs for services suppliers. Informed by generally recognized good regulatory practices, the new set of rules on Services Domestic Regulation – adopted in 2024 by a group of members representing around 90 per cent of world services trade – aims to streamline authorization requirements and ease procedural hurdles faced by services suppliers and investors. International cooperation on trade in services for development can also help to mobilize greater levels of technical assistance and capacity building, including in the context of Aid for Trade, by addressing data gaps, supporting greater participation of low- and middle-income economies in policy discussions on trade in services, strengthening regulatory frameworks, promoting diversification, and addressing key supply-side constraints, including improving workers' services-related skills (World Bank and WTO, 2023a). The WTO and the World Bank are developing an initial work programme on trade in services for developing economies.

More cooperation on digital trade could benefit less integrated or diversified low-income economies, providing new trade opportunities and supporting greater economic convergence. Digital technologies can drive economic growth by increasing productivity, reducing production costs, enhancing economies of scale, improving financing efficiency, and promoting innovation through the exchange of ideas. Digital tools can also boost international trade that is digitally ordered and/or digitally delivered by reducing trade costs (IMF et al., 2023). Digital trade can foster economic diversification by increasing the cross-border tradability of services. Importing digitally-delivered services, such as financial services, can further enhance firms' competitiveness by providing new funding sources and improving financial transactions (WTO, 2023c).

Opinion piece

Soft rules and the informational role of the WTO

By Giovanni Maggi

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The WTO rules-based system is under a considerable amount of stress. We may be at a juncture where the WTO needs to step back and shift emphasis, at least in some domains, toward more "soft" rules that key players can find politically easier to comply with.

The dispute settlement system is under stress due to the disabling of the Appellate Body (AB). But it is important to remember that, in the General Agreement on Tariffs and Trade (GATT) years, the Dispute Settlement Body (DSB) was remarkably effective even without an AB, and this in spite of the fact that the adoption of the ruling could be blocked by the losing country.

One way to understand this is that an important role of the DSB is to disseminate information across the trading community, thereby facilitating multilateral normative pressures. As argued in Maggi (1999), multilateral enforcement does not have to take the form of all-out multilateral trade sanctions in response to violations of the agreement. A softer form of multilateral enforcement, for example, is one in which the trading community extends less "goodwill" to the country found in violation of the agreement, and is perhaps less inclined to sign new agreements with that country.

Maggi (1999) also argues that the benefits from multilateral enforcement, relative to a system based solely on bilateral retaliation threats, are greatest when there are strong imbalances of power between trading partners. This line of reasoning makes me hopeful that the WTO Dispute Settlement System may still play a positive role even if there is a return to the GATT system.

An informational role of the WTO that is sometimes understated is to enhance transparency and information exchange between governments. For example,

(i) The WTO trade monitoring exercise and Trade Policy Review Mechanism enhance the monitoring of government policies, thus complementing the informational role of the Dispute Settlement System discussed above. As discussed in WTO (2023c), there is scope for strengthening these mechanisms.

(ii) The WTO fosters the sharing of technical and evidence-based information through specialized committees. If an expert committee persuades a government that non-trade concerns (such as mitigating labour market disruptions, addressing environmental externalities or protecting national security) can be addressed effectively with less trade-restrictive measures than border measures, this can contribute significantly to global efficiency. This committee-based approach has already been embraced by the WTO in the area of specific trade concerns for behind-the-border measures. The same approach should be broadened to a wide range of non-trade concerns.

(iii) Bargaining theory suggests that better mutual information about each other's objectives and constraints reduces the likelihood of bargaining failures (Ausubel, Cramton, and Deneckere, 2002). Intuitively, governments aware of each other's domestic political constraints are more likely to find a compromise. This suggests that even the seemingly modest institutional function of fostering "mutual understanding" between governments may be valuable.

The WTO may also have a role to play in informing the global community of citizens about the dangers of a collapse of the rules-based multilateral trading system. Increasing public awareness of what the world would look like if the WTO ceased to exist might help to counter the political pressures that push in the direction of protectionism.

In conclusion, I do not mean to suggest that the WTO should give up on enforcing its fundamental rules. However, at a time when flexibility seems more critical to the survival of the WTO than the enforcement of hard rules, it might be a good idea to shift the focus toward the softer side of the WTO, at least for a while.

Disclaimer

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Despite overall growth, the participation of low-income economies in digital trade remains limited. However, it could increase with greater policy coordination. Digitally delivered service exports are dominated by high-income economies and a small number of middle-income economies. LDCs account for a mere 0.2 per cent of global exports of digitally delivered services, a market share that has fallen in recent years (WTO, 2023a). WTO simulations suggest that improving digitalization could increase the share of low-income economies in digitally deliverable services from 0.5 to 1.8 per cent (Bekkers et al., 2024). While improving customs procedures and reducing import costs can contribute to economic growth, the well-designed regulation of cross-border data flows also matters. A lack of data regulations can reduce customer trust, while stringent data regulations can increase compliance costs. Additional simulation results show that global GDP could drop by about 1 per cent if trade costs related to data flows increased due to geopolitical considerations. Conversely, global GDP could rise by nearly 2 per cent under a more coordinated data policy scenario.

Bridging the digital divide and preparing developing economies for digital trade requires both domestic and international mobilization. Improving the adoption and effective use of digital technologies requires a comprehensive and multi-faceted strategy. This includes investing in physical and digital infrastructure, enhancing digital literacy and skills, and establishing regulatory frameworks that support digital trade. As they navigate the complexities of regulating the digital economy, governments seek to balance facilitating the growth of the digital economy and addressing new regulatory challenges. These challenges include cross-border data flows and competition.[9] Domestic efforts to foster digital trade need to be complemented by greater international cooperation to build capacity in developing economies to improve digital connectivity and skills and to create a more transparent and predictable global digital regulatory environment. A majority of WTO members consider that the existing WTO rules on digital trade need to be updated and complemented to respond to the changing nature of trade and to facilitate digital trade. Under the Joint Initiative on E-commerce, 90 WTO members, including many developing economies and five LDCs, are negotiating specific rules on digital-trade-related issues. In July 2024, a stabilized text governing some aspects of digital trade was published.

International initiatives leveraging the specific expertise of different international organizations can catalyse more inclusive digital trade. The Work Programme on Electronic Commerce tasks the WTO Committee on Trade and Development with examining and reporting on the development implications of digital trade, taking into account the development, economic and financial needs of developing economies. Aid for Trade projects increasingly focus on digital trade, and development finance tripled between 2015 and 2019, reaching a total of US$ 18.6 billion (OECD and WTO, 2024). More recently, the WTO and the World Bank launched the "Digital Trade for Africa" project to help African economies harness digital trade opportunities. The initiative aims to ensure that digital infrastructure is supported by enabling regulatory frameworks, in order to magnify the benefits of digital trade, with the WTO and World Bank levering their synergies to provide concrete technical assistance and capacity-building activities (World Bank and WTO, 2023b). As discussed in Chapter C, greater international cooperation on digital trade can help reduce business uncertainty and encourage the participation of smaller businesses in the digital economy by mitigating the fixed costs associated with complying with digital regulations.

Coordinated investment policies can contribute to economic convergence by reducing trade costs, supporting infrastructure development and fostering innovation. Aligning regulations, streamlining administrative procedures and improving policy transparency and predictability through greater cooperation can reduce transaction costs and stimulate investment. Collaborating on investment can also promote infrastructure development projects serving the public good, such as transportation, energy, telecommunications and water management systems, which are crucial for economic development because they enhance connectivity, reduce transaction costs and improve the overall business environment. In addition, economies can cooperate to promote innovation and facilitate technology transfer through different mechanisms, including investment partnerships, R&D initiatives, technology parks and technology-sharing agreements.

Although low-income economies only receive a small share of FDI, they stand to benefit significantly from improvements in investment facilitation. LDCs' share of greenfield FDI projects, i.e., where a company establishes new operations in a foreign country from the ground up, declined from 3 per cent in the mid-2010s to 1 per cent between 2021 and 2023 (UNCTAD, 2024a). More generally, FDI in low-income and lower middle-income economies

has dropped by one third over the past two decades. Strengthening international cooperation to ensure a stable and open investment climate is essential. Over 125 WTO members, including many developing economies and several LDCs, finalized the Investment Facilitation for Development (IFD) Agreement in November 2023. This plurilateral agreement, which complements the Agreement on Trade-Related Investment Measures (TRIMs) and the General Agreement on Trade in Services (GATS), focuses on transparency, streamlining investment authorizations, international cooperation and sustainable investment, including responsible business conduct and anti-corruption measures. A recent simulation study suggested that implementing investment facilitation measures, such as online information publication and streamlined authorization procedures, could generate global welfare gains ranging between 0.6 per cent and 1.7 per cent, with the largest gains in low-income economies (Balistreri and Olekseyuk, 2024).

Although both tariffs and domestic support heavily distort global agricultural trade patterns, reducing domestic support could help LDCs more than reducing tariffs. Agriculture remains a vital sector in low-income economies, accounting for over 58 per cent of employment on average in 2022 (see Box D.3). While, as discussed in Chapter B, focusing solely on agriculture will not lead to economic convergence, promoting agricultural trade and improving the functioning of markets for food and agriculture can, to an extent, contribute to enhancing economic growth. Simulation analysis suggests that removing domestic support and tariffs on agriculture and food products could raise global real income by US$ 48 billion (Anderson et al., 2023), almost 60 per cent of which could benefit developing economies. However, opening up trade in high-income economies would only generate 60 per cent of the gains of developing economies, highlighting the significance of agricultural trade reforms in emerging economies as well. LDCs would not necessarily benefit fully from such broad reforms of domestic support and tariffs, because many of them already enjoy tariff preferential access to markets in high-income economies (Bureau, Jean, and Matthews, 2006). While a global elimination of tariffs on agricultural goods would eliminate tariff preferences, abolishing domestic support globally

Box D.3: The economic importance of cotton for LDCs

Raw cotton fibre is a major source of export earnings for several LDCs. The cotton industry contributes significantly to the economies of these LDCs by generating revenues and jobs for more than 20 million people in Africa alone. Cotton is the second-largest exported crop globally, surpassing staple crops like wheat, maize and rice. African economies export over 90 per cent of their annual cotton production. Benin, Burkina Faso, Chad and Mali, the so-called Cotton-4 economies, are the leading cotton producers and exporters of the African continent, together accounting for 3 per cent of total world cotton production and around 8 per cent of world cotton trade, while cotton trade makes up between 3 and 10 per cent of their national GDP (FAO, 2022).

The critical importance of the cotton sector for many vulnerable developing economies, which are competing with high-income economies on the world market, is fully acknowledged in the WTO. WTO discussions on the topic follow two tracks: trade aspects addressing distorting subsidies and trade barriers for cotton, and development assistance for cotton production and its value chain.

The 2015 Ministerial Decision on cotton prohibits the use of export subsidies and calls for a further reduction in domestic support for cotton producers. Developed and developing members in a position to do so also agreed to grant duty-free and quota-free market access for cotton and cotton-related products from LDCs. While the value of imported cotton from LDCs grew at an average annual rate of 6 per cent between 2016 and 2022, the LDC share in total cotton imports declined from 9 to 8 per cent during the same period, although with significant fluctuation. Government support for cotton, including minimum support prices and direct support to producers, remain high, particularly in several developing economies. Globally, these support measures amounted to over US$ 8 billion in 2022 and 2023 (ICAC, 2023).

In parallel, recent years have seen increased cotton-specific development assistance. In 2023, over 55 per cent of total cotton-specific assistance was directed to the Cotton-4 economies. Initiatives such as the WTO-International Federation of Association Football (FIFA) initiative “Partenariat pour le Coton” and the UN World Cotton Day seek to increase cotton transformation and investment further.

could have mixed effects. It could reduce agricultural incomes in high- and middle-income economies, but slightly raise them in low-income economies by creating new export opportunities. However, the effects are estimated to be modest, with average farm incomes increasing by 0.33 per cent relative to a baseline (Glauber and Laborde, 2022).

International cooperation is needed to discipline or discourage the use of export restrictions and tariff escalation that affect trade in raw materials and to find alternative approaches. As discussed in Chapter B, tariff escalation and export restrictions are prevalent in natural resource sectors, where raw materials face lower duties compared to their processed forms, while exports are often restricted. Both export taxes and tariff escalation can be "beggar-thy-neighbour" strategies, meaning that governments manipulate export prices (terms-of-trade effect) or promote domestic processing at the expense of foreign production (production relocation effect) (Latina, Piermartini, and Ruta, 2011). While tariffs are strictly regulated by the WTO, export duties are not (WTO, 2010). Clarifying the appropriate use of export restrictions on critical materials would reduce policy uncertainty and risks in GVCs. Greater transparency and information-sharing would also help firms to assess production capacities better and avoid bottlenecks (WTO, 2021b). Tailored technical assistance and capacity-building programmes, focusing on specific sectors with competitive advantages and offering individualized assistance to firms based on their unique needs, could help firms in developing economies to move up the value chain and export more processed goods. Implementing robust monitoring and evaluation mechanisms, coupled with continuous feedback loops from beneficiaries, can help to refine and improve the technical assistance programmes.

Uncoordinated trade-related environmental policies can inadvertently impact the export capabilities of developing economies. In the absence of internationally coordinated environmental policies, the adoption by individual economies of stringent environmental measures can prompt firms to relocate to regions with lower environmental standards, increasing the risk of so-called pollution havens and carbon leakage (i.e., when firms transfer production from economies with stricter climate policies to economies with laxer policies on carbon emissions). Trade-related strategies to address carbon leakage, such as carbon border adjustments, may inadvertently impede the export capabilities of developing economies striving for manufacturing-led economic growth, and thus hamper economic convergence. Such measures can lead to trade tensions and increased trade barriers (WTO, 2022).

International cooperation on environmental policies is essential to ensure coherence between environmental and trade policies and to prevent that policies hamper economic convergence. In the WTO, the revitalization of work in the Committee on Trade and Environment and progress in the environmental initiatives (Trade and Environmental Sustainability Structured Discussions (TESSD), Dialogue on Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade (DPP) and the Fossil Fuel Subsidy Reform (FFSR) initiative) can support good practices as well as coherent and fit-for-purpose trade-related environmental policies. Efforts have been initiated at the international level to foster collaboration, develop relevant international standards and enhance coherence in national approaches to climate change. The WTO, in collaboration with the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), United Nations Trade and Development (UNCTAD), the United Nations Framework Convention on Climate Change (UNFCCC) and the World Bank, has launched a joint task force on the alignment and coordination of carbon pricing and other climate mitigation policies.

(iii) Supporting the implementation of WTO agreements

International trade cooperation can help low-income economies to overcome the challenges that hinder them from implementing their trade agreements. As discussed in Chapter B, low-income economies often face difficulties in implementing trade agreements due to limited financial resources, weak institutional capacity and infrastructural deficits, which impede their participation in international trade. The WTO, through S&DT flexibilities and other initiatives, and collaboration with other international organizations, can help address these obstacles by assisting low-income economies in meeting SPS and TBT requirements and in implementing specific WTO agreements, such as the TRIPS Agreement or the TFA.

More work on S&DT implementation in the TBT and SPS agreements is needed. The implementation of S&DT provisions in the TBT and SPS agreements has been receiving greater attention, as compliance with TBT and SPS measures can be particularly burdensome for producers in low-income economies. Over the years, several developing members, notably in the G-90 group, have proposed modifying S&DT provisions to help exporting firms in developing economies adapt more easily to new TBT and SPS measures adopted

by developed economies.[10] As part of the efforts to make S&DT provisions in WTO agreements precise, effective and operational**,** a Ministerial Declaration on the implementation of S&DT provisions in the TBT and SPS agreements was adopted at the 13th Ministerial Conference in 2024. The Declaration calls for various improvements, including training and technical assistance, and increased transparency in notifications, including information about extensions to comment periods. Work is continuing at the WTO to enhance the implementation of S&DT for developing members, including LDCs, in the SPS and TBT Agreements.

Full implementation of the TFA could boost the participation of LDCs in trade. National trade facilitation committees (NTFCs) and implementation roadmaps are essential to accelerate the implementation of the TFA in low-income economies. Despite the extensive flexibilities provided by the TFA, and the efforts of low-income economies to implement it, these economies face specific challenges due to capacity constraints, resource limitations and technology gaps. These constraints are reflected in their lower implementation rate, as discussed in Chapter B. Helping low-income economies to implement the TFA fully could, potentially, increase their exports significantly. In 2014, the Trade Facilitation Agreement Facility was created to assist developing and LDC members in fully implementing the WTO TFA. NTFCs are crucial for trade facilitation reform, as they coordinate efforts among various stakeholders, including customs, government agencies and the private sector. Other important contributing factors include a working, cooperative partnership with the private sector, and an active and sustained relationship with development partners and contributors. In this context, implementation roadmaps and strategic plans can assist governments in complying with implementation dates and accelerate implementation, while enhancing transparency among stakeholders and helping to secure the necessary support from contributors and development partners for trade facilitation reforms.

Greater collaboration among development partners, international agencies and non-governmental organizations is needed to accelerate TFA implementation in low-income economies. Following several years of decline, Aid for Trade commitments on trade facilitation rebounded significantly, with a 150 per cent increase between 2021 and 2022, almost reaching levels preceding the COVID-19 pandemic, at US$ 471 million. However, disbursements for trade facilitation have declined in recent years, reaching US$ 252 million in 2022, which was slightly lower than disbursement levels in the 2010s (OECD and WTO, 2024). While strengthening trade-related infrastructure in low-income economies remains a priority, improving digital connectivity is crucial to address the digital divide and accelerate TFA implementation efforts.

The S&DT provisions of the TFA mark a significant shift from the WTO's traditional approach of granting flexibilities and can serve as a blueprint. The TFA stands out by providing a comprehensive flexibilities package without exemptions, unlike other WTO agreements that typically offer longer transition periods or exemptions to developing members. Notably, the TFA introduces a conditional link between implementation capacity and commitment requirements, allowing developing economies and LDCs to establish their own implementation timetables based on their capacity (WTO, 2015). It sets general principles and detailed instructions for the operation of flexibilities, and includes additional flexibilities for LDC members, emphasizing the need for assistance and support for capacity-building. In that context, the TFA also incorporates built-in flexibilities in its technical provisions, such as conditioned obligations and best-endeavour obligations. The approach to S&DT of the TFA has already inspired the S&DT provisions of the recently finalized plurilateral Investment Facilitation for Development Agreement and they could further serve as a blueprint for other agreements.

Greater support could help ensure that low-income economies can implement an IP regime that responds to their needs. The way in which economies chose to implement international IP standards domestically impacts the accessibility of IP protection for inventors, artists and businesses. As discussed above, the TRIPS Agreement requires the implementation of minimum standards for IP protection and enforcement, while allowing considerable flexibilities, such as possible exceptions to substantive IP rights, procedures and formalities for acquisition and enforcement, administrative organization of IP registration systems, and the selection of government agencies to exercise discretion and authority. Poor implementation choices can undermine the benefits of an IP protection system, resulting, for instance, in unnecessarily large financial and procedural costs. Unclear procedures and responsibilities can also limit the use of legitimate TRIPS flexibilities, such as government use or compulsory licensing of patents, making it difficult for domestic authorities to address IP abuse or overreach.

Low-income economies can take several approaches to maximize the benefits of IP

protection. These include investing in education and training to build a skilled workforce capable of leveraging IP for economic growth, developing infrastructure to support innovation, such as R&D facilities and technology parks, and engaging in international cooperation to benefit from technology transfer and global best practices in IP management (Ernst, Guderian and Richter, 2022).

A considerable array of technical assistance is available to support developing economies in designing and implementing balanced and workable IP systems. Various organizations, including the WTO, the World Intellectual Property Organization (WIPO), and other international entities, help developing economies navigate the complexities of IP protection and enforcement.[11] To help and empower developing economies to exercise legitimate TRIPS flexibilities in their domestic IP systems where they see fit, WTO members have also taken joint action to clarify and confirm the availability of TRIPS flexibilities at the international level and expand them. Relevant instruments include the 2001 Declaration on the TRIPS Agreement and public health,[12] the Special Compulsory Licensing System that became a permanent part of the amended TRIPS Agreement in 2017, and, more recently, the 2022 Ministerial Decision on the TRIPS Agreement, clarifying and streamlining options for access to COVID-19 vaccines. These instruments contribute to providing agency to LDCs in crafting balanced and effective IP systems tailored to their specific needs.

Innovative Aid for Trade financing is critical as traditional development finance is under stress. In a post-pandemic world with geopolitical tensions, rising debt burdens and a need for urgent climate action, governments, international organizations and financiers are increasingly navigating budgetary constraints as they mobilize funds to address these multifaceted crises. Developing economies and LDCs anticipate a continued need for Aid for Trade to support their integration into the global economy. Amidst traditional development finance challenges, modern Aid for Trade requires new models and approaches to meet the increasing demands of developing economies. Innovative financing mechanisms can complement traditional official development assistance and public funding to support trade integration and development efforts. Key strategies to unlock new funding sources include leveraging private sector investment through public-private partnerships and blended finance, utilizing innovative financial instruments such as development impact bonds and guarantees. Moving forward, concerted efforts are necessary to ensure that the Aid for Trade initiative continues to support a more inclusive, resilient and sustainable global trading system. The EIF, which is the only LDC-focused Aid for Trade programme, has an important role to play in these efforts.

(vi) Tailoring exemptions to the needs of developing economies and LDCs taking into consideration the importance of commitments

Developing countries are advancing the S&DT negotiations under the coalition of the G-90. At present the G-90 has put forward 10 agreement-specific proposals to amend S&DT provisions to support the industrialization efforts of developing economies and LDCs, while minimizing the risk of legal retaliation by other members.[13] The proposal includes a simplified procedure for applying trade restrictions in development programmes under Article XVIII of the GATT 1994. The G-90 also proposes a temporary, time-bound deviation from some of the disciplines set out in the TRIMS Agreement, including the prohibition to discriminate against imported products and implement quantitative restrictions on imports or exports when adopting investment measures. In addition, the proposal would exempt LDCs from the obligations of the TRIMS Agreement for as long as they are classified as LDCs.

A comprehensive analysis of potential changes to S&DT provisions could contribute to improving their effectiveness in supporting development through trade. Achieving a delicate equilibrium between flexibilities, in particular those that require more policy space, and commitments is crucial in order to preserve predictability, a policy aspect that is often lacking or limited in developing economies. Proposed flexibilities could be evaluated based on economic arguments in favour of S&DT, such as a low level of technology, market failures and financial constraints specific to lower-income economies, or a concentrated production structure (see Section D.1(a)). Assessing the ease of using S&DT provisions based on a legal and historical analysis of their past use can provide useful insights. Similarly, analysing the economic impact of S&DT proposals while taking into account the specific circumstances of the targeted economy can inform the discussions. In that context, reviewing the available empirical evidence on the effectiveness of measures permitted by the proposed S&DT flexibilites is important. For instance, and as discussed in Chapter B, empirical evidence on industrial policy, in particular local content requirement, remains mixed (Juhász, Lane and Rodrik, 2023). Finally, assessing the potential effects of the proposed S&DT flexibilities on other WTO members can help identify their potential economic importance.

However, the potential of such thorough analysis to facilitate progress in S&DT talks remains uncertain. The results of the comprehensive analysis discussed above may differ significantly from one economy to another, with cross-border spillovers of policy interventions likely to increase with economic size and level of development. Members have different views on whether to define sub-categories of developing economies as a means to providing more tailored S&DT flexibilities while minimizing potential adverse effects on other economies. Some members argue that development is a multi-faceted process that is very difficult to quantify. They further contend that each developing economy has the inherent right to decide independently when, where, and how to use S&DT provisions, based on its unique circumstances. For example, in the Ministerial Decision on TRIPS and COVID-19 vaccines, developing members with existing capacity to manufacture COVID-19 vaccines are encouraged to make a binding commitment not to avail themselves of this Decision. This approach where certain developing countries voluntarily opt out of using specific flexibilities could serve as a blueprint for addressing the thorny issue of increased commitments, while devising more tailored S&DT provisions. As discussed above, the TFA approach to S&DT is also a potentially viable way to balance commitments and flexibility.

2. Making the WTO and trade more inclusive for people and firms

Trade inclusiveness within economies seeks to ensure that the benefits and opportunities of the WTO and trade are accessible to all individuals and businesses. In particular, these benefits should be extended to all those who have traditionally been marginalized or excluded. Marginalized groups include women, children, the elderly, people with disabilities, ethnic and racial minorities, sexual minorities, indigenous peoples, refugees and low-income individuals. In the labour market, vulnerable workers include low-wage, informal, casual or contingent workers and migrant workers. Ensuring that the WTO and trade are more inclusive also means creating a more equitable global trading system by addressing barriers that prevent disadvantaged groups from participating fully in international markets. Micro, small and medium-sized enterprises (MSMEs) are considered to be among these disadvantaged groups because they are typically owned and operated by small business-owners, including a significant number of women, and often face certain specific challenges, such as limited access to capital, resources and markets compared to larger, more established companies.

Issues related to poverty reduction, inequality and inclusiveness have repeatedly been raised in the WTO. The preamble of the Marrakesh Agreement Establishing the WTO recognizes raising standards of living and real income, and ensuring full employment and sustainable development as central objectives of the multilateral trading system. The aim of WTO disciplines is largely to minimize the negative effects of trade policies on trading partners and to increase the economic benefits resulting from more trade openess. Addressing the distributional effects of trade within each economy is the responsibility of individual governments, by means of domestic policies, including adjustment and redistribution policies (WTO, 2017). Thus, the increased focus on inclusiveness within the WTO is driven partly by concerns that rising inequality and the perception that trade is leaving certain groups behind could lead to a backlash against trade.

Trade and trade policies can have notable distributional effects, and the WTO, by promoting trade, can contribute to these effects. As discussed in Chapter C, the impact of trade and trade policies on inclusiveness can differ significantly between economies, and empirical evidence on the impact of the WTO remains relatively limited. Some WTO accessions have been shown to impact employment and wages, and in some cases reduce poverty, and there is evidence of the distributional effects of certain WTO agreements. Apart from this evidence, however, there is an unfounded perception that the multilateral trading system systematically favours larger companies over MSMEs.

(a) Inclusiveness of people and firms is increasingly taken into consideration at the WTO

Incorporating inclusiveness into the WTO's operations can contribute to creating a more fair and equitable global trading system. WTO disciplines offer policy space for governments to promote social inclusion and to address the possible adverse labour market impacts of trade. In recent years, initiatives have been launched by some member groups to promote trade-related social inclusion, notably of women and MSMEs. By addressing the participation and inclusion in trade of marginalized groups and MSMEs, as well as aligning its work with the UN Sustainable Development Goals and engaging with stakeholders, the WTO is supporting efforts to share the benefits of trade more widely and to contribute to sustainable and

inclusive economic growth. However, further research is necessary to evaluate the direct and indirect effects of the WTO on inclusiveness.

(i) WTO accession can contribute to poverty reduction

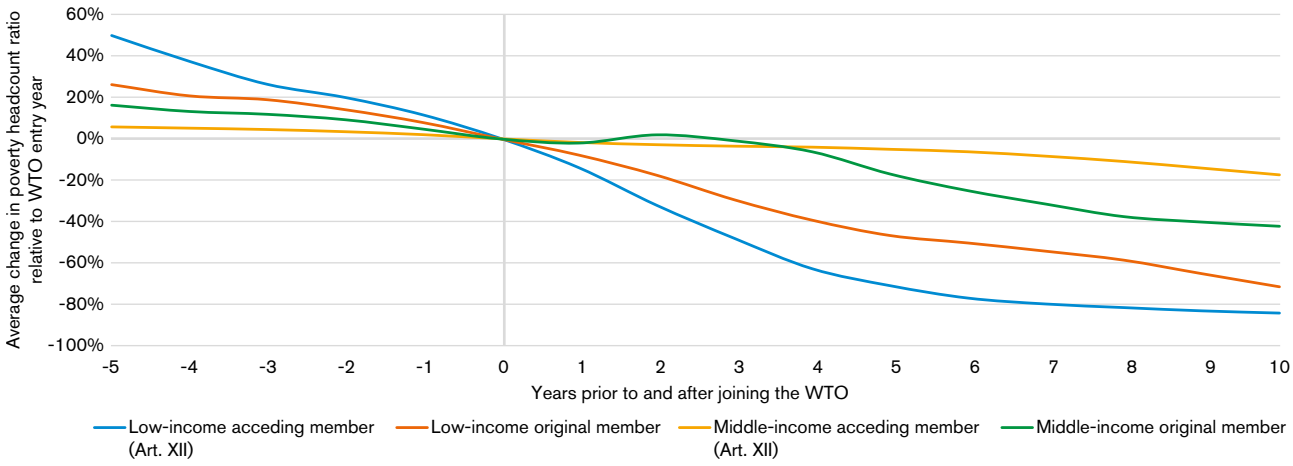
Accession to the WTO is associated with a reduction of poverty in acceding economies. As discussed in Section D.1, empirical evidence confirms that GATT/WTO membership has a positive impact on economic growth through the reduction of trade barriers. The WTO commitments that these economies make also enhance good governance and the predictability of their market access conditions, which in turn contribute to economic growth, an important engine of poverty reduction. Poverty reduction has, on average, been more marked in economies that have acceded to the WTO since 1995, and that have made substantial commitments, including structural reforms, under Article XII of the Marrakesh Agreement, compared to original developing GATT contracting parties that became WTO members pursuant to Article XI of the Marrakesh Agreement (see Figure D.10). For instance, China's accession to the WTO in 2001 resulted in welfare gains for nearly all households across various income levels, with a strong pro-poor distributional effect (Han et al., 2016).

Further research on the impact of WTO membership on poverty reduction would be valuable to identify and quantify specific mechanisms. The empirical evidence on the causal impact of GATT/WTO accession on poverty and other distributional outcomes in acceding economies is limited and only captures the effect of tariff reductions (Fan, Lin and Lin, 2020; Erten and Leight, 2021; Zhou and Zhang, 2021; Greenland, Lake and Lopresti, 2024). The studies available tend to overlook broader accession-related reforms and policy changes, including services market-opening and the implementation of various policies and institutional reforms. Reforms undertaken during the process of WTO accession have a positive impact on economies, and may have a potentially direct effect on poverty.

(ii) WTO disciplines do not restrict the use of most domestic inclusion policies

Nothing in the WTO agreements restricts the use of non-discriminatory domestic adjustment and of social and redistribution policies to address the distributional impact of trade. Adjustment policies, such as active (e.g., training and job search assistance) and passive labour market policies (e.g., unemployment insurance) do not discriminate against imports, and typically have no trade-related cross-border spillovers (WTO, 2017). Policies that enhance overall competitiveness, such as by improving education, infrastructure and the efficiency of financial markets, can also help to facilitate the reassignment of labour from contracting industries facing import competition to expanding sectors with a comparative advantage. Similarly, social protection and redistribution measures can be used to compensate for possible adverse effects of income loss due to trade or technological changes, as discussed in Chapter C.

Figure D.10: Association of deeper WTO commitments with greater poverty reduction



Source: Authors' calculations, based on World Bank data on poverty and WTO data on membership date.
Note: The figure displays the average percentage change in the share of the population living on less than US$ 2.15 a day at 2017 purchasing power adjusted prices relative to the poverty headcount ratio in the year when the economy joined the WTO. The average change in poverty headcount ratio is weighted by the share in the world poverty headcount ratio. Year 0 corresponds to the year of accession to the WTO, which is 1995 for original (non-Article XII) members. Only economies that were low-income and middle-income at the time of joining the WTO are considered. The income groups are based on the 2022 World Bank's classification.

Other trade-distortive domestic instruments used to manage the distributional impact of trade are subject to WTO disciplines. Tariffs or subsidies may sometimes be used to protect jobs at risk from import competition, just as export restrictions may be implemented during food crises to protect vulnerable populations. Policy space can be used by members to implement discriminatory measures to promote domestic inclusiveness, including poverty reduction, for instance by relying on exceptions relating to the protection of public morals.[14] WTO rules also include safeguards to address situations in which a member determines that imports of a product, in significant quantities and under certain conditions, are causing or threatening to cause serious injury to the domestic industry producing similar or directly competitive products. Finally, governments always have the possibility of renegotiating a concession. However, this flexibility needs to be weighed up against the benefits of making commitments that can help, in the long run, to reduce poverty by promoting economic stability and predictability.

(iii) Different WTO provisions can benefit some vulnerable groups

While some WTO agreements explicitly address aspects of inclusiveness, a number of WTO provisions that do not mention it can still support it. For example, several WTO provisions explicitly refer to MSMEs. The Anti-dumping Agreement and the Agreement on Subsidies and Countervailing Measures (SCM) recognize that the evidentiary burden of investigations may impede MSMEs in attempts to file complaints or to respond in anti-dumping or countervailing duty investigations, and thus require that investigating authorities take these constraints into account. The TRIPS Agreement gives WTO members leeway to promote the technological development of their MSMEs. The TFA explicitly requires members to consider the specific needs of MSMEs requesting advance rulings on the treatment of imported goods, and also requires that members not restrict MSMEs from being made eligible to be "authorized operators", provided that they meet specified criteria.[15] The new disciplines on services domestic regulation aim to cut trade costs and facilitate services trade, especially for the benefit of small businesses. Among others, the disciplines include the first gender provision in a WTO agreement, which prohibits gender discrimination when a participating member is authorizing the supply of services. More generally, many other WTO provisions can contribute to advancing inclusiveness, even when they do not explicitly target specific vulnerable groups.

A number of provisions in the WTO Agreement on Agriculture aim to contribute to food security, which is of particular importance to certain low-income groups. Agriculture forms the backbone of many low-income economies, providing employment, food security and a significant portion of GDP, while also supporting livelihoods and sustaining rural communities. Women contribute significantly to the agricultural economy, particularly in developing economies, often through small-scale, subsistence farming that supports their families' livelihoods. The Agreement on Agriculture exempts several support measures from ceilings on domestic support (including through its Annex 2, known as the "Green Box", which exempts certain support programmes that cause no more than minimal distortion to trade and production). Green box programmes include domestic support for general services – such as rural infrastructure, pest and disease control, training and extension and advisory services – as well as natural disaster relief, environmental programmes and regional assistance programmes. Developing members are also given special treatment with respect to public stockholding programmes for food security purposes, while all WTO members are allowed to provide unlimited support for domestic food aid to people in need. The Ministerial Declaration on the Emergency Response to Food Insecurity and the Ministerial Decision on World Food Programme Food Purchases Exemptions from Export Prohibitions or Restrictions,[16] adopted at the 12th Ministerial Conference, express the determination of WTO members to make progress towards ending hunger and achieving food security and improved nutrition, and commits them to take "concrete steps" to facilitate trade and improve the functioning and long-term resilience of global markets for food and agriculture.[17] The declaration also states that emergency measures introduced to adress food security concerns should minimize trade distortions and be temporary, targeted and transparent, as well as being notified and implemented in accordance with WTO rules. Members imposing such measures should also take into account their possible impact on other members, in particular on LDCs and net food-importing developing economies.

The WTO Agreement on Fisheries Subsidies, adopted in 2022, recognizes the needs of fisherfolk in developing economies and LDCs. Fisherfolk in low-income economies typically operate on a small scale with traditional methods, face economic vulnerability due to low and irregular incomes, have limited access to resources and markets, and depend heavily on natural resources

and community support, as they are likely to lack adequate social protection. The Agreement on Fisheries Subsidies sets new global rules to curb harmful subsidies and protect global fish stocks. It grants developing economies a grace period with regard to prohibiting subsidies for illegal, unreported and unregulated fishing and overfished stocks, and includes a due restraint clause to members to exercise caution and restraint when raising matters involving an LDC member. It also provides for technical assistance and capacity-building, including the creation of a fund to help developing members implement the agreement. For the Agreement to become operational, two-thirds of WTO members have to deposit their "instruments of acceptance" with the WTO.

The TFA can benefit MSMEs by simplifying and streamlining international trade procedures and improving information availability. Compliance with border procedures commonly features among the most important obstacles faced by MSME exporters (ITC, UNNEXT, and UN-ESCAP, 2016). As discussed in Chapter B and in Section D.1, the TFA lowers transaction costs and minimizes delays at borders by reducing red tape and enhancing the efficiency and transparency of customs processes. These facilitation improvements can make it easier and more cost-effective for MSMEs to expand their market reach, compete more effectively with larger firms, and integrate into global supply chains, thereby fostering economic growth and development. Empirical evidence points to a stronger probability of MSMEs exporting after enhancing trade facilitation measures (de Dios, 2009; Li and Wilson, 2009; Son and Son, 2011; Hoekman and Shepherd, 2013; 2015). In particular, more recent analysis finds that the TFA mainly benefits MSME trade by improving information availability, while other trade facilitation measures, such as advance rulings, appeals procedures and the automation of border formalities, tend primarily to benefit larger exporters (Fontagné, Orefice, and Piermartini, 2020). This suggests that trade facilitation measures may impact exporters beyond the fixed or variable cost components of red tape barriers.

(iv) Discussions on inclusive trade and trade-related technical and capacity-building initiatives are gaining traction in the WTO

Discussions on inclusive trade, specifically focusing on MSMEs and women, have gained significant importance in different WTO committees and working groups. For instance, the 1998 Work Programme on Electronic Commerce has a prominent MSME focus, examining how MSMEs might best take advantage of e-commerce. Likewise, the Joint Initiative on E-commerce seeks to take into account the particular needs of MSMEs with regard to e-commerce. The Committee on Government Procurement is implementing a treaty-mandated work programme to support the participation of small and medium-sized enterprises in government procurement. The work programme has produced a report listing best practices for promoting and facilitating the participation of SMEs in government procurement. Discussions on MSMEs are also occurring in other committees, such as in the TRIPS Council with a focus on support for MSME innovation.

In recognition of the specific needs of MSMEs and businesses owned by women, informal working groups among like-minded members on MSMEs and on Trade and Gender have been established. In addition to providing policy guidance, the Informal Working Group on MSMEs endeavours to develop concrete tools to support the participation of MSMEs in international trade. For example, it developed the Trade4MSMEs platform, which includes step-by-step trade guides for MSMEs and policymakers. Meanwhile, the Informal Working Group on Trade and Gender seeks to promote women's participation in global trade by sharing best practices, exchanging views on how to apply a "gender lens" to the work of the WTO, reviewing gender-related WTO reports, and discussing how women can benefit more from the Aid for Trade initiative.

Poverty reduction, women's economic empowerment and MSMEs' participation are increasingly being integrated into Aid for Trade programming. Key strategic objectives that emerge strongly in national development strategies are poverty reduction, women's economic empowerment, gender equality and job creation, which are also increasingly reflected in Aid for Trade priorities (OECD and WTO, 2024). These priorities highlight a commitment among Aid for Trade stakeholders to working towards poverty eradication and more inclusive trade. For instance, the Women Entrepreneurship for Africa (WE4A) initiative, launched by the European Union in collaboration with several national development agencies, regional banks, international organizations and private companies, provides women entrepreneurs with training, technical support and opportunities to access finance at every stage of their business growth.

The Enhanced Integrated Framework (EIF) helps LDCs participate in international trade, contributing to poverty reduction and women's economic empowerment, among other benefits. The EIF assists LDCs and economies that have recently

graduated from LDC status to mainstream trade into their own development plans, thereby improving their opportunities to create trade-led inclusive and sustainable growth, and it places a strong emphasis on inclusivity, specifically targeting greater inclusion of women, young people and MSMEs. For instance, in 2016 the EIF worked with the National Association of Smallholder Farmers (NASFAM) in Malawi to introduce an innovative skills-building process for smallholder farmers – many of them women – resulting in a 48-percentage-point increase in mechanized farming and a 160 and 280 per cent rise in average incomes for groundnut and soya bean farmers, respectively, which contributed to reducing incidences of poverty among beneficiaries from 56 per cent to 37 per cent. The project also facilitated the exports of US$ 2.3 million worth of groundnuts and soya beans to regional markets.

Trade finance facilitation programmes can significantly benefit and enhance international trade for MSMEs and women traders. Many economies and businesses, in particular in developing economies, suffer from inadequate access to trade finance, which causes them to miss out on economic and development opportunities. Trade finance requests by MSMEs and businesses led or owned by women face disproportionately high rejection rates. Trade finance facilitation programmes provided by regional or multilateral development agencies and financial institutions aim to reduce the risks and improve the accessibility of trade financing for exporters and importers, particularly in emerging markets, by offering guarantees and credit enhancements. For instance, the Asian Development Bank's Trade Finance Program[18] provides loans and guarantees through partner banks in Asia and the Pacific.

The Standards and Trade Development Facility (STDF) contributes to facilitating safe and inclusive trade. Established by the Food and Agriculture Organization (FAO) of the United Nations, the World Organisation for Animal Health (WOAH), the World Bank, the World Health Organization (WHO) and the WTO, the STDF aims to help developing economies build the necessary capacity to meet international standards for food safety and animal and plant health. This enhanced ability to engage in regional and international trade contributes to more sustainable economic growth, poverty reduction and improved food security in developing economies. STDF projects are increasingly addressing women's economic empowerment, as key lessons from past projects highlight the importance of promoting women's engagement at all levels, including senior management and project teams. Projects targeting women farmers in cooperatives also help to enhance their knowledge and decision-making for safe fruit and vegetable exports.

(b) The WTO can be made more conducive to inclusive trade and growth for people and firms

While the WTO is committed to promoting inclusive trade, there is still room for further progress. If trade is to continue to foster opportunities and growth in order to increase inclusiveness, international trade cooperation must be strengthened in light of growing geopolitical tensions, the digital revolution and the need for sustainability. This can be achieved by building a more fair and inclusive multilateral trading system, strengthening information-sharing on inclusive trade policies and improving the effectiveness of technical assistance.

(i) Strengthening the WTO and updating its rulebook to make trade more inclusive

Re-globalization through strengthened international cooperation centred on the WTO could help to reduce poverty in less integrated and diversified economies. Trade fragmentation poses a significant risk to the progress made in reducing poverty and inequality (WTO, 2023c). While some might benefit from a reorientation of GVCs, vulnerable groups, in particular low-income households, are likely to experience greater hardships due to rising economic instability and trade costs. A reformed WTO with a fully functioning dispute settlement mechanism, to ensure a fair, transparent and predictable trading environment, holds the potential to help promote trade and growth in countries that have not yet succeeded in harnessing trade to develop their economies. Given that an important share of the populations of many of these economies are living in poverty – the share of the population living in extreme poverty is 44 per cent on average in low-income economies, compared to 10 per cent on average across all economies – re-globalization has the potential to contribute to poverty reduction.

Stronger multilateral cooperation can also help ensure that more firms and more workers, including women and workers from disadvantaged groups, can participate in and benefit from trade. Digital trade holds the potential to make trade more inclusive, while international initiatives leveraging the specific expertise of different international organizations could catalyse digital trade to make it more inclusive, not only for less integrated economies, but also for MSMEs and women (IMF et al., 2023; WTO, 2023c). Similarly, more open and predictable services markets are not only key to fostering services-led development, they can also improve the participation of women and

MSMEs in the economy (WTO, 2023c). Combining market-opening negotiations with international cooperation on regulatory issues could help to harness the potential of services trade further, both to foster services-led development and to strengthen the participation of women and MSMEs in trade. Implementation of the agreement on services domestic regulation, for example, could save businesses, especially small businesses, US$ 150 billion a year globally (OECD and WTO, 2021). Full implementation of the TFA, or multilaterally negotiated reductions of tariffs and NTMs, would benefit MSMEs relatively more than larger firms. Beyond the measures discussed in Section D.2(a), the reduction of trade-distorting domestic support, which is concentrated in only a few economies and is generally provided to large producers, could also open new market opportunities for low-income producers (WTO, 2023c).

(ii) Strengthening information-sharing on making trade policies more inclusive

Information-sharing, discussion of best practices, and data collection and analysis can facilitate the inclusive implementation of WTO agreements. One of the core functions of the WTO – and one that is often taken for granted after 70 years of multilateralism – is that it provides a forum for members to discuss and exchange views on trade-related issues. For instance, discussions in the TRIPS Council provide information on the various IP-related initiatives taken by WTO members to support their MSMEs. Similarly, the Informal Working Group on MSMEs compiled information on measures taken by members to help MSMEs benefit from Authorized Economic Operator (AEO) programmes, an important issue for MSMEs, given that they have difficulties in meeting AEO criteria.[19] Another example is the trade and gender dimension, which is gradually making its way into Trade Policy Review Body (TPRB) discussions, mainly through the voluntary provision of relevant information in trade policy review reports prepared by members and their statements at TPRB meetings (World Bank and WTO, 2020).

Discussions on inclusiveness and information-sharing in the WTO need to be informed by more and better data and analysis. Members' notifications of trade measures (e.g., concerning agriculture, goods, services, SPS, TBT and trade facilitation) could become a vehicle for voluntary information-sharing on domestic policies on inclusiveness, including poverty reduction and labour standards, which could contribute to raising awareness and fostering discussions in different WTO committees. The WTO could encourage and possibly coordinate efforts to collect relevant data and to conduct analysis to inform discussions. Aggregated data can mask the specific effects of trade policies on some vulnerable groups, highlighting the need for more disaggregated data to assess the impact of tariffs and NTMs at the individual level. While there is some evidence that current tariff profiles discriminate against low-income individuals and women, and that NTMs discriminate against SMEs, the data needed to conduct such analysis are not systematically collected. Trade-related data on certain vulnerable groups, such as persons with disabilities and indigenous peoples, is scarce.

Increased participation of representatives from vulnerable groups would enhance WTO discussions on making trade policy more inclusive. Public scrutiny is an essential aspect of the functioning of any modern international organization that deals with public goods. The WTO Secretariat engages in various outreach initiatives to foster stakeholder participation and promote transparency in global trade discussions. The WTO Public Forum serves as the largest annual outreach event, and provides a platform for stakeholders worldwide to discuss the latest developments in trade. In addition, the WTO Secretariat organizes events such as the Parliamentary Conference on the WTO, Trade Dialogues, and regional and Geneva-based seminars to engage with parliamentarians, business leaders, civil society representatives and the media. More recently, the WTO Director-General set up a civil society group and a business advisory group, in part to remove any suspicion of secrecy or bias within the organization. These advisory groups provide an informal platform to share views and debate the work of the WTO. WTO members also recognize the importance of engaging stakeholders for inclusive trade policy-making, with some suggesting modifications to the WTO's stakeholder work, while others favour stakeholder involvement at the national level.

Actively involving vulnerable groups can make the implementation of WTO commitments more inclusive by ensuring that their perspectives and interests are taken into account in the decision-making process. The TFA serves as a noteworthy example of how trade policy can become more inclusive by involving representatives from groups that may face discrimination in policy implementation. As discussed in Section D.1, the agreement requires the establishment of NTFCs to facilitate both domestic coordination and the implementation of its provisions. Past experiences show that effective NTFCs are responsive to the diverse needs of both private and public sectors. In that context, NTFCs can promote more inclusive trade facilitation by establishing regular engagement with representatives from vulnerable groups, either through ongoing

consultations or more formal arrangements (e.g., working groups). They can support vulnerable groups by providing access to relevant trade information and to capacity-building and training opportunities. NTFCs can also advocate for these groups in national trade policy discussions to promote inclusive and equitable policies. Sustained government support and resources are, however, essential for NTFCs to achieve effective and inclusive trade reforms.

(iii) Increasing support to making trade more inclusive

There are a number of areas in which greater cooperation at the multilateral level could contribute to more inclusive trade. They include sustained efforts to further improve access to information, more extensive and well-coordinated capacity-building on MSMEs and gender through technical assistance, including Aid for Trade, and enhancing access to finance for MSMEs, in particular for businesses led or owned by women. For example, the WTO and the International Trade Centre (ITC) launched a Women Exporters in the Digital Economy (WEIDE) Fund to assist businesses led by women, as well as entrepreneurs in developing economies and LDCs, to adopt digital technologies and enhance their online presence.

In a context of increasing geopolitic tensions and climate change, the WTO could increase its efforts to support food security in different ways. It could more systematically use the Working Group on Trade, Debt and Finance to examine specific concerns raised in the food security discussions about the financing of food imports, which is particularly relevant for LDCs and net food-importing developing economies. More focused discussions on identifying strategies and mechanisms to mitigate and minimize the adverse effects of export restrictions on importing countries could enhance food security. Increasing Aid for Trade financing could help to improve agricultural productivity and infrastructure, and ultimately promote resilience and strengthen food security. Building new collaboration partnerships with other international and regional organizations and financial institutions could help to enhance transparency and promote the implementation of relevant WTO commitments.

3. Promoting inclusive development through enhanced international cooperation

While the WTO serves as the primary forum for cooperation on trade and trade policies, many development and inclusive policies are also addressed through other forms of international cooperation, including at regional and bilateral levels. As highlighted in Chapters B and C, trade alone is not sufficient to achieve inclusive development. Instead, a range of complementary policies, including infrastructure, institutions, redistribution and competition policies are essential to ensure that trade works more effectively to foster inclusive development.

The globalization of the world economy led to growing interactions between economic policies pursued by individual economies. These include interactions between the structural, macroeconomic, trade, financial and development aspects of economic policymaking. Therefore, international cooperation in these areas is critical to ensuring that trade benefits all. These various forms of international cooperation complement the work of the WTO, particularly in the context of rising geopolitical tensions, the digital revolution and climate change.

(a) International cooperation to enhance economic resilience

In an increasingly interconnected world marked by geoeconomic tensions and uncertainty, international cooperation plays a crucial role in enhancing economic resilience. International cooperation can strengthen economic resilience through coordinated trade policies, reducing trade barriers and facilitating smoother cross-border transactions. This not only lowers transaction costs but also promotes predictability and stability in trade relations, essential for businesses navigating uncertain geopolitical landscapes. Enhancing economic resilience is also important to enable vulnerable groups to withstand and recover from economic shocks.

International cooperation can help governments to ensure that diversification policies are as effective as possible and that they do not have negative crossborder effects. Diversification reduces countries' exposure to country-specific demand-and-supply shocks, and governments can take various measures to diversify their economy. Multilateral and regional cooperation, in the form of various disciplines and initiatives, can contribute to diversification by ensuring that markets are open and predictable, and how international cooperation can help to ensure that industrial policies are not used to diversify at the expense of trading partners and of an efficient allocation of resources.

Promoting financial stability and reducing cross-border shocks requires special governance mechanisms and international cooperation.

Coordinated monetary policies and currency swap arrangements among central banks can provide liquidity buffers and stabilize financial markets during periods of volatility triggered by financial crises and geoeconomic tensions. In the aftermath of the 2008-09 global financial crisis, G20 initiatives led to the creation of the Financial Stability Board, which monitors assistance programmes provided to developing countries by multilateral institutions.

International cooperation also plays a role in assisting countries that are hit harder and/or lack resources and abilities to cope. The World Bank and the IMF provided substantial financial assistance to developing economies, which contributed to promoting economic activity, increasing reserves and liquidity, and fostering market confidence. The WTO mobilized various actors to cooperate on increasing trade finance availability and market conditions for both developed and developing economies.

(b) International cooperation to harness the digital transformation

Successfully harnessing the opportunities of the digital revolution requires international cooperation. As discussed in Chapters B and C, the digital revolution offers new opportunities for developing economies to explore trade opportunities, but leveraging digital technologies for inclusive development requires infrastructure investment, regulatory capacity building, and addressing the dominant market positions of large digital firms. Many of these areas necessitate international cooperation.

(i) Enhance infrastructure and digital connectivity

Infrastructure and digital connectivity are pivotal in enhancing trade capacity and lowering trade costs. Better infrastructure enables more economies to participate in and benefit from international trade, while mitigating domestic inequality by improving access to transportation, energy and the internet in rural and remote areas. Given the substantial investments required to modernize energy infrastructure and bolster digital connectivity, international cooperation is indispensable to enable developing economies to access the required financing and expertise. This is especially pertinent in economies where financial limitations and technological constraints often impede large-scale infrastructure projects. A secure and reliable information and communications technology (ICT) infrastructure is crucial for capturing the benefits of trade enabled by digital technologies, and can be a catalyst for economic growth. Traditionally, the World Bank supports digital development focusing on expanding connectivity infrastructure (see, for example, World Bank and WTO, 2023b).

FDI plays a pivotal role in the development of digital infrastructure. In recent years, investment in the communications and semiconductor sectors has shown the most significant growth, while the software and information technology (IT) sector has remained stable for over a decade (UNESCAP, 2023). Key multinational enterprises involved in digital infrastructure and supporting digitalization in other sectors are driving advancements in telecommunications and digital technologies worldwide. The attractiveness of digital FDI is influenced by factors such as digital skills, venture capital availability, presence of innovation hubs, regulatory stability, and considerations regarding data security, privacy laws and IP regulations (Stephenson, 2020). Other drivers for attracting digital FDI include the use of international standards, the availability of e-payment services, and government support for starting a business and developing digital skills (UNESCAP, 2023).

Digital infrastructure development is underpinned by international trade in IT-related goods and services. The WTO's Information Technology Agreement (ITA) and its subsequent expansion are contributing to digital connectivity by eliminating tariffs on IT products covered by the agreement. Many of these products are critical components of the digital physical infrastructure. According to the 2017 Affordability Drivers Index (ADI),[20] four out of the top five economies that have the most affordable internet access – namely Malaysia, Colombia, Costa Rica and Peru – are all ITA participants. Colombia, Costa Rica and Malaysia are also participants in the ITA expansion. Opening services trade underpinned by multilateral rules can also ensure the access and affordability of telecommunication services.

Several international organizations are actively involved in initiatives that aim to support governments in bridging the digital divide. The UN is leading a High Impact Initiative on Digital Public Infrastructure,[21] catalysing collective action to address this global challenge. UNCTAD's eTrade for All initiative aims to help developing countries harness the benefits of digitalization, focusing on improving access to digital tools and technologies, fostering digital entrepreneurship, and promoting inclusive e-commerce. The International Telecommunication Union (ITU) is championing numerous initiatives to

extend mobile telephony benefits across all societal strata, facilitating access to resources and providing platforms for knowledge transfer. In addition, a growing number of RTAs include provisions for cooperation on ICT infrastructure. Specifically, 64 RTAs contain provisions to promote ICT infrastructure development and diffusion, and address technical regulations, standards, and conformity assessment procedures related to ICT equipment (Monteiro, 2021b; Monteiro, Posada, and Tuthill, 2022).

Furthermore, international cooperation between the WTO and other IOs dealing with digital infrastructure and connectivity can be mutually beneficial. Trade can be made more inclusive if international cooperation help close the digital gap. At the same time, open trade and regulation can make investment in digital skills and infrastruture more beneficial. Research shows that open trade enhances the advantages of education and R&D activities (Ma, 2024).

(ii) Advancing a cohesive regulatory framework for digital development

A robust regulatory framework is essential to safeguard consumer interests and facilitate the adoption of emerging technologies. Ensuring that consumers are safeguarded from unfair practices, substandard products, and potential harm, fosters trust and confidence in the marketplace and contributes to address inequalities within economies. Similarly, fostering accessible and affordable new technologies can contribute to prevent a digital divide. Regulatory cooperation in intergovernmental and multi-stakeholder fora can help to develop international norms and standards, building trust and enabling more countries and firms to participate in international trade.

International cooperation plays a pivotal role in advancing a regulatory framework to foster inclusive trade. Because economies have diverse economic conditions and regulatory capacities, the establishment of shared standards can encourage mutual understanding and cooperation. Certain domestic policies, such as competition policies, can have important international ramifications when they are applied to multinational firms with global reach. Regulations adopted by large markets can influence global standards, a phenomenon known as the "Brussels effect" or "California effect" (Bradford, 2012). Effective management of the international spillover effects of certain domestic policies requires globally coordinated efforts to optimize their positive impacts.

While the WTO serves as a forum for regulatory cooperation, other regional and multilateral institutions also play significant roles in promoting common regulations and standards in the digital realm. International cooperation through regional trade agreements facilitates trade among participating countries by establishing common frameworks and harmonizing regulations to streamline trade processes and reduce barriers to market entry (see opinion piece by Emanuel Ornelas). Organizations like the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) are crucial in developing standards, including those for digital technologies. The ITU supports the development of transparent and forward-looking legal and regulatory frameworks to stimulate ICT investment and promote universal, affordable and secure access to ICTs. In addition, the World Bank's Digital Development Partnership, launched in 2016, assists developing economies in strengthening regulations and skills to leverage digital technologies.

(iii) Addressing dominant market positions in the digital economy

Effective competition policy and enforcement can play a pivotal role in promoting inclusiveness across and within economies. As discussed in Chapter B and C, higher corporate market power can result in a number of detrimental impacts on inclusive development, including higher firm profitability at the expense of consumers, discouraging innovation, and allowing firms to exercise power in the labour market to set lower wages (Autor et al., 2020) or limit the benefits from trade for low-income consumers suffering from a non-competitive distribution services sector (Schmitz, 2021). Markups charged by individual firms in high-income economies can also act like implicit tariffs on goods exported from lower-income economies (Ding, Lashkaripour and Lugovskyy, 2024). International cooperation on competition policies ensures a level playing field for businesses across borders, preventing anti-competitive practices and fostering fair competition. Regulatory cooperation can be complemented with technical assistance activities focused on the intersection of trade and competition policy, particularly in response to the needs of developing economies.

Robust competition policies are critical in the digital age, as digital technologies enable firms to reach global consumers even without a physical market presence. The global scope of digital firms necessitates cross-border collaboration among competition authorities. The digital sector is particularly prone to market concentration, due to substantial economies of scale and scope and strong network

Opinion piece

Can regional and multilateral trade liberalization work in tandem?

By Emanuel Ornelas

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The World Trade Organization was established 30 years ago, following the conclusion of the Uruguay Round of trade negotiations, the world's last major advance in multilateral trade liberalization. Since then, progress has been sporadic and limited to specific areas. More troubling, since the financial crisis of 2008-09, the multilateral trading system seems to be moving backwards, with the propagation of discriminatory trade barriers and a growing number of trade disputes being left unresolved. Could a move toward deep regional trade agreements be a solution?

The world did not stop reducing trade barriers in 1995. The key difference was in the approach to trade liberalization, which transitioned from multilateral to preferential/regional. In the two decades following the establishment of the WTO, the number of regional trade agreements (RTAs) grew more than six-fold. Although the pace has slowed in the last decade, new RTAs are still being signed, with 371 currently in force.

Is this the way to go? Should we be comfortable with the near-paralysis of multilateral trade negotiations if trade continues to be liberalized through RTAs? For many years, the answer has seemed to be yes. Except for the European Union, which is unique in many ways, most other RTAs until the early 2000s were "shallow", focusing primarily on eliminating bilateral trade barriers. While in theory the effect of those RTAs is ambiguous, the evidence shows that they created more trade than they diverted (Freund and Ornelas, 2010).

One key reason is that, as countries liberalized within the trading blocs outlined in the RTAs, they also (unilaterally) lowered trade barriers for countries outside those blocs. This suggests that tariffs for bloc insiders and outsiders are viewed as complementary: when one decreases, so does the other, albeit at a slower pace. The upshot is that the trade and welfare impact of RTAs have been much larger than studies prior to the formation of the agreements suggested.

More recently, RTAs have become increasingly "deeper", tending to extend beyond the bilateral reduction of tariffs to include a wide range of non-tariff barriers and regulatory issues. While "depth" sounds benign, the jury is still out on the merits of these additional provisions – see, for example Fontagné et al. (2023).

In fact, the extra depth often relates to measures that could hinder rather than boost trade and welfare. In particular, the tariff complementarity of shallow integration does not need to extend to those other measures. Moreover, these RTAs often include rules that transcend WTO rules, as is the case for some product standards and other technical barriers to trade. This may lead to concerns that the expanding network of deep RTAs could render the WTO's multilateral framework unworkable – if not irrelevant. This is troubling, because it could undermine a system that has proven very effective in bringing down trade barriers and in providing stability to world trade.

An unproven hypothesis, consistent with current trends, is that the multilateral trading system could coexist with the spread of RTAs, provided that the latter focus on the core issue of reciprocal trade liberalization – that is, the bilateral reduction of trade barriers. However, deep RTAs with provisions that conflict with existing multilateral rules may render progress in multilateral negotiations unattainable.

If this hypothesis holds, it would be necessary to call for restraint in the scope of future RTAs, to ensure that they do not impede broader multilateral liberalization. "Deep" issues, important as they are, might be better addressed within the WTO.

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effects. International cooperation on competition policies ensures a level playing field, prevents anti-competitive practices and fosters fair competition. For instance, research shows that competition positively impacts digital connectivity in sub-Saharan Africa (Buys et al., 2009). Effective competition policy within economies prevents monopolistic behaviour, promotes market efficiency, lowers prices, increases innovation and enhances consumer choice. It also creates opportunities for MSMEs and marginalized groups, promoting inclusiveness.

A few emerging economies have revised their competition laws to intensify the scrutiny of digital platforms, while others are still in the process of adopting digital competition laws. Given the global nature of digital firms, competition authorities are encouraged to enhance international cooperation and information-sharing, and to expand international best-practice guidelines on digital issues (Akcigit et al., 2021). Furthermore, there has been some debate about whether competition laws need to be revised to reflect a deviation from the consumer welfare criterion (Khan, 2017).

Several international organizations and regional initiatives promote cooperation on competition policy. For instance, the OECD has conducted extensive research on competition within the digital economy through its Competition Committee and the Global Forum on Competition. The OECD handbook on competition policy in the digital age[22] serves as a blueprint for reform and cooperation. Detailed chapters or provisions on competition policy have been incorporated in numerous bilateral and RTAs (Anderson et al., 2018).

While the WTO does not have dedicated rules for competition issues in international trade, certain provisions in the WTO agreements address these concerns. Generally, open trade allows more players to compete in the market. Relevant GATS market-opening commitments provide guaranteed levels of market contestability and non-discriminatory treatment of domestic and foreign services suppliers, fostering more competition in services markets. Certain competition policies on telecommunications are included in the Basic Telecoms Reference Paper and are thus addressed by the GATS and services trade negotiations. Relevant competition-related provisions can also be found in the TRIPS and the revised Agreement on Government Procurement (GPA) 2012. At the 1996 Singapore Ministerial Conference, members discussed the interaction between trade and competition policy, specifically anti-competitive practices. Even without new specific rules on competition, the WTO could further collaborate with national and international competition agencies in areas where trade and competition intersect.

(iv) International cooperations on taxation in the digital age

International coordination in taxation policies is essential to prevent tax evasion and ensure that trade contributes to inclusive development. Taxation serves as a vital source of revenue for governments to finance essential public services and infrastructure, yet a lack of taxation coordination in a globalized world could result in a "race to the bottom".

International capital tax bases have become increasingly mobile in recent decades, in part driven by the rise in digital transactions. Coupled with open trade, this allows firms to relocate their operations. As governments compete to attract investors by offering favourable tax environments, they may succumb to pressure to lower tax rates and provide generous incentives, potentially compromising crucial revenue streams essential for public services and infrastructure. Tax rates on capital have decreased substantially over time as governments have attempted to maintain an attractive tax environment (Egger, Nigai and Strecker, 2019; Devereux, Griffith and Klemm, 2002). In response to the increasing presence of digital firms, governments are attempting to come up with different ways to tax the revenues of larger companies in their jurisdictions, with the aim both of raising revenues and of protecting and promoting their domestic digital sector.

There is a clear need to coordinate tax policies internationally. The current international tax regime consists of a large network of bilateral tax treaties, generally based on the OECD or the United Nations Model Tax Conventions. However, despite efforts toward harmonization, challenges persist in international tax systems. These include a lack of transparency and of information exchange between authorities, inconsistent transfer pricing rules and widespread tax avoidance practices, all of which compromise tax collection across borders. In this regard, efforts to exchange information can greatly reduce the incentive for tax evasion. For instance, recent research finds that, since economies started to exchange bank information automatically with foreign tax authorities in the second half of the 2010s, tax evaders have repatriated previously undeclared offshore wealth, which has helped to close about 70 per cent of the offshore tax gap in Denmark (Boas et al., 2024).

Several international organizations aim to address international cooperation in taxation. In 2023, nearly 140 members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreed on an outcome statement for the two-pillar solution addressing tax challenges from the digital economy. Pillar One[23] establishes new taxing rights over large multinational enterprises with a digital presence, while Pillar Two sets the base rate and approach for a new global minimum corporate tax. Although widely seen as progress to reduce a "race to the bottom" in global tax competition, the solution's contribution to inclusive trade needs further assessment.

Some developing economies have also advocated for a framework convention on international tax cooperation under the UN. Many developing economies question the equity of the OECD process, citing concerns about high-income economies having the first choice for additional top-up tax on multinational enterprises and the general low rate of minimum taxes, while low-income economies have to forgo existing and future digital service taxes in exchange for a new formula-based approach to profit reallocation that could undermine their revenue base (McCarthy, 2022). Recently, the UN adopted a resolution stressing universal international tax cooperation,[24] acknowledging the varied needs and capacities of all countries, particularly developing ones.

(c) International cooperation to tackle climate change and facilitate the green transition

International cooperation is indispensable in addressing climate change and other environmental challenges on a global scale. It entails addressing global environmental challenges, developing sustainable infrastructure and creating financial mechanisms to support countries affected by climate change. At the same time, trade can contribute to the fight against climate change, as it allows access to affordable renewable energy and equipment. Furthermore, harmonizing or enhancing the interoperability of environmental standards and policies across borders ensures consistent and effective solutions to the climate challenge.

(i) Building climate-resilient, low-carbon infrastructure is essential

Climate-resilient infrastructure, renewable energy projects and sustainable transportation are crucial for climate mitigation and adaptation. According to the International Energy Agency, global investment in energy infrastructure needs to reach US$ 4.5 trillion per year by 2030 to keep global temperatures from rising by more than 1.5°C (IEA, 2023). However, many developing economies are finding it a struggle to finance energy infrastructure, in part due to debts resulting from the COVID-19 pandemic. Thus, international cooperation in infrastructure is vital for ambitious climate action. Projects like the Noor Concentrated Solar Power Complex in Morocco, funded by Climate Investment Funds, supplies clean energy to 2 million people. International development assistance such as Aid for Trade increasingly includes environmental considerations (WTO, 2022).

International trade is crucial to reduce greenhouse gas emissions and transition to low-carbon economies. International trade increases the worldwide diffusion and deployment of lower-emission goods, services and capital equipment (i.e., the equipment necessary to manufacture goods and provide services), as well as of knowledge. It also reduces the costs of these products and services through efficiency improvements, economies of scale and learning-by-doing. For instance, the cost of solar electricity has plummeted by 97 per cent since 1990, and a significant part of the cost decline of solar panel systems has been attributed to GVCs, which have enabled producers to lower production costs and reap economies of scale by locating different production stages in different countries (WTO and IRENA, 2021). Market opportunities for low-carbon exports can also spur more investment and innovation in new low-carbon technologies and encourage efforts to better adapt these technologies to local conditions.

Furthermore, climate adaptation is a key component of the global response to climate change. The UNFCCC Nairobi work programme helps economies to understand the impacts of, vulnerability to and adaptation to climate change, in order to guide informed decisions. International organizations and regional development banks, like the United Nations Office for Disaster Risk Reduction (UNDRR), support resilience to natural disasters. The ITU information and communication technology for disaster management initiative focuses on helping economies respond to disaster risks and enhance resilience.

(ii) Ensuring coherence between trade and environmental policies is crucial for sustainability

International cooperation ensures coherence between environmental and trade policies. Without coordinated climate policies, isolated actions can lead to consequences such as carbon leakage and competitiveness loss. This underlines the critical need for coordination between climate and trade policies.

Efforts within the WTO and other international organizations aim to foster collaboration, establish international standards, and encourage convergence in national approaches to climate change. Such cooperation is pivotal for achieving the UN Sustainable Development Goals while addressing the interconnected challenges of climate change and international trade. As mentioned in Section D.1, the WTO has launched a task force with the IMF, OECD, UNCTAD, UNFCCC and World Bank to develop a common methodology to determine global carbon prices, and to ensure that plans to tax imports based on their carbon emissions do not unfairly penalize developing economies.

(iii) Climate actions can be enhanced through finance and trade

Climate finance is crucial for addressing climate change, especially for vulnerable developing economies. Climate finance commitments, such as the US$ 100 billion per year pledged by developed economies at the Fifteenth meeting of the Conference of the Parties to UNFCCC in 2022, are crucial for supporting climate action in developing economies. Policies such as carbon pricing further shape development prospects, and global cooperation towards net zero emissions by 2050, supported by mechanisms like a global emission trading scheme, could significantly enhance real income for the LDCs compared to scenarios without climate action.

Several international initiatives aim to channel climate finance to developing economies, but more efforts are needed to scale up funding. The Green Climate Fund,[25] established under the UNFCCC, provides finance through grants, loans and equity investments, while the Loss and Damage Fund, set up in 2023, supports developing economies in coping with climate impacts. The estimated adaptation costs for these economies are US$ 215 billion per year up to 2030 (UNEP, 2023). Enhancing transparency and accountability, and exploring innovative financing mechanisms like green bonds and carbon pricing, are crucial to mobilize additional resources. Global collaboration is essential to ensure that there is adequate funding for climate adaptation and resilience.

Trade plays a pivotal role in enhancing climate action by effectively reducing costs and amplifying impact. It enables economies, particularly the most vulnerable ones, to better prepare for and respond to climate shocks through access to essential technologies and critical goods and services, such as food and healthcare products. Open international markets facilitate the economic adjustments and resource reallocations necessary for long-term resilience, providing diversified sources of supply that bolster protection against localized weather events.

(iv) Cooperation on anti-corruption is important to foster trust institution

International cooperation to combat corruption plays a crucial role in ensuring that the benefits of trade, including revenues from exports of natural resources, are more widely shared. As discussed in Chapter B, the green transition offers new export opportunities for developing economies. However, robust institutions and complementary policies are necessary to foster wide economic development in resource-abundant economies. Anti-corruption efforts can also ensure that international trade agreements work more effectively. Research finds that information frictions and corruption perceptions can affect firm's participation in public procurement (Colonnelli et al., 2024). In that context, the GPA would be more effective in supporting inclusive trade if accompanied by anti-corruption policies.

Efforts to combat corruption internationally encompass various strategies, including information sharing and intelligence cooperation, as well as developing legal frameworks. Organizations such as the OECD play a crucial role in establishing standards and best practices related to bribery, procurement, public financial management, integrity in both public and private sectors, illicit trade, development assistance, and tax issues. International agreements like the United Nations Convention against Corruption (UNCAC) offer a shared foundation for countries to adopt anti-corruption measures and establish a framework for mutual legal assistance. Additionally, collaboration is vital for the recovery of assets acquired through corrupt practices. Cooperation on anti-corruption is also promoted in a number of recent RTAs.

(d) International cooperation on trade and within-economy inclusiveness

There is an ongoing debate on the introduction of labour and other inclusiveness considerations in trade policies and the need for international cooperation. Some, mostly developed, economies consider that the lack of basic labour standards puts workers at risk and creates unfair competition. They argue that imposing restrictions on imports from economies that do not uphold these standards, or favouring imports that meet them, would encourage better working conditions and promote fair competition. Conversely, many developing economies consider that

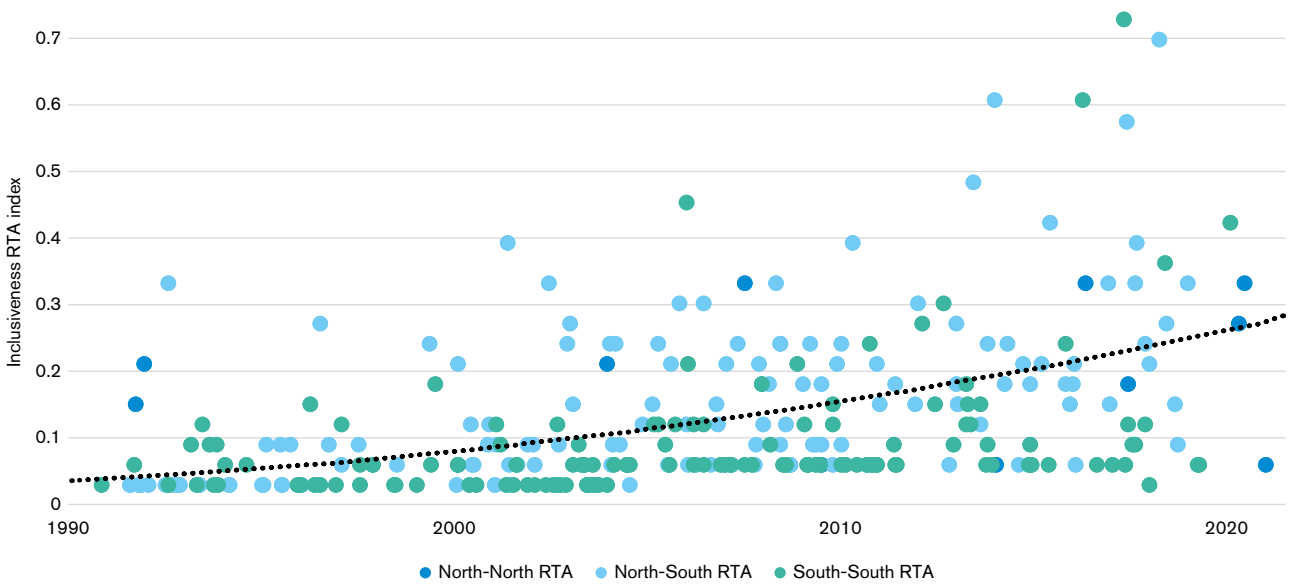
restricting imports that do not respect certain labour standards is a covert form of protectionism, potentially increasing production costs and making their exports less competitive. In this context of diverging views, trade measures taken unilaterally by importing economies to raise labour standards in exporting economies have the potential to create trade tensions.

International cooperation on trade and labour recognizes that violations of workers' rights should not be used as a trade advantage, and labour standards should not be misused for protectionist purposes. The 1996 Singapore Ministerial Declaration recognizes the International Labour Organization (ILO) as the competent body to establish and address labour standards. The Declaration cautions against misusing labour standards for protectionist trade purposes, and emphasizes the importance of preserving economies' comparative advantage, especially that of developing economies in which wages are low. It further acknowledges that economic growth and development, facilitated by expanded trade, play a role in promoting fair labour standards. While the Declaration assigns the regulation of trade and labour to the respective international organizations, it does not imply that trade policies should overlook labour standard violations. The 2008 ILO Declaration on Social Justice for a Fair Globalization recognises the effects of trade policies on employment and emphasizes that the violation of fundamental labour principles and rights cannot be used as a legitimate comparative advantage.

Provisions addressing various dimensions of inclusiveness within the economy are included in an increasing number of RTAs. RTAs are sometimes viewed as a "laboratory" in which new types of provisions are designed to address new issues and challenges. More than 310 RTAs include provisions that explicitly relate to some of the dimensions of inclusiveness, including human rights, workers' rights, gender equality, indigenous peoples' rights and MSMEs' participation (see Figure D.11). Provisions in RTAs are known to be heterogenous, and inclusiveness-related provisions are no exception. While many provisions on inclusiveness promote cooperation activities, other provisions establish specific level-playing-field disciplines or exemptions.

Labour provisions can be found in an increasing number of unilateral, preferential, bilateral and regional trade agreements, as well as in international investment agreements. About one third of the total number of RTAs in force and notified to the WTO in 2022 included labour provisions (Corley-Coulibaly, Ebertand and Pelin Sekerler, 2023). While developed economies continue to be the main proponent of labour provisions in RTAs, an increasing number of RTAs negotiated between developing

Figure D.11: Increasing numbers of provisions on inclusiveness in RTAs, 1990-2021



Source: Authors' calculations, based on a mapping of provisions on inclusiveness in RTAs.
Note: This figure shows the evolution of provisions on inclusiveness in RTAs between 1990 and 2021. The inclusiveness RTA index ranges from 0 to 1 and considers 33 explicit types of provisions addressing different dimensions of inclusiveness, including human rights, workers, MSMEs, poverty, gender, indigenous communities, people with disabilities, and other minorities and vulnerable groups. "North" is defined as high-income economies, whereas "South" is defined as low- and middle-income economies, according to the 2022 World Bank's income group classification.

economies include explicit labour provisions. Labour provisions typically include commitments to uphold international labour standards, such as those set by the ILO, which cover issues like child labour, forced labour and the right to collective bargaining. Another common type of labour provision establishes mechanisms for cooperation and dialogue between the parties to improve labour conditions, often through technical assistance and capacity-building initiatives. Some RTAs also incorporate dispute resolution mechanisms to address non-compliance with labour provisions, allowing for consultations, and in some cases, sanctions, if labour standards are violated (Corley-Coulibaly, Postolachi and Tesfay, 2021).[26]

Some relatively recent detailed provisions on inclusiveness in RTAs specifically target disadvantaged groups. These include some women, vulnerable workers, indigenous peoples and persons with disabilities. Many of these provisions identify gender and gender-related issues as key areas for cooperation.[27] Other, more specific, provisions set out commitments concerning domestic policies, including adopting and effectively enforcing gender-related policies and protecting indigenous traditional knowledge, cultural expressions and genetic resources from misappropriation. These provisions often complement labour provisions on the elimination of employment discrimination based on race, religion, age, sex or other grounds, including disability, sexual orientation and gender identity. Some provisions further clarify that domestic programmes designed to assist vulnerable groups, including women and indigenous communities, do not fall under the obligations that fall under the RTA's chapters on government procurement or services (Monteiro, 2021c).

Some provisions on inclusiveness in RTAs promote social corporate responsibility and specifically target certain types of firms, including MSMEs and artisans. Recent provisions call on parties to these RTAs to encourage enterprises within their territories to incorporate best practices of corporate social responsibility voluntarily in their internal policies (Monteiro, 2021a). An increasing but limited number of RTAs also includes provisions to promote and cooperate on fair and ethical trade schemes (see Box D.4). In recognition of the

Box D.4: Due diligence and responsible sourcing in supply chains

Due diligence requirements and responsible sourcing practices are integral components of fair trade and ethical trade schemes. These schemes are designed to ensure that trade practices are fair, transparent and sustainable. Due diligence involves assessing and mitigating risks related to human rights, environmental harm and corruption in supply chains, while responsible sourcing entails selecting suppliers that adhere to ethical and sustainable practices, such as by not using forced labour or child labour.

Due diligence and responsible sourcing are driven both by private sector initiatives and government regulations. Companies adopt these practices as part of their corporate social responsibility strategies, responding to industry standards, certifications, and consumer and investor pressures. Some governments provide the legal framework and enforcement mechanisms to ensure compliance and accountability. Several international bodies also provide guidelines to help companies implement due diligence and responsible sourcing practices, such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Empirical evidence on the effectiveness of due diligence and responsible sourcing initiatives is limited. Some studies point to the risk that focusing solely on improving working conditions within specific GVCs may inadvertently widen working condition gaps between workers involved in GVCs and those who are not, as GVCs generally have better working conditions compared to firms not engaged in international trade (see the opinion piece by Alonso Alfaro Ureña, Benjamin Faber, Cecile Gaubert, Isabela Manelici and José Pablo Vásquez).

Despite potential unintended effects, due diligence and responsible sourcing initiatives can contribute to improving working conditions and inclusivity within GVCs. However, continuous cooperation between trading partners and a careful consideration of their potential harmful effects must be taken into consideration. The growing need for GVC coordination among governments may create a favorable environment for greater collaborative actions to tackle trade effects, ensure consistency in decision-making over time, and seize opportunities to promote inclusivity within GVCs.

Opinion piece

The promise and pitfalls of responsible sourcing in global value chains

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Multinational enterprises (MNEs) are facing increasing demands by policymakers and the public to improve working conditions in their supply chains. In response, it has become common practice for MNEs to impose minimum labour and safety standards on their suppliers, typically called "responsible sourcing" (RS) policies. The reasons why MNEs choose to adopt these standards probably vary. Their leadership may have altruistic objectives, unrelated to profits or shareholder value. RS policies may also be more calculated: MNEs may be attempting to avoid the reputational cost of workplace accidents, or to increase demand by improving their image and branding.

A natural concern regarding these mostly voluntary RS policies is that they may just be "hot air", and may not in reality bring about meaningful changes for workers in sourcing countries. However, mounting empirical evidence suggests that RS policies do indeed affect MNE suppliers and their workers.

One recent study by Boudreau (2024) found that MNE enforcement programmes of occupational safety and health (OSH) committees after 2013 significantly increased supplier compliance with regulations in Bangladesh. Another study by Alfaro Ureña et al. (2022) found that, when MNEs in Costa Rica imposed RS standards on their suppliers worldwide, these RS rollouts led to increased wages and workplace amenities for low-wage workers at suppliers of the MNEs. At the same time, the study found significant decreases in sales and employment in domestic firms not supplying to MNEs applying RS policies.

These findings underscore an important trade-off involved in RS policies. On the one hand, RS may bring meaningful benefits to workers at suppliers targeted by RS policies. On the other hand, RS imposes additional costs on MNE suppliers. If these costs are not sufficiently borne by the MNEs and their foreign customers, RS can give rise to adverse knock-on effects on local firms and workers due both to lower chances of finding jobs at RS suppliers and to increased local prices, as MNE suppliers may also produce for domestic consumption.

Alfaro Ureña et al. (2022) provide a theoretical framework to dissect these forces and study the drivers of this trade-off. The benefits of RS for workers in sourcing countries are larger when MNEs experience increased demand due to RS rollouts from their customers. However, the benefits to workers are reduced, and could even be negative, when MNE suppliers have little bargaining power and thus bear the cost of the policy, and when much of the affected production is sold locally, leading to increased local prices.

While the current state of research suggests cautious optimism about the ability of MNEs' RS policies to improve working conditions among their suppliers, the overall impacts of RS policies on the host economy's workers are, in general, ambiguous and will depend on the empirical context. There is therefore large scope for further empirical and theoretical work on these topics to help deliver the stated objectives of RS and limit the unintended side effects.

Disclaimer

Opinion pieces are the sole responsibility of their authors. They do not necessarily reflect the opinions or views of WTO members or the WTO Secretariat.

Box D.5: Policy space to adopt labour-related trade measures in the WTO

Part of the debate on trade and labour in the trade policy community revolves around whether WTO rules could potentially allow members to adopt labour-related trade measures, such as prohibiting imports of, or imposing higher import tariffs on, products made under poor working conditions.

WTO members could seek to justify such measures under some of the geneneral exceptions set out in Article XX of the GATT 1994 or Article XIV of the GATS, such as those relating to "public morals", "protection of human [i.e., workers'] life or health", "securing compliance with laws or regulations [i.e., labour laws]", or "products of prison labour". If a labour-related measure were found to fall within the scope of any potentially exception, the member may need to demonstrate, among other things, that the contribution of the measure to the achievement of the objective outweighs its trade restrictiveness, with consideration given to, among other things, the existence of reasonably available alternative measures (for exceptions containing a necessity test). The importing member would also need to demonstrate that the challenged measure is not applied in an arbitrary or discriminatory manner.

Other WTO agreements also contain provisions that could accommodate policy space for WTO members to adopt or enforce measures addressing unfair labour standards. For example, the TBT Agreement allows WTO members to maintain any regulatory distinction based on legitimate objectives if applied even-handedly." It remains to be determined whether such "regulatory distinction" could be based on production methods relating to labour standards, i.e. whether the goods produced were made in respect of fundamental or core labour standards or not.

Members' engagement may be necessary to have further clarity on the applicability of the existing rules and/or the need to update existing WTO rules to cover labour-related issues, including but not limited to the enforcement of internationally agreed labour standards. For the time being, there is no consensus among WTO members.

specific needs of and challenges faced by MSMEs, an increasing number of RTAs also include explicit provisions which, for example, promote cooperation on MSMEs among the parties, exempt MSMEs or programmes supporting MSMEs from specific trade obligations set out in the RTA, or aim to improve access to trade-related information, including through websites (Monteiro, 2016).[28]

Empirical evidence on the effectiveness of provisions on inclusiveness and labour in RTAs is scarce. RTA provisions on inclusiveness usually take the form of best-endeavour clauses, and many focus on enhancing cooperation and capacity-building. As some of these provisions on inclusiveness are relatively new, there is limited evidence on their effectiveness. However, certain RTAs have established institutional arrangements to monitor the implementation of specific inclusiveness provisions, such as those related to labour and gender. These monitoring exercises may provide new information and analysis. Further research and more disaggregated data are needed to assess comprehensively the effectiveness of these provisions on promoting inclusiveness.

Labour provisions in RTAs are more likely to improve working conditions or to have positive effects on trade when combined with appropriate accompanying measures. The empirical evidence regarding labour provisions in RTAs points to mixed results, with some studies indicating a positive impact on labour outcomes (ILO, 2016), while others suggest a negative impact of specific labour provisions, such as those on child labour (Abman et al., 2023). For instance, compared to simple bans of child labour, active education and income support policies, such as subsidizing households for school attendance, are found to be more effective in addressing child labour without jeopardizing inclusiveness and widening inequalities (Fernandes, Rocha and Ruta, 2023). Recent evidence shows that labour provisions can impact trade differently depending on the parties' capacity to comply with the requirements. Provisions on sustainable development (covering both labour and the environment) have been found to increase developed economies' labour-intensive exports but reduce developing economies' labour-intensive exports (Hoekman, Santi, and Shingal, 2023). However, labour provisions, when accompanied by strong cooperation, have resulted in an increase in exports from low-income economies (Carrère, Olarreaga and Raess, 2022). Non-binding provisions on labour standards, environmental protection and civil and political rights

have also shown to be more effective in improving performance in certain areas when accompanied by financial support (Francois et al., 2022).

Explicit references to the social dimension of sustainable development in recent ministerial declarations and documents could lead to more focused discussions on labour-related trade measures at the WTO. The Outcome Document from the 12th Ministerial Conference and the Ministerial Declaration from the 13th Ministerial Conference refer explicitly to the importance of all three pillars of trade and sustainable development – economic, environmental and also social. Drawing on experiences with labour provisions in RTAs, some members may wish to explore the possibility of having a discussion about labour-related trade measures in the WTO. For instance, in 2023 the Committee on Government Procurement held an information-sharing workshop on the implementation of labour standards in the government procurement systems of parties to the GPA. Under consideration was how to conduct government procurement processes in a manner that protects and advances labour standards, while respecting international trade commitments. The question of the policy space available in the WTO agreements for members to adopt labour related trade measures is still open (see Box D.5).

Greater collaboration between international organizations is needed to make trade more inclusive. Under the "Decision on achieving greater coherence in global economic policy-making", the WTO already collaborates with the IMF and the World Bank. The WTO also works with many other international organizations. The WTO can enhance cooperation with international organizations to promote infrastructure, improve policy coherence, maximize international spillovers and limit the negative impacts of specific policies. These collaborative efforts could involve partnerships, information exchanges and leveraging the WTO as a platform for international organizations, governments, businesses and non-governmental organizations to collaborate and share information on trade-related issues relevant for inclusiveness across and within economies.

4. Conclusions

The WTO promotes convergence through a combination of commitments and flexibilities. It supports a rules-based trading system which enhances economic performance and benefits the less powerful by promoting non-discrimination and by pursuing a wider membership. To promote development, WTO rules also provide flexibilities to developing members, including LDCs, through S&DT provisions.

Despite progress, the participation of some developing members in the different WTO functions remains limited. While there is evidence that preferences can help low-income economies increase their exports, little is known about their ability to use other types of S&DT provisions effectively. While participation in the different WTO functions is crucial for reaping benefits from them, many developing members continue to face constraints that hinder their ability to engage actively.

More can be done for economies that have not yet derived all the benefits from trade. The WTO's mandate to facilitate open and predictable trade remains pivotal in promoting development amidst evolving geopolitical tensions and digital revolution. It is important to maintain and deepen the system. Improving the accession process, furthering commitments in trade in services and digital trade, and more coordination in the area of trade-related environmental policies, will be essential to trigger a new and more inclusive wave of trade-led growth.

S&DT provisions also need to be made more effective. More support and capacity-building could help low-income economies to make better use of S&DT provisions aimed at facilitating the implementation of WTO agreements. Finding the right balance between binding commitments and effective flexibilities is essential to provide relevant policy space without undermining the predictability and stability of trade policies achieved through credible commitments. While there is no "one-size-fits-all" approach to flexibilities, commitments should be aligned with a member's capacity to implement them, while recognizing that certain carve-outs can undermine some of the benefits of a rule-based system. The S&DT provisions of the TFA, which allow developing and LDC members to set their own implementation timetables based on their capacity, could serve as a blueprint. In addition, evidence on the effectiveness of trade policies to promote development, the rationales for S&DT treatment, and information on cross-border spillovers could also help to design S&DT flexibilities, while minimizing potential adverse effects on other economies.

Questions related to the distributional effects within economies and to the inclusiveness of WTO agreements have increasingly been raised in the WTO. Trade and trade policies have significant distributional effects and the WTO – given that it promotes trade – contributes to these effects.

There is, however, little direct empirical evidence on the distributional effects of the WTO. While each government has the autonomy to determine how to manage the redistributive impact of trade policies, the WTO agreements do not limit governments that wish to use non-discriminatory domestic complementary policies, such as labour market adjustment policies, to address it. The flexible nature of the WTO agreements also allows for the use of specific discriminatory trade instruments to address the redistributive effects of trade policies, including safeguards in response to import surges.

A more inclusive economy requires policies that reduce the barriers and obstacles that currently prevent marginalized individuals, firms and regions from participating fully in and benefitting from global markets. While few WTO agreements explicitly address aspects of inclusiveness, many other WTO provisions are relevant for inclusive trade. Discussions on inclusiveness and specific inclusive capacity-building initiatives are gaining traction in the WTO.

Information-sharing, research and tailored technical assistance could contribute to a more inclusive implementation of WTO agreements. While WTO members hold different views on how to address social inclusiveness in trade agreements, more information on the effects of certain trade policy measures on disadvantaged women, MSMEs or low-income households could help to address potentially discriminatory effects. WTO discussions on making trade policy more inclusive could also benefit from the increased participation of vulnerable groups in information-sharing sessions, as well as more active participation of these groups in domestic processes, including in the implementation stage. More technical assistance, including Aid for Trade, could be targeted at reducing poverty and increasing inclusion. In a context of increasing geopolitical tensions and climate change, the WTO could also increase its efforts to support food security.

Trade and complementary policies for inclusiveness across and within economies can be made more effective by broadening and strengthening international cooperation. While the WTO remains a cornerstone for international trade cooperation, many trade-related developmental and inclusive policies are also addressed through other complementary channels of international collaboration. Different international organizations deal with some of the complementary policies that are essential for enabling trade to support development and inclusiveness. For example, to achieve inclusive digital trade, it is necessary to establish cross-cutting cooperation, to address investment in digital connectivity infrastructure and to develop a cohesive digital regulatory framework and competition policy. Improving coherence and coordination among international organizations could amplify the positive effects of each individual organization's work on development and inclusiveness.

Endnotes

1 While the effects of terms of trade on economic growth remain theoretically ambiguous, a significant strand of the empirical studies report a positive effect of terms of trade on output and economic growth (Schmitt-Grohé and Uribe, 2018).

2 Overseas territories of GATT contracting parties that became independent usually became contracting parties themselves through sponsorship under Article XXVI:5(c) of the GATT, without making any new concessions. In contrast, Article XXXIII of the GATT required new contracting parties to negotiate terms of accession, often involving tariff concessions, known as the "GATT ticket".

3 The focus here is on the patent system and its impact on development. Note that the implementation of provisions on copyright (individual artists), designs (provision on textile designs), geographical indications (local branding for traditional products) or trademarks (affordable protection for MSMEs) may affect inclusiveness, but this is not covered in this report.

4 Another type of flexibility that can be used to justify development policy measures is GATT Article XX(a) ("General Exceptions") and the General Agreement on Trade in Services (GATS) Article XIV(a) ("General Exceptions"), which allow WTO members to protect public morals and public order. For example, in Brazil – Taxation (dispute settlement numbers DS472 and DS497), Brazil argued that the objective of its discriminatory PATVD ("Program of Support to the Technological Developments of the Industry of Digital TV Equipment") tax measures was to bridge the "digital divide" and to achieve "social inclusion" – two development-related policies. The panel concluded that such measures were "not incapable of contributing to the objective of bridging the digital divide and promoting social inclusion" and were thus considered to be designed as measures to protect "public moral" objectives under GATT Article XX(a) (DS472/R; DS497/R, paragraph 7.583). However, while the panel accepted that such an objective could fall within the scope of Article XX(a), it ultimately found that the challenged measure did not contribute to the policy objective of bridging the digital divide and promoting social inclusion and that there were better and more efficient alternatives. Parties did not appeal this conclusion of the panel report.

5 See WTO official document number WT/COMTD/LDC/W/71 (available at https://docs.wto.org/).

6 These coalition groups include the African Group, LDCs and SVEs. See for instance https://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.htm

7 See WTO (2024c) for a discussion on outstanding notifications.

8 See WTO official document number JOB/GC/359/Rev.3 (available at https://docs.wto.org/).

9 As discussed in Section D.4, coordination of competition policy can be important for economic convergence by addressing concerns that monopoly profits in digital markets are concentrated in a small set of high-income economies and by avoiding an erosion of tax bases in low-income economies as a result of profit-shifting.

10 The G-90, also known as the Group of 90, is an alliance of the poorest and smallest developing economies. The G-90 has proposed allowing developing economies longer comment periods on proposed technical regulations or standards, and longer compliance periods. The proposal also suggests that developed economies might provide support to developing economies adversely affected by the new standards, to ensure no or minimal disruptions to their exports. The G-90 proposal also foresees compensatory adjustment support by developed economies in case of urgent implementation of standards to maintain the market shares of developing economies, as well as support for their technological and infrastructural capabilities.

11 Information on all technical assistance programmes relative to IP is reported each year to the TRIPS Council and are made available on the WTO website (https://www.wto.org/english/tratop_e/trips_e/intel9_e.htm).

12 Available at https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm.

13 Recently, there has been a broader debate on industrial policy taking place in the General Council and some other bodies, including the CTD. The African Group is among the main proponents having tabled several proposals.

14 Measures satisfying those requirements would be justified either under GATT Article XX(a) (public morals) or, for measures affecting trade in services, under GATS Article XIV(a) (public order).

15 Authorized operators are operators which, as they meet specified criteria, are granted provision of additional trade facilitation measures related to import, export, or transit formalities and procedures.

16 See https://www.wto.org/english/thewto_e/minist_e/mc12_e/mc12_e.htm.

17 See WTO Ministerial Declaration on the Emergency Response to Food Insecurity (WT/MIN(22)/28) and Ministerial Decision on World Food Programme (WFP) Food Purchases Exemptions from Export Prohibitions or Restrictions (WT/MIN(22)/29) (available at https://docs.wto.org/).

18 See https://www.adb.org/what-we-do/trade-supply-chain-finance-program/trade-finance.

19 See WTO official document number INF/MSME/W/47/rev.1 (available at https://docs.wto.org/). According to the World Customs Organization (WCO), an AEO is "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration as complying with WCO or equivalent standards for supply chain security".

20 See https://a4ai.org/research/affordability-drivers-index/.

21 See https://www.undp.org/digital/digital-public-infrastructure.

22 See https://www.oecd.org/daf/competition-policy-in-the-digital-age/.

23 See https://www.oecd-ilibrary.org/taxation/pillar-one-amount-b_21ea168b-en.

24 See https://press.un.org/en/2023/gaef3597.doc.htm.

25 See https://www.greenclimate.fund/.

26 The Generalized System of Preferences (GSP) scheme established by the European Union provides deeper market access conditioned upon ratification of and compliance with several international conventions in human rights, labour rights, the environment and good governance. These preferences are withdrawn in case of violations of these international conventions. Under the African Growth and Opportunity Act (AGOA), adopted by the United States, developing economies can benefit from preferential market access to the United States, provided that they do not engage in gross violations of internationally recognized human rights and that they collaborate in international efforts to eliminate human rights violations.

27 The WTO database on gender provisions in RTAs is accessible at: https://www.wto.org/english/tratop_e/womenandtrade_e/gender_responsive_trade_agreement_db_e.htm.

28 The WTO database on MSME-related language in RTAs is accessible at https://www.wto.org/english/tratop_e/msmesandtra_e/rtaprovisions_e.htm.