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Estimated Speech Time: +/- 12 min

Session 5: Aid, Trade and the Post-2015 Development Agenda

Introduction

Good afternoon all. First of all, thank you for the opportunity to speak at this session of the Fourth Global Review of Aid for Trade. The topic of sustainable and inclusive growth is one that has always been very close to my heart. In celebrating CUTS's 30th anniversary we recently hosted a Leadership Lecture in Delhi entitled "Inclusive Growth: What does it mean". As an emerging economy, India has been applauded for having a growth rate of above five per cent yet we are still faced with the humanitarian crisis of over half a billion people in poverty. We had a very robust discussion and numerous points were made but it was very clear that as a nation we are still grappling with this notion of sustainable and inclusive growth; this is why I am glad to see that this topic is also gaining increasing traction at the multilateral level. It is encouraging to see that the conversations that have begun to make headway on the post-2015 Development Agenda are also increasingly emphasising the need to ensure that the progress we are making as an international community must benefit not only a few, but all.[1]

Post-2015 Development Agenda

As we draw closer towards the 2015 deadline of the Millennium Development Goals it is only right to note the progress we have achieved thus far. The MDGs succeeded in bringing together various stakeholders from across the political and academic spectrum in our fight against global poverty and it suffices to say that in the past 15 years, we have seen tremendous progress: global poverty continues to decline, more children than ever are attending primary school, infant mortality has dropped dramatically, access to potable water has been greatly expanded, and targeted investments in fighting malaria, AIDS and tuberculosis have saved millions.[2]

However, we cannot forget that in spite of our success; our failures have left nearly one billion hungry and poverty still rife. The rise of inequality that we have seen has severely undermined the achievements of the MDGs. As we sit here today discussing aid, trade and the post 2015 development agenda our discussions pertaining to future goals must be sensitive to two things: who benefits and at whose expense? We can no longer focus and celebrate faceless aggregate targets that ignore those

[1] Millennium Development Goals and post-2015 Development Agenda (ECOSOC) http://www.un.org/en/ecosoc/about/mdg.shtml
[2] Beyond 2015 http://www.un.org/millenniumgoals/beyond2015.shtml

who remain at the fray of development. This brings me to the central question which we have been asked to address in this session: in light of the post-2015 agenda, how can we ensure that globalisation helps build sustainable and inclusive development?

Globalisation

As we all know, globalisation is by no means a new phenomenon; the process of international economic integration has been underway for decades. However, the sheer pace and scale of globalisation we are experiencing today has never been seen before. Although the current phase of globalisation has attracted much attention in recent years, it can be traced back to as early as the 1950s; and while major technological advancements, notably in transport and communication, more open economic policies and trade liberalisation have traditionally been the driving force behind the spread of globalisation over the past 200 years, there are three features that have clearly distinguished the phase within which we find ourselves today: Firstly, growth in trade has been accelerating at an unprecedented rate due to the recent boost the global economy has seen in FDI. Secondly, while manufacturing still accounts for a large portion of trade, services and FDI are increasingly becoming more prominent components of trade. And the third most salient feature of this phase has been the proliferation of global value chains (GVCs). [3]

Over the past couple of years, the global economy has begun to structure itself around global value chains that are increasingly beginning to account for a rising share of international trade, GDP and employment. The high level of trade has created an unprecedented level of inter-dependency among countries that are engaged at different stages of supply chains. This has created tremendous opportunities for developing and least-developed countries to benefit from the international fragmentation of production process. The new structure of production processes has significantly reduced the costs for emerging economies to reach out to and become a part of the global market.

Through increased trade and investment, global value chains have become an important link in facilitating the trade of smaller businesses, enhancing the possibilities for countries to defy their traditional comparative advantages and access new types of production to upgrade towards higher value added activities. Countries do not need to develop vertically integrated industries to participate in global trade; it is enough to develop capacities in specific links of the value chain. Additionally, small and medium-size enterprises can now also have access to global markets through their inclusion in global value chains as providers of intermediate goods or services.

[3] OECD (2007), Staying Competitive in the Global Economy: Moving Up the Value Chain, OECD Publishing. doi: 10.1787/9789264034259-en

Global Value Chains and Inclusive development

At this point however, I would like to pause and take a minute and highlight an omission I made earlier in my speech. When I noted the features that distinguished this phase of globalisation, there was one I failed to mention however we cannot afford continue this discussion without it. Like all the phases before this current one, one of the most distinguishing features of globalisation is that it invariably always results in both winners and losers.

What is interesting to note is that, the majority of developing countries, including the poorest, are in fact already participating in GVCs. While the name of this global review is "Connecting to Value Chains" I put forward to you that we are already connected and continue to connect to value chains. The statistics pertaining to developing country share in global value added trade indicate that developing country participation increased from 20 per cent in 1990 to 30 per cent in the 2000s and is at just over 40 per cent today yet, in spite of this gradual growth, developing countries continue to lag behind in development indicators. Why is this? This is what we should be asking.

Developing countries have always had more of a comparative advantage in the export of raw materials therefore *domestic* value added in exports is particularly higher in these regions due to their relatively high dependence on natural resources and commodities that require very little to no foreign imports. The problem is that developing countries are lagging behind in *foreign* value added in exports which consist of inputs that have been produced by other countries. Here developed countries have a much higher share of foreign value added in exports.

While contemporary globalization has made the world more interconnected, it has also been said to rework and build on existing cleavages and uneven development. In the early 20th century, Arthur Lewis and other scholars postulated that development policy should focus on strengthening and expanding the modern part of the economy and the traditional sector would follow eventually. This was later criticized in subsequent work. Dependency studies argued that rather than the economy being split, the modern sector was in fact parasitical on the traditional sector and received subsidies in the form of cheap labour and agricultural goods from the traditional sector so the two economies were interdependent. As transnational companies have begun to move their production offshore to low-wage countries they have begun to benefit from subsidies much akin to the subsidies that the formal sector was said to receive from the informal sector. This problem with this type of global production process is that it benefits from and can perpetuate the inherent inequality between countries. The primary aim of the private sector is always to seek the most efficient producers of goods and services be it domestically or internationally, and although much of the trade in natural resources can be attributed to large cross-border investments in extractive industries by globally operating transnational companies, TNCs have no incentive to encourage developing countries to move up the global value chain unless it is in their own best economic interest. Infrastructural constraints play a major role in inhibiting private sector investment of this nature. In light of this, developing countries suffer the risk of being trapped into low income generating activities and relatively low-value added trade at the bottom of the global value chain unless a solution can be found. Herein lies the role of Aid for Trade.

The role of Aid for Trade

In Mr Lamy's closing remarks at the Third Global Aid for Trade Review, he noted that the primary function of Aid for Trade is to prepare the ground for the private sector to grow, not just within, but also beyond its own borders. He succinctly added that the function of "Aid for Trade" is to generate "Investments for Trade." So what can we do to prepare the ground so that TNCs can begin to invest in more value added production links in developing countries? The answer to this question is the key to increasing the participation of developing countries into more highly remunerative production processes.

The reason the benefits of globalization benefits have been unevenly distributed is that its gains go to those countries with more education, more skills, better infrastructure and more open economic policies. The recent inclusion, however, of large emerging economies like China, Mexico, and India among those who are benefitting, is indicative of a qualitative shift in the process even though, (as I stated earlier when I gave the example of my own country, India) there remains much work to be done. The chances, therefore, for smaller countries to benefit from higher value added production processes remains even lower unless we are able to help create an enabling environment to attract FDI to these countries.

Global value chains cannot function properly in the absence of well-functioning markets for backbone services such as transport, logistics and telecommunications. They are highly dependent on the existence of an open and competitive services sector. Additionally, the development of human capital is crucial to moving into higher value-added chains. While openness in trade is necessary for GVC participation, investment on our part in the areas of education, training, workforce development and research and development are necessary complements in this regard. We need to assist policy makers in developing countries develop instruments that build the capacity and promote the mechanisms behind economic upgrading while maintaining open and relatively undistorted markets.

We need to be observant of who is being left behind in this phase of globalisation because as we have seen, globalisation has a knack for leaving some of us behind. And then once we have identified these people, we need to partner with projects that will create an environment that will attract further investment into these areas. It is no longer enough for us to grab at the "low hanging fruit" and celebrate our achievements while ignoring the most vulnerable within the international community. Globalisation that has shown us an uneven spread of benefits is one of the leading reasons for the rising inequality we see today, but we can change this.