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**UNITED NATIONS YOUTH AND STUDENT ASSOCIATION OF AUSTRIA**

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**VIMUN**



VIENNA INTERNATIONAL MODEL UNITED NATIONS  
05 August - 09 August 2012

**Preparation Paper:**

**United Nations Industrial Development Organization (UNIDO)**  
Simulating a Meeting of the Industrial Development Board

**“Improving Terms of Trade for Developing Countries”**

## **Introduction**

After years of negotiations, the establishment of the World Trade Organization (WTO) and the conclusion of a series of agreements on tariffs and trade, global trade has significantly increased over the last decades. While, on the one hand, the reductions and eliminations of tariffs and quotas have led to greater trade liberalization, certain developing countries, on the other hand, have experienced great difficulties in increasing their exports to developed countries. Consequently, these changes towards a more liberalized world trade have only had a limited positive impact on the development of the poorer countries. Most of the developing countries simply could not profit from a more open market and greater trade liberalization.

It is not enough to merely liberalize trade and open up the markets. In a world driven by innovation and technical change, the focus has to be on competitive development, the supply of public goods, incentive systems, and the development of institutional support capacities.

## **Trade-related constraints faced by developing countries**

The gradual liberalization of trade is certainly not the only reason for the failure of developing countries to benefit further from a rapidly changing global market. Instead, there are several other reasons:

- 1) The lack of capacity of developing countries to produce according to international market requirements and to compete internationally through an effective industrial productive capacity as well as optimisation of production and product/export diversification.
- 2) The inability to ensure compliance with products and producing enterprises as required by international buyers and markets.
- 3) The lack of capacity to integrate into the multilateral trading system (MTS), and fully implement its rules and regulations.

Many developing countries, and in particular least developed countries (LDCs), lack the supply capacity to produce goods that are able to compete in terms of quantity, quality and price in export markets. Although many developing countries potentially have a competitive advantages in agricultural industries, only a small proportion of these capacities are used effectively at present. Post-harvest losses are extensive due to the lack of storage facilities, infrastructure and even knowledge of the most basic techniques of conversion and manufacturing. Moreover, repair and maintenance facilities are deficient, and there is often a lack of affordable and reliable energy sources, especially in rural areas. Nevertheless, making better use of the raw materials is among the key issues for creating wealth at a local level and for achieving a greater share in export markets.

In addition to improving their productive capacities in order to have an adequate volume and diversity of goods to sell, developing countries have to compete in a highly demanding regulated trading system. Besides basic product specifications, exporting countries have to be ready to meet increasingly stringent requirements for goods in terms of quality, safety, health and environment. The inability of developing countries to do so leads to high economic and social costs. International standards and conformity assessment systems do make an important contribution to the global economy as they improve the efficiency of production and facilitate the conduct of international trade. At the national level, standards play a significant part in the provision of public goods and the reduction of consumer costs, thus contributing to social advancement.

Lastly, many developing countries, and in particular again LDCs, face difficulties, both with their integration into the MTS through WTO accession, and with their effective implementation of WTO agreements and rules. Related challenges range from the lack of capacity to negotiate WTO accession, the lack of participation of the private sector in such negotiations, insufficient trade/export financing schemes, difficulties (mainly of SMEs) to access tailored and affordable market intelligence services, to the lack of appropriate physical trade-related infrastructures such as proper roads, telecommunication systems, harbours, airports, or cool chains.

## **Trade Capacity Building**

Improving terms of trade (TOT) for developing countries does imply the enhancement of the competitiveness of their enterprises through quality and productivity improvements as well as the development of

mechanisms to assist them in accessing global subcontracting, supply chains and networks. In order to better react to the countries' needs in these fields, the UNIDO established a new Trade Capacity Building (TCB) branch in 2006, which serves as an organizational framework for the organization's trade-related assistance activities. The services offered by the UNIDO can be grouped in three clusters:

#### 1) Competitiveness analysis

The value of a product is always related to the different stages of the value chain it is emerging from. The contribution that products can make to the export earnings of a state will therefore differ widely and influence the countries TOT in a positive or negative way. In addition, even a high quality product needs a supportive environment and well developed legal and regulatory frameworks to compete in the global market. UNIDO's strategy focuses on the development of an effective export strategy through the analysis of the countries' resources and strongest exporters and industries. It is furthermore of great necessity to support a mutual cooperation between the public and private sector.

#### 2) Enterprise upgrading

Developing countries are often unable to benefit from the global efforts to liberalize trade further. This is partly due to the fact that private manufacturers have never really been confronted with the diversity of markets, the rapid changes in technologies and consumer preferences as well as the rigid global competition. Consequently, these countries often lack flexibility and adaptability as well as the adequate industrial infrastructure. Hence, measures to upgrade the productivity and quality of developing countries' enterprises necessarily imply a shift from mass production of standardized goods to manufacturing based on high human capital intensity, the ability to quickly react to market changes and the sourcing from suppliers within the whole global trading system.

#### 3) Capacity building in the area of standards, metrology, testing and accreditation to overcome Technical Barriers of Trade (TBT) and Sanitary and Phyto-Sanitary (SPS) constraints.

For several years now, the WTOs "Doha Development Agenda" has aimed at supporting developing countries to access the global trading markets by producing competitive manufactured goods. However, even series of trade agreements and the increasing reductions and eliminations of tariffs and quotas have not led to remarkable increases in volume of exports from developing to developed countries. The on-going technical changes and innovations require the constant development of related rules and regulations, which, on the one hand, make trade relations more predictable, but, on the other hand, create major challenges for developing countries in terms of implementation. As a result, developing countries are unable to take the full advantage of the opening of the markets through trade liberalization.

In order to achieve the integration of developing countries into the MTS, two WTO agreements are of particular importance: the Agreement on Technical Barriers of Trade (TBT) and the Agreement on Sanitary and Phyto-Sanitary (SPS) measures. Both agreements define how countries can use standards and technical regulations in particular for their consumer health and safety and environment as well as which infrastructure and services need to be in place for efficient trade participation. While it is assumed that the TBT and SPS related institutional infrastructures and services are in place in industrial countries, this is often not the case for most of the developing countries, which constitutes a major obstacle for the export of their goods. Thus, developing countries remain behind the fast advancing progress in testing technology, and they often cannot meet the requirements for product compliance. The problem was addressed before the drafting of the two agreements by implementing a special clause that suggests that industrial countries should provide technical assistance to countries lacking the needed infrastructure. Unfortunately, due to the reasons mentioned above, this step was not successful.

To compete in export markets it is important to not only increase the volume and range of products sold but also to comply with a multitude of trade standards, whether at the national or the international level. The requirements concerning product quality, safety, health and environment have become increasingly strict and exported products now need the confirmation of internationally recognized institutions to proof that all the criteria are met. It is of utmost importance to enhance the construction and funding of the required standardization, certification and product testing capacities in developing countries.

With increased recognition that trade can bring significant benefits to developing countries, the biggest challenge is now to ensure that available resources are effectively utilized to deliver tangible benefits to developing countries. The effective delivery of TCB relates specifically to two areas: within the country, TCB should help to formulate appropriate trade positions and place trade reforms in the context of the country's overall development strategy; within the global rule making process, capacity building measures could ensure the implementation of WTO agreements and foster the participation of developing countries in the process.

## Aid for Trade

There is growing concern over the relationship between trade rules and development and recognition that changes in the international trading system result in significant costs for developing countries. It seems that conventional aid programs have not been able to deal with this situation. Even the existing “aid for trade” schemes to help LDCs in trade integration, such as the Integrated Framework (IF), have only had limited impact. Overall, response in terms of technical assistance has been disproportionate to the heavy losses in export revenue suffered by the developing countries due to the rise in technical barriers.

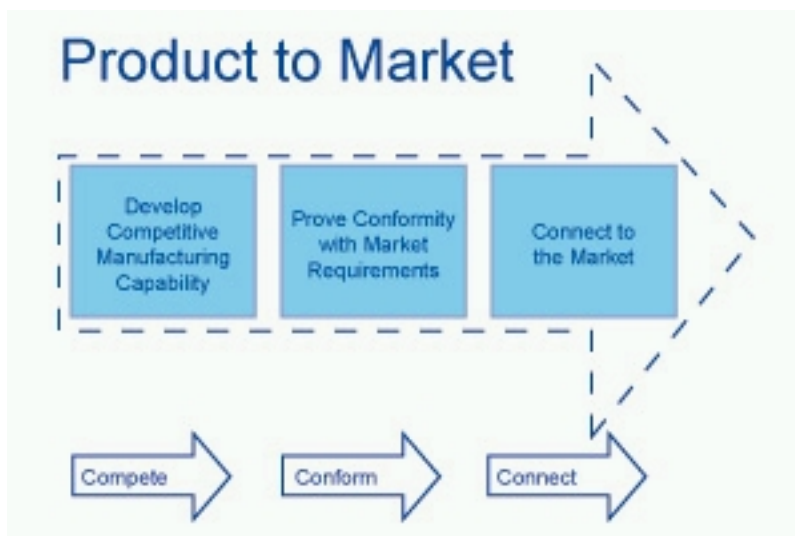
In 2005, the WTO included in its Ministerial Declaration in Hong Kong a commitment to take actions to encourage a new initiative on Aid for Trade (AfT). Trade Ministers reiterated the high priority they attach to the Enhanced Integrated Framework (EIF) and welcomed the establishment of the EIF Task Force. They also mandated the WTO to establish a Task Force on AfT to provide recommendations on how AfT might contribute most effectively to development. While stressing the need to help countries negotiate and comply with trade agreements, including provisions to offset adjustment costs, both task forces recommended that building productive capacity and trade-related infrastructure in developing countries should also be a key feature of AfT efforts. They also emphasized the need for donors to integrate trade and growth issues more effectively, to use genuine needs assessment, and to support better integrating initiatives.

Despite the obvious need for trade capacity-building services and trade-related infrastructure, the private sector is in many cases not able to provide them. Trade-related infrastructure can be very costly to build up, and in a small economy the investment may take a long time to pay off. Thus, international assistance can play an important role in removing impediments to trade through the strengthening of essential public sector capacities and can also help to lay the foundation for those support services that can eventually be provided profitably by private enterprises.

## UNIDO’s contribution to Aid for Trade

Conscious of the obstacles that developing countries face in their effort to participate in trade, UNIDO has realigned its technical assistance approach and launched a trade capacity-building program. This is built on the principle of forming strategic partnerships with other multilateral and technical organizations and agencies in order to maximize the efficiency and effectiveness of technical support and is based on an approach known as the 3Cs:

- **Compete:** remove supply side constraints and increase the competitiveness of the industrial sector.
- **Conform:** enable products to conform to market requirements (standards, technical regulations and conformity assessment procedures) and overcome barriers to trade.
- **Connect:** enable producers to connect with the market and foster integration in the multilateral trading system.



UNIDO concentrates its efforts on developing competitive supply capacity and the creation of conformity assessment infrastructure complying with the WTO SPS and TBT agreements as well as voluntary standards. It looks to other organizations and agencies for specialized knowledge in trade facilitation issues.

This approach was further endorsed through a Memorandum of Understanding signed between UNIDO and WTO in 2003.

This type of assistance is in line with the recommendations of the WTO Aid for Trade Task Force, the 2005 Paris Declaration on Aid Effectiveness, and the UN system-wide coherence goals. In cooperation with key donors, such as the European Union, Austria, France, Italy, Japan, Norway, Switzerland, and the United Kingdom, UNIDO implements TCB programs using innovative approaches such as linking debt swaps and trade-related technical cooperation, specifically to overcome TBT/SPS constraints and to establish “farm-to-fork” traceability mechanisms.

### **Special Issues**

The recent worldwide financial crisis has shown the difficulties some developing countries experience when confronted with changes in trade balance. While strong market economies hardly notice the worsening of their TOTs, developing countries do not have the necessary resources to counter the increasing prices for food and especially for fossil fuels. For example, member states of OPEC, which are offering indispensable and therefore price inelastic goods such as oil or gas, can push up the prices and make huge profits due to their improved TOTs. As the poorer countries can neither go without fossil fuels nor have products, which are competitive enough for the global market, their only possibility is to quit importing or continue exporting while ignoring the demand in their own countries. Both scenarios imply the impoverishment of the people.

For this reasons it could be argued that the developing countries' dependency on oil and gas imports is a major obstacle for their economic integration into the international trading system. By using renewable energy sources, developing countries could reduce their dependency on foreign imports, create a new industrial branch, and improve the eco-balance of their products. On the contrary, there are some developing countries that profit strongly from the rising global demand for energy. The wealth generated by oil and gas exports could help modernize these countries, but high rates of economic growth also require the right technology, entrepreneurship and social stability.

### **Further Readings**

For a comprehensive reading on current issues related to trade and development:

United Nations Conference on Trade and Development (UNCTAD)  
Trade and Development Report, 2011  
[http://unctad.org/en/docs/tdr2011\\_en.pdf](http://unctad.org/en/docs/tdr2011_en.pdf)

*Terms of Trade*  
Coping with Terms-of-Trade Shocks in Developing Countries  
[http://www.newyorkfed.org/research/current\\_issues/ci9-11.pdf](http://www.newyorkfed.org/research/current_issues/ci9-11.pdf)

*Trade Capacity Building*  
UNIDO Background Paper No. 2:  
[http://www.unido.org/fileadmin/media/documents/pdf/tcb\\_buildingup\\_trade\\_infrastructure.pdf](http://www.unido.org/fileadmin/media/documents/pdf/tcb_buildingup_trade_infrastructure.pdf)  
UNIDO Resource Guide 2010 Volume 1 and 2:  
[http://www.unido.org/fileadmin/user\\_media/Services/Industrial\\_Competitiveness/Trade\\_Capacity\\_Building/Trade%20Capacity%20Building%20Resource%20Guide%20Volume%201.pdf](http://www.unido.org/fileadmin/user_media/Services/Industrial_Competitiveness/Trade_Capacity_Building/Trade%20Capacity%20Building%20Resource%20Guide%20Volume%201.pdf)  
[http://www.unido.org/fileadmin/user\\_media/Services/Industrial\\_Competitiveness/Trade\\_Capacity\\_Building/Trade%20Capacity%20Building%20Resource%20Guide%20Volume%202.pdf](http://www.unido.org/fileadmin/user_media/Services/Industrial_Competitiveness/Trade_Capacity_Building/Trade%20Capacity%20Building%20Resource%20Guide%20Volume%202.pdf)

*Agreements*  
TBT-Agreement:  
[http://www.wto.org/english/docs\\_e/legal\\_e/17-tbt\\_e.htm](http://www.wto.org/english/docs_e/legal_e/17-tbt_e.htm)  
SPS-Agreement:  
[http://www.wto.org/english/tratop\\_e/sps\\_e/spsagr\\_e.htm](http://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm)