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The Role of Trade-Led Economic Growth in Fostering Development: Lessons for the Post-2015 Development Agenda

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Abstract

The United Nations' post-2015 development agenda is taking shape. Like its predecessor the Millennium Development Goals, the post-2015 agenda will reshape development policy priorities for governments and non-governmental actors alike, in many cases galvanising new attention, thinking, and financing to tackle the priorities it identifies. This essay reviews the historical and ongoing role played by trade in sustained high growth and human development progress, and makes the case that the post-2015 development agenda should include considerations related to trade rules and supply-side capacity. Given the strong links between trade-led growth, economic upgrading, and poverty reduction, the paper argues that trade led economic growth must be prioritised in the post-2015 development agenda.

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Growth is not an end in itself. But it makes it possible to achieve other important objectives of individual societies. It can spare people en masse *from poverty and drudgery. Nothing else ever has.*

(Report of the Commission on Growth and Development, 2008)

Introduction

The end-2015 target date for achieving the Millennium Development Goals is fast approaching. Derived from a 2000 declaration by the United Nations' largest-ever gathering of heads of state, the eight international objectives have shaped development policy priorities for governments and non-governmental actors alike, in many cases galvanising entirely new sources of attention and financing.

Considerable progress has been made on a number of MDG targets, though some countries and goals have fallen short of aspirations. Much work remains to be done to address the global challenges of poverty reduction and sustainable human development.

The UN system's post-2015 development agenda is starting to take shape. Formal intergovernmental negotiations will start in September 2014, with a summit of heads of state and government the following September set to adopt the post-2015 development agenda.

UN Secretary-General Ban Ki-moon has been mandated to "synthesise the full range of inputs" available on the post-2015 agenda and present a report to governments by the end of 2014. This report is a potential avenue for bringing together that has been occurring on multiple tracks within the UN system.

One of these tracks is the UN System Task Team on the Post-2015 UN Development Agenda, which brings together more than 60 UN agencies and international organizations, including the World Trade Organization. Another is the High-level Panel of Eminent Persons launched by the UN Secretary-General to provide recommendations on the post-2015 development agenda. Chaired by political leaders from Indonesia, Liberia and the United Kingdom, with members from the private sector, academia, civil society and governments, its May 2013 report[1] called for eradicating extreme poverty by 2030, and emphasised the need to generate economic opportunities without compromising environmental and social sustainability.

At the intergovernmental level, a track of work arose from the Rio+20 Conference on Sustainable Development, held in June 2012, which initiated an intergovernmental process to prepare a set of sustainable development goals (SDGs).[2] An Open Working Group of the General Assembly has met regularly since March 2013, discussing a wide range of issues as it works towards a concrete proposal on a limited number of easy-to-communicate SDGs. In addition, the 68th year-long session of the UN General Assembly, which started in September 2013, has been holding a series of special events on the post-2015 agenda, covering issues such as South-South cooperation, human rights, water and sanitation, sustainable energy, and the contribution of women.

As the international community works its way forward towards a post-2015 agenda, it is important to keep in mind some of the perceived shortcomings of the original MDGs.

[1] "A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development."
[2] The Open Working Group's is posting draft outcome documents at http://sustainabledevelopment.un.org/focussdgs.html.

The MDGs' relative lack of emphasis on economic growth is a particularly relevant critique. The UN Economic Commission for Africa (2012) argued that the MDGs had a "disproportionate focus on social indicators and de-emphasized the productive sector." This choice of priorities, it argued, threatened the sustainability of countries' achievements. "In the absence of growth and strengthened productive capacities," gains in public health and similar areas could be reversed if international funding to tackle them dried up.

In more colourful terms, Cambridge economist Ha-Joon Chang (2010) described the MDGs' aims as laudable, but argued that the absence of emphasis on upgrading countries' productive capabilities meant that "the vision of development behind the MDGs can only be described as ‘development without development." Paul Collier (2007), in his celebrated book about countries left behind in global developmental progress, was blunter still: "Nowadays the talk is about poverty reduction and the other Millennium Development Goals, not about growth rates… yet the central problem of the bottom billion is that they have not grown." [3]

Some of the preparatory documents in the post-2015 development agenda process do make reference to economic development, albeit without much detail. The initial vision for global goals set out by the UN Task Team downplayed economic growth, focusing more on considerations of inclusive social development, environmental sustainability, inclusive economic development, and peace and security.

The Open Working Group on the Sustainable Development Goals has thus far been more emphatic about the importance of economic growth, industrialisation, and infrastructure, and trade, recognising their importance for the successful pursuit of broader social and environmental goals. The most recent draft outcome document produced by the group, dated 19 July 2014, mentions the WTO or related initiatives such as the Doha Round negotiations or Aid for Trade, in no fewer than six of some 17 "proposed goals" covering economic growth, food security, marine conservation, and global partnership for sustainable development. It also emphasises the importance of infrastructure and industrialisation.

The High-Level Panel of Eminent Persons (HLP) report also stressed the importance of economic growth, and of sustaining the growth of recent years while making it sustainable. It credits "a combination of economic growth, better policies, and the global commitment to the MDGs" for the "fastest reduction in poverty in human history," which had brought half a billion people below the $1.25 a day poverty threshold during the first 13 years of this century. Looking to the future, the report argues that continued growth will be necessary to eliminate extreme poverty by 2030, and that economies will need to be transformed in order to create the jobs needed to enable people to escape from poverty. This transformation in turn will require a variety of productivity-enhancing policies: a stable enabling environment for business, especially small and medium sized firms; education and training; and infrastructure. Reassuringly for these authors, the panel says that "it is clear that some growth patterns – essentially those that are supported by open and fair trade, globally and regionally – offer more opportunities than others for future growth."

Among the HLP report's illustrative goals for the post-2015 agenda, which include objectives for education, gender equality, and extending social protection to poor people, is one on creating "a global enabling environment." Within this goal, they would have governments pledge to "support an open, fair and development-friendly trading system, substantially reducing trade-distorting measures, including agricultural subsidies, while improving market access of developing country products." They add "the WTO is the most effective tool to increase the development impact of trade, and a successful conclusion of the Doha Round of trade talks is urgently needed to put the conditions in place for achieving the post-2015 agenda."

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[3] The countries that have grown have contributed greatly to the attainment of the MDGs. Much of the progress towards reducing extreme income poverty as per MDG1, for instance, has been due to rapid growth in China and India.

The HLP's recommendation echoes the language in the existing MDG 8, on a "global partnership for development" that includes a target to "develop further an open, rule-based, predictable, non-discriminatory trading and financial system." The indicators associated with that target included the tariffs levied by developed countries on developing country farm products, textile, and clothing, as well as the share within total developed country imports of products imported duty-free from developing and least developed countries. Another indicator was the proportion of ODA dedicated to building trade capacity.

The HLP report's endorsement of the WTO and the Doha Round, as well as its call for freer, fairer trade, is no doubt heartening. But it is important that participants in the post-2015 debate also pay close attention to the supply-side aspects of trade. The existence of a fairly open, rules-based global marketplace does not automatically mean that countries will be able to seize the opportunities it presents: this reality is borne out by the highly variable trade performance of different developing countries over the past two decades. As we shall see below, it is the very countries that have failed to thrive at trade – those that have been unable to produce and export a diversified basket of goods and services – that are among the worst laggards in terms of human development. Given this reality, a trade-related component of the post-2015 development agenda should attempt to catalyse supply-side improvements as well.

The objective of this essay is make some broad observations about the contribution that economic growth, particularly growth linked to integration into global markets, can make to development. In so doing, the paper aims to make a case for policymakers to take these issues into account when shaping global public policy goals, including the post-2015 development agenda, which will drive policy and spur innovation within the broader development community for over a decade. Including objectives related to growth and trade performance, both historically linked to durable expansions in human opportunity, would enhance the new development agenda's effectiveness, as well as its political sustainability.

Why economic growth matters

A valuable definition of growth comes from Kuznets (1971), who in his Nobel Prize address said a country's economic growth "may be defined as a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology and the institutional and ideological adjustments that it demands." He stressed that all three components of the definition are important, a point to which we shall return below. "The sustained rise in the supply of goods is the result of economic growth, by which it is identified."

Following Kennedy (1968) and Sen (1999), growth is not an end in itself. There is more to life, and to development, than gross national income. That said, growth in income levels, together with enhanced social and political opportunities, is an important and direct contributor to reducing poverty and increasing the freedom enjoyed by people, better enabling them to realize their potential, and pursue what they have cause to value, both as individuals and societies. (Sen 1999)

At the most basic level, in a country that is very poor, it is impossible to reduce poverty without economic growth: there is too little income to redistribute. Incomes need to rise in order to support decent living standards. GNI growth also has indirect effects on human development objectives such as education and health, by enabling increased private and government expenditures. (Ranis 2004) A healthier, more educated workforce, in turn, is better positioned to shift towards more profitable economic activities. (Sachs 2005)

Friedman (2005) finds that growth, even in wealthy societies, is important for the politics of equity-promoting policies. The absence of growth tends to foster conflict over how wealth is distributed. In contrast, broad-based improvement in standards of living "more often than not fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness, and dedication to democracy." Thus even advocates of more extensive redistribution would find likely their cause furthered by economic growth. Persuading people or countries to abandon aspirations for growth is clearly not a viable option.

Over the long-term, the effects of sustained growth – or the failure to grow – are dramatic: Pritchett (1997) estimated that between 1870 and 1990, the ratio of per capita incomes between the richest and the poorest countries increased by roughly a factor of five. Though some developing countries, particularly in East Asia, had seen a sharp uptick in growth since 1960, many had seen growth rates stagnate or even turn negative. The gap between the very richest and poorest was wider still. As he summed it up, the world had seen "divergence, big time."

Writing the same year, DeLong (1997) pointed to the human implications of divergence: never had the world been more unequal "in terms of the divergence in the life prospects of children born into different economies, world ever." But cause for hope came from the fact that many of the poorer economies, including the most populous among them, had "made the transition to sustained economic growth." The result was that "most people live in economies that, while far poorer than the leading-edge post-industrial nations of the world's economic core, have successfully climbed onto the escalator of economic growth..."[4]

A sometimes-complicated literature on growth and trade…

Despite higher growth in poor countries offering hope of improved life prospects for their citizens, the current era of globalisation has been marked by anxiety over increased income inequality both within and between countries.[5] This anxiety gave rise to a heated academic debate about the effects of growth on the poor.

Critics of a standard set of pro-growth policies, namely monetary and fiscal stability and open markets, argue that the potential benefits to the poor are squeezed and even offset by rising inequality and its deleterious consequences (see, for example, Vandemorteele 2009). Defenders, such as Dollar and Kraay (2002), found that the incomes of the poorest fifth of society rose in roughly equal proportion with increases in average income. Noting that "people are often hurting behind the averages," Ravallion (2001) observed that even if the income share of the bottom quintile remained constant, existing inequality meant that the rich would capture a higher share of the increment to national income resulting from growth. He cautioned that there was considerable variation between different countries in the extent to which poor people shared in growth, as well as diverse impacts among poor people within a given country.

Collier and Dercon (2006) went so far as to warn against strategies focusing on equity at the expense of growth, arguing that it is a mistake to favour short-term poverty reduction over long-term development. Alternative views come from McKay and Sumner (2008), who argue that more recent evidence suggests that the incomes of the poorest may increase less than proportionately with growth, and that growth has even been accompanied by increased poverty in some places. They say that while key human development indicators such as education and health are generally positively related to growth, their connection to income poverty is "often less strong… or over a longer time horizon." Ranis (2004) also argued that improving human development, including levels of health and education, can indeed be a precondition for sustainable economic growth. Ostry, Berg, and Tsangarides (2014) found, based on cross-country comparisons, that the notion of a trade-off between redistribution and growth is weaker than is widely assumed, and that a high degree of inequality is in fact correlated with slower growth.[6]

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[4] In this observation, DeLong anticipated Spence (2011). He also anticipates the 'bottom billion' thesis of Collier (2007) in his observation that, "On the other hand, one and a half billion people live in economies that have not made the transition to intensive economic growth, and have not climbed onto the escalator to modernity."

[5] According to Milanovic (2010), while income inequality is increasing within and across countries, it is decreasing across humanity taken as a whole (thanks in great measure to growth in China and India).

[6] Ostry et al. acknowledge that the data for developed countries is more complete and comparable.

The specific nature of trade policy as a driver of growth and development has also been contested. Dollar and Kraay (2001) argued that developing countries that cut tariffs and increased trade after 1980 grew faster than those that did not. An early draft of that paper prompted a critique from Rodrik (2000) arguing that the evidence did not support the causal nature of the relationship they posited, and that countries such as China and India had in fact shifted to higher growth well before liberalising trade.

…but clear evidence of trade's role in developmental success

An important source of pragmatic thinking about many the connections among poverty reduction, growth, and trade is the 2006-08 Commission on Growth and Development (the 'Growth Commission'), which contributed a wide breadth of policy-oriented analysis based on decades' worth of empirical evidence from across the world.

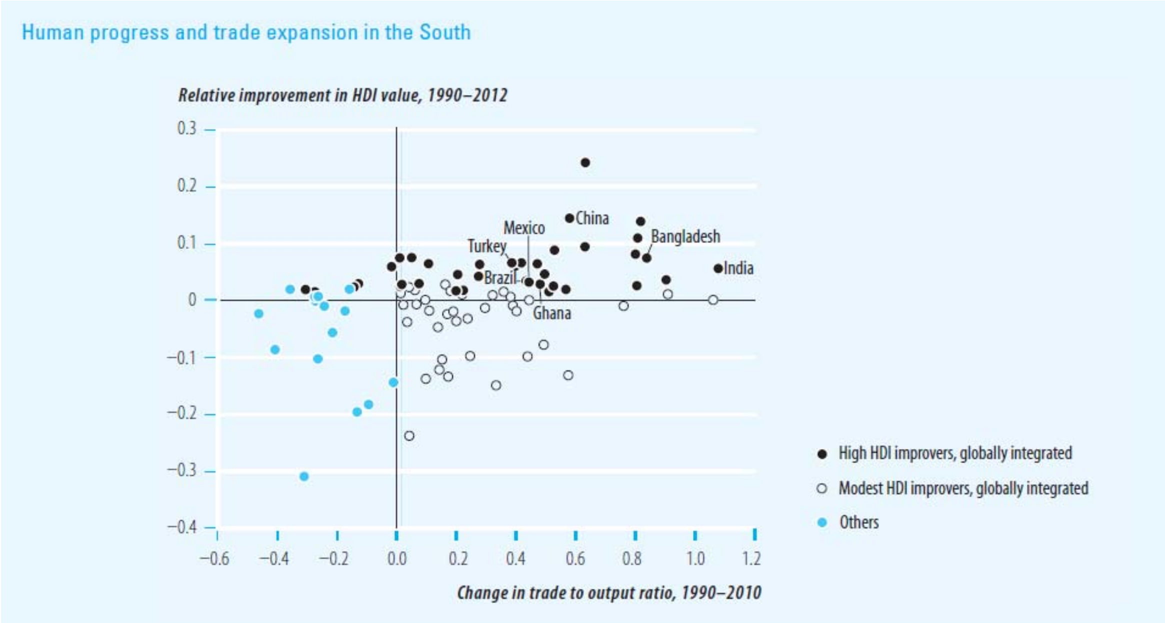
In its 2008 report, the Growth Commission looked at the countries that had grown at an average of at least 7 per cent for 25 years or more since 1950. Only 13 had by that point accomplished the feat: Botswana, Brazil, China, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan (China), and Thailand. While the 7 per cent figure was an abstract benchmark, it represents the rate at which economies double every decade.[7][8] More to the point, the 13 countries that had grown at that rate for 25 years had seen dramatic reductions in poverty and improvements in human development. This was the case regardless of the wide differences in size, natural endowments, and even the end-point of the high-growth phase – Brazil's period of high growth sputtered to an end in the late 1970s with the country still only at middle-income levels; per capita income in Indonesia and Thailand was lower even than Brazil's when the Asian financial crisis brought their high-growth phase to an end in 1997. (Growth Commission 2008)

For all of the differences among the 13 cases, the Growth Commission found five "striking points of resemblance" among them, including future-oriented high rates of savings and investment, and "committed, credible, and capable" governments that let markets allocate resources and maintained macroeconomic stability, with inflation and public debt kept manageable. But the first and foremost common point was that all 13 countries "fully exploited the global economy."

While there was considerable variance in these countries' own pace of opening up, the open global economy played a multifaceted role as a driver of growth in all of them: as a source of demand far greater than that offered by the home market, to be sure, but also as a source of ideas, technology, and knowhow (sometimes in the shape of foreign direct investment).

[7] To put this in context, Angus Maddison estimated that in the more than eight centuries between AD 1000 and 1820, world average per capita income increased by a mere 50 per cent. (Source: Groningen Growth and Development Centre, http://www.ggdc.net/maddison/Maddison.htm)

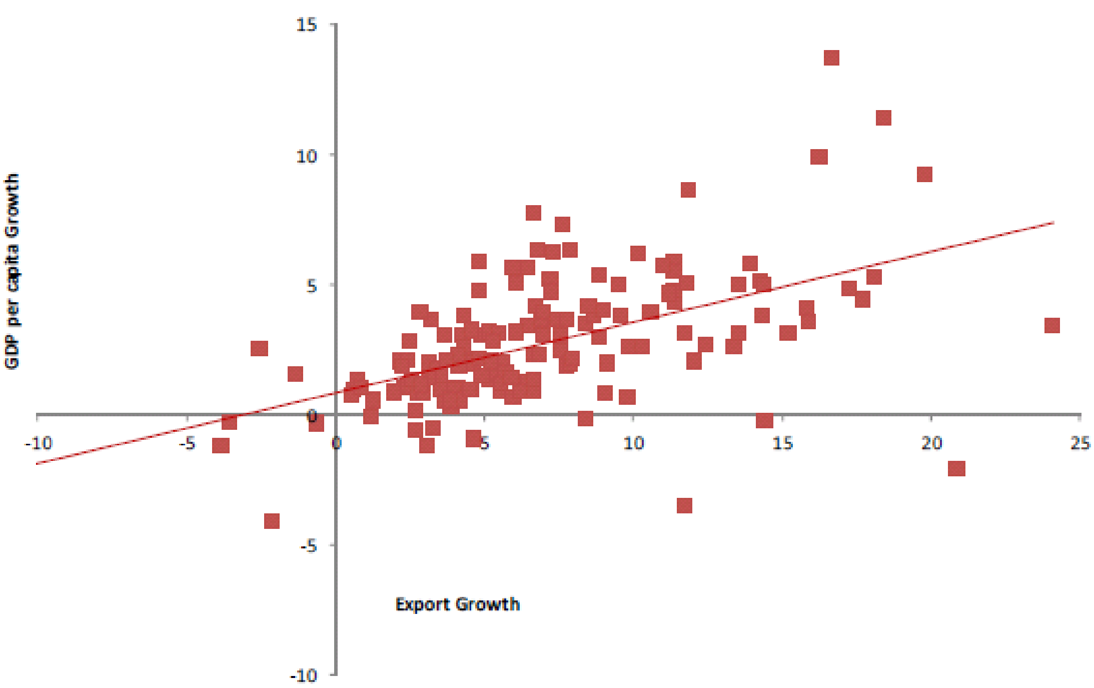
[8] 7% GDP growth is the target for LDCs set out in the July draft outcome document of the Open Working Group for Sustainable Development Goals.



(Source: Human Development Report, 2013)

The connection between human development progress and integration with the global economy was highlighted by the 2013 edition of the United Nations Human Development Report (see chart above). Virtually every country that registered major gains in Human Development Index (HDI) value between 1990 and 2012 had relatively high or increasing shares of trade to output, and traded with a large number of partners. While many countries increased their trade to output ratio while registering only modest HDI improvements, it is the countries whose trade integration declined that accounted for the bulk of the HDI laggards. WTO research has found a comparable correlation between GDP growth and export performance over the past decade, as demonstrated in the table below. To be sure, correlation is not causation, and exports are a component of GDP. Nevertheless, despite some outliers, successful trade performance does seem to be broadly accompanied by GDP growth and HDI improvements.

Real per capita GDP Growth and Export Growth, 2000-2011
(percentage points)



Growth rates are averaged over the respective period. Countries with export growth rates above 30 percent are excluded.
Source: World Development Indicators and WTO Secretariat calculations; from World Trade Report 2014 (forthcoming).

The Growth Commission argues that trade has been a central enabler of historically rapid rates of 'catch-up' growth. Sustained growth at a high pace, it argues, has only been possible thanks to the more integrated global world economy, and the fact that "it is easier to learn something than it is to invent it." (Growth Commission 2008)

For example, Sony, the Japanese electronics maker, licensed technology for small radios from RCA, a US competitor, only to use it to leave the American company far behind. (Growth Commission 2008) Sony and Japan were following a time-honoured pattern: over the course of the 19^{th} century, the United Kingdom, cradle of the Industrial Revolution, had seen its dominance in cloth production steadily usurped by the United States. By the 1930s, lower-cost Japan had become the top textile producer. Today, of course, it is China. (Rivoli 2005) And even there, factory owners in the heavily industrial southwest are now finding skilled labour scarce and increasingly expensive. (Financial Times 2014)

Catch-up growth features prominently in former World Bank chief economist Justin Yifu Lin's model of development (2012a), in which he likens latecomers' emulation of front-runners' innovation and productivity gains to "flying geese." Trade is central to his "growth identification and facilitation framework" for developing countries seeking to boost growth, with governments urged to focus on removing bottlenecks and obstacles to increased production in tradable industries that align with their evolving comparative advantages.

Lin (2011) estimates that as China moves up the ladder of industrial sophistication over the next decade, as many as 85 million low-skilled manufacturing jobs would locate elsewhere. He suggests that Africa could capture some of these jobs, and that the benefits of doing so would be enormous: according to his "back-of-the-envelope" calculations, a shift to Africa of a mere 5 per cent of China's export-oriented investments in the apparel industry would boost Africa's manufactured exports by over 90 per cent. But African countries will only be in a position to reap these gains if they can "quickly design and implement credible economic development strategies that are consistent with their comparative advantage and the flying-geese paradigm."

This is therefore an opportune time for the international development policy agenda to devote increased attention to making developing countries, especially in Africa, more attractive places for these geese to land. Africa's youthful demographics also demand a concerted effort in the next few years to promote employment creation there. As a larger-than-ever generation reaches working age, generating enough decent jobs will be a major part of the difference between realising a demographic dividend and risking major unrest.

Investments in bolstering the participation in trade of countries currently on the margins of the global economy, by addressing constraints on both the supply and demand sides, would yield substantial developmental dividends. A separate reason why keeping the trade channel stable and open will be especially important in the years ahead is that the aftermath of unorthodox monetary policies in several leading economies may complicate the maintenance of macroeconomic stability.

Diversification and infrastructure are essential

Growth without diversification of production and exports leaves countries vulnerable to fluctuations in global demand, supply, and prices. Export revenues based on a diverse basket of goods and services are more stable. Moreover, research suggests that increased diversification makes it easier for countries to translate improvements in their terms of trade into knowledge spillovers, increased productivity, and new areas of comparative advantage. There are also signs that greater diversification is correlated with faster per capita income growth.

The sources of growth also matter for employment creation and income levels, the principal channels through which most individuals and households directly benefit from higher growth. The extractive industries in particular are often marked by jobless growth. A McKinsey Global Institute study (2012) of 10 large African economies for 2002-10 found that while the resource sector had boosted GDP by nearly $50 billion over that period, its contribution to stable job creation had actually been slightly negative![9] In contrast, manufacturing, while contributing about half as much to GDP, had generated over 1.5 million new jobs. Finance and business services had created as many jobs as manufacturing, while adding even more to GDP. The retail and hospitality sectors added close to 3.5 million jobs, while outstripping even the resource sector in terms of GDP growth. (McKinsey Global Institute 2012)

China's transformation since 1978 into an economic superpower is a reflection of increasing productive capacity, economic diversification, trade, and growth. But it is far from the only country to attempt a growth strategy based on outward orientation and economic diversification. Upon independence in the 1960s, Mauritius, traditionally dependent on sugar production, pursued a growth strategy based on diversification, exports, and trade integration. At roughly the same time, comparably wealthy Côte d'Ivoire opted to rely on rents from its commodity exports, primarily cacao and petroleum products. By 2009, Mauritius' per capita GDP in PPP terms was $13,470.52, while Cote d'Ivoire's was $1,670.53 (IMF figures, in current international dollars). The gap illustrates Kuznets' wisdom in including "advancing technology" in his definition of growth.

The High-Level Panel on the post-2015 agenda recognised that, over the long run, an economic transformation would be needed to enable the creation of the large numbers of good jobs necessary to help today's poor escape from poverty and to provide secure livelihoods to the 470 million people will join the world's labour market by 2030. Trading in value-added goods and services can help drive this transformation, as tradable sectors, particularly in developing countries, tend to be marked by higher productivity and wages.

[9] The study defined stable employment as wage and salary employees as well as business owners, and distinguished it from 'vulnerable employment', which included subsistence farming, informal self-employment, and work for a family member.

There are thus several good reasons to place the promotion of productive capacity and economic diversification at the heart of the international development agenda. That said, diversification must be pursued intelligently. We know now that many of the attempts by newly-independent developing countries to leapfrog into heavy industry proved to be expensive, uncompetitive, failures. Far more success came to export-oriented economies that started from light manufactures more in line with their initial comparative advantages, and moved upwards from there.

Countries' development strategies will naturally have to centre on their individual circumstances, led by committed domestic leadership that commands popular support. Nothing can make up for this. But it can be said without fear of over-generalisation that in too many developing countries, private sector capabilities are weak. They are compounded by an enabling environment that leaves much to be desired, both in terms of policies and skills as well as 'hard' infrastructure for energy, transport, and communication. If companies manage to produce, they face border and port delays – several if they're landlocked – not to mention exorbitant export costs. Governments with limited capacity struggle to help remove problems facing would-be exporters the way other their counterparts in other countries do.

More and better trans-border transport infrastructure is indispensable for promoting regional integration. This is where, despite considerable improvements, much more needs to be done in strengthening African infrastructure. *The Economist* reports that "shipping a car from China to Tanzania costs $4,000, but getting it from there to nearby Uganda can cost another $5,000." In landlocked, Malawi, Rwanda, and Uganda, as much as 50-75 per cent of the retail price of goods can be made of transport costs. (The Economist 2013) This is not a recipe for competitiveness in world markets.

The WTO trade facilitation agreement struck in Bali in December 2013 promises to lower these costs, by simplifying customs procedures and making them more transparent, encouraging cooperation among customs agencies, and establishing predictable rules for transit. Importantly, the agreement links the provision of financial and technical assistance to developing countries' trade facilitation obligations: if donors fail to come through with the assistance required to meet certain provisions of the agreement, developing countries will not be under a legal obligation to implement those provisions. Of course, this only underscores the importance of successfully implementing the trade facilitation agreement: failure to implement would forego considerable developmental, commercial, and employment gains.

Moreover, trade facilitation-related reforms are hardly the only measures affecting developing countries' supply-side competitiveness. Looking at Africa, World Bank researchers found that African countries would gain large growth payoffs for increases in telephone density, electricity-generating capacity, road network length, and road quality, with the payoffs larger from expanding the stock of infrastructure than from enhancing the quality of existing infrastructure. They estimate that bringing infrastructure to the level of that in Mauritius would boost growth by 2.3 percentage points of GDP per year in Sub-Saharan Africa, and 1.1 percentage points in North Africa. (Calderon 2009) Public investment in infrastructure can stimulate private investment in boosting productive capacity and increased competitiveness. Improved rural infrastructure makes it easier for smallholder farmers to compete in local and more distance markets, and contributes to higher agricultural productivity. (Growth Commission 2008)

On-going Aid for Trade efforts have gone some way towards addressing problems of supply-side capacity and trade-related infrastructure, and have been given a higher priority in recent years. In the years since 2005, when the WTO Aid for Trade initiative was launched, some US$ 200 billion has been mobilized in funding, with US$60 billion of this to least-developed countries (LDCs). But clearly much more needs to be done in terms of addressing both supply-side and demand-side issues facing countries on the margins of global trade in products other than minerals.

Global value chains: new avenues for insertion into world markets

Today, global value chains provide important new avenues for diversification and breaking into world markets. For smaller countries and small and medium enterprises in particular, multi-country production chains offer enormous potential. As former WTO Director-General Pascal Lamy (2012) has noted, global value chains "lower the bar for entry into the global economy," since countries no longer need to have a full-fledged vertically integrated industry making final products in order to participate meaningfully in international trade. They need produce only a component, or carry out one step of the production process.

While multi-country value chains are not new – even a thousand years ago, African ivory was being shipped to India, where craftsmen carved it into jewellery for export to Europe – their rising dominance in international production and trade is unprecedented. Trade in intermediate products now accounts for more than half of world merchandise exports. More and more products are in fact 'made in the world' more than they are made in any particular country. This has important implications for developing country governments seeking to boost export competitiveness. Joint OECD-WTO statistical work analysing trade in value-added terms has confirmed that in global value chains, export competitiveness depends on efficient access to imports of intermediate goods as well as services.[10] Long-held notions about how to promote exports have been overturned: restricting imports now amounts to shooting your own exporters in the foot.

According to a report from UNCTAD (2013), not only are the majority of developing countries participating in global value chains, their role in value chains is increasingly important: the developing country share in global value added trade increased from 20% in 1990 to over 40% today. And participation in global value chains matters: the economies with the fastest-growing participation in global value chains grow about 2 percentage points faster than the average. The growth potential is greater still if countries are able to upgrade along these value chains.

Global value chains make smooth, predictable, and efficient customs and port procedures particularly important. As noted above, the new WTO agreement on trade facilitation has the potential to substantially reduce trade costs, particularly in developing countries. Gains from the agreement, however, will only be realised to the extent to which the agreement is implemented – which in turn will hinge on the donor community's provision of financial and technical assistance to help developing countries implement certain obligations. Nevertheless, if trading costs and times can be lowered and made more predictable, it ought to spur export-oriented investment in developing countries.

Policy complementarities, virtuous circles

While economic growth per se is important for the sake of strengthening domestic capabilities to alleviate poverty, it also matters for the attainment of other fundamental global goals that might on the face of it have little to do with economics. This includes many of the goals that have been at the centre of the post-2015 agenda discussions. To take the examples of gender quality and access to education, randomised evaluations have documented how primary school enrolment and nutrition for girls increased in north Indian villages where young women were recruited to work in business process outsourcing centres. (Duflo and Banerjee 2011) The World Bank says that rural infrastructure – the same roads that make it easier for small farmers to compete in local and more distant markets – help children and pregnant women access health facilities.[11]

Academic research on civil conflict has served to underscore the importance of growth to civil peace: the lower a country’s starting income levels, the higher the risk of civil war. Growth reduces the risk of civil war, but a decline in GDP increases it. And countries heavily dependent on exports of primary commodities are at vastly higher risk of civil conflict – yet more proof that diversification matters. (Collier, Hoeffler, and Rohner 2009)

[10] http://www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm
[11] http://www.worldbank.org/mdgs/child_mortality.html

The converse is true as well: progress towards other public policy goals can help sustain economic growth, as well as make it sustainable. In the absence of proper environmental policies, it will be impossible to sustain growth in the long-run. In addition, the microeconomic reasons for why trade contributes to growth and development – by encouraging a shift in economic activity towards higher-productivity sectors and more successful firms – involve displacement by definition. At the political level, policy measures to cushion the resulting blows to individuals are important to prevent a backlash against open market policies – but such measures should protect people, not specific jobs, lest they risk preventing desirable structural shifts. (Growth Commission 2008)

Former WTO Director-General Pascal Lamy called for trade-opening to be underpinned by a 'Geneva consensus' to address the imbalances created between its winners and losers. (Lamy 2006) This would see the Bretton Woods institutions, the UN, and the broader international community move to complement trade liberalization with assistance to least-developed countries to build supply, infrastructural, and negotiating capacity, and to help developing countries adjust. The result would be a more humanised globalisation – one that would build broader public support for what has been the most successful poverty reduction mechanism in history.

In sum, the two broad strands of thought on development policy – what might be described as the productive capabilities agenda and the social sector agenda – are complementary. And the creation of virtuous circles between economic and social aspects of development is not just desirable; it is essential. Lin (2012b) notes that the North African regimes swept away by the Arab Spring had done fairly well at improving education – but not at boosting growth and creating jobs.

Lessons for the Post-2015 Agenda

Not all international resolutions are created equal. Many are forgotten immediately after governments adopt them. This has not been the case for the MDGs. The MDGs have, since the turn of the century, given the world a shared development agenda, with reducing poverty in its core dimensions at its very top. In doing so, the MDGs reshaped policy priorities, galvanising the attention and interest of governments, the private sector, and individuals, and providing civil society a common measuring stick against which to hold them to account. [12] (Fukuda-Parr 2012) The post-2015 development agenda promises to do the same for at least the next decade and a half. Getting its content right is important.

As we have seen, the open global economy has been a central enabler of growth and development. Economic growth, including through trade opening, plays an essential role in realizing the social, economic, and environmental dimensions of development. Some of the greatest advances in human development and expanded life opportunities have been achieved in countries that have been able to import ideas and export value-added goods and services. The countries that have failed to tap into world markets – or have only managed to export unprocessed minerals – have been among the biggest laggards, in spite of what in many cases are considerable accomplishments in terms of literacy, basic health, and life expectancy.[13]

Clearly therefore an open, rules-based, non-discriminatory and equitable multilateral trading system can contribute to ensuring higher levels of socio-economic development. Successful participation in global trade has proved to be one of the surest ways of eradicating poverty and helping achieve international development goals. The enabling role that trade and an open trading system can play for both economic growth and poverty alleviation must be reflected in the post 2015 development agenda. In fact it would represent an enormous missed opportunity if the agenda did not include a component on trade led economic growth; specifically a mention of demand- and supply-side policies aimed at helping developing countries participate more fully in international trade.

[12] Fukuda-Parr and Hulme (2011) go so far as to say that the MDGs institutionalized the consensus on ending poverty as an international norm.

[13] Kenny (2012) notes that "countries as poor and wretched as Haiti, Burma and the Congo" have infant mortality rates today that are lower than those achieved by any country in the world in 1900.

It is worth stressing here that the post-2015 agenda will be shaped in a climate of modest growth and strained aid budgets among traditional donors. This will makes its 'catalytic' function, that is, its role in attracting funding from non-traditional sources, even more important than it was for the MDGs. The scope for innovative approaches to boosting trade is substantial.

An existing, if embryonic, example is Upstream Analytics, a Kinshasa-based, US-registered start-up, which aims to harness big data to speed up trade. It has created an app usable on simple, 'non-smart' cellular phones, through which truck drivers would be able to report on whether they experienced bribery, conflict, or long waits along particular road routes. Each driver's account would be corroborated against reports from others on the same route; the results would reveal the best and quickest routes for trucks to take. Typical 'clients' would be logistics personnel charged with managing a company's supply chain. Key 'users' of the free app would include the truck drivers themselves. Including trade-led growth and productive capacity in the post-2015 development agenda would almost certainly draw new resources and attention to helping countries find ways to end their marginalisation in world markets.

Trade relations between nations influence other areas such as international technology cooperation and transfer, labour migration, and ensuring more investment in core infrastructure, all of which can have a positive impact on job creation, income levels and poverty alleviation. Trade is cross-cutting and its inter-linkages with other focus areas such as, education, food security, health, employment, industrialization, infrastructure and sustainable consumption and consequently with development and poverty eradication are well established. Hence, inclusive and sustainable development has to be based on a global partnership for development that, amongst other things, encourages open, fair and development-friendly trade.

In a much-quoted exchange in *Alice in Wonderland*, the story's heroine asks the Cheshire Cat "Would you tell me, please, which way I ought to go from here?" "That depends a good deal on where you want to get to," comes the response. Amidst the coming debate about what should, and what should not, go into the post 2015 development agenda, we should not forget that we do know a few things about where, in the Cheshire Cat's phrase, we want to get to.

We want to get to a place where more people can reap the opportunities inherent to greater human development. We know that this will involve sustained economic growth driven by an increase in countries' ability to, as the Growth Commission put it, import what the rest of the world knows, and export what it wants. Economic growth continues to be the main driver for poverty reduction in developing countries. Countries that register high growth over the long term tend to be successful traders. Trade and its relation to economic growth and sustainable development must therefore be included in addressing the sustainable development challenges of a post 2015-world. It would be a mistake not to reflect trade led economic growth as one of the recipes for sustainable poverty alleviation in any future international development agenda!

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