

A stylized graphic of a globe, composed of several overlapping, curved lines in shades of blue and light blue, representing the Earth's latitude and longitude lines. It is positioned in the bottom-left corner of the slide.

Changes in Global Trade Regime and Impacts on the Global South

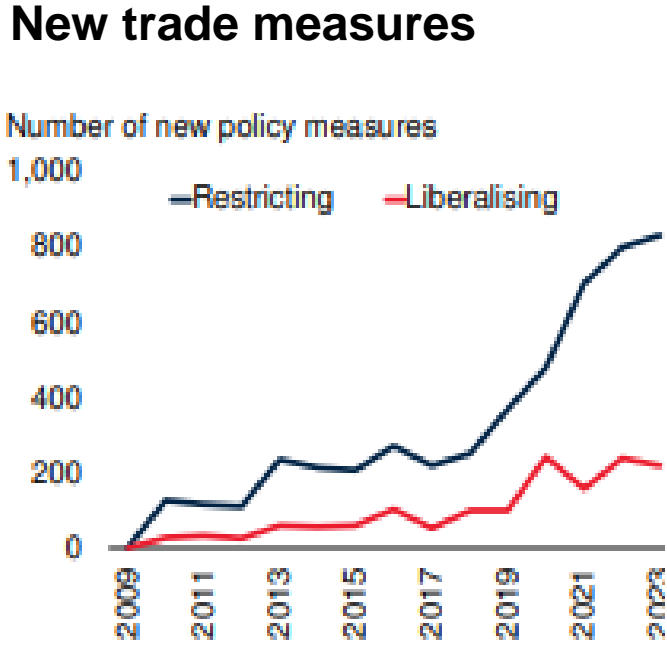
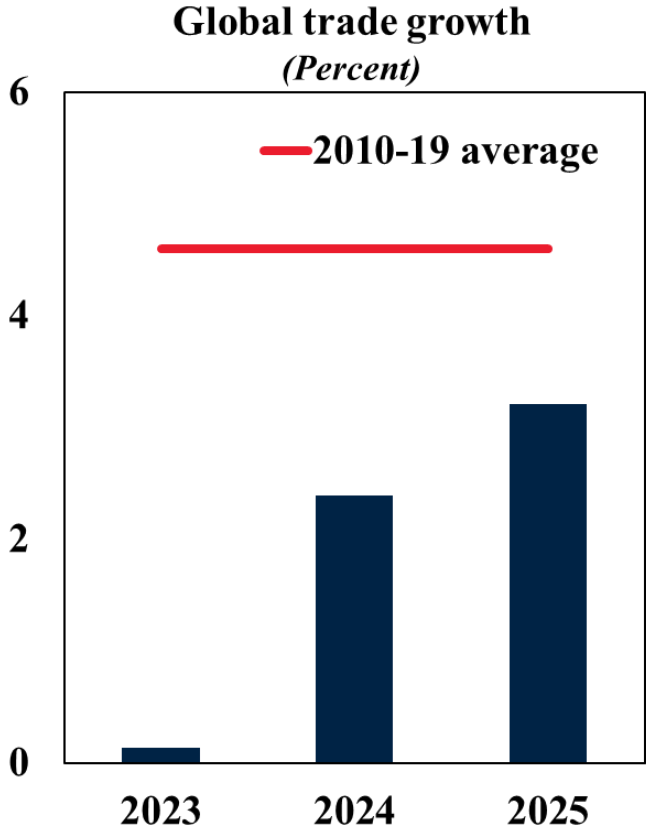
Prepared for the G-24 Technical Group Meeting on
Building resilience to meet global challenges
Manila, Philippines
February 21-22, 2024

World Bank Philippines, February 2024
Ralph van Doorn (RvanDoorn@worldbank.org)

Global goods trade has stagnated since the Global Financial Crisis and goods trade growth is expected to remain below its pre-pandemic average, however, global services trade dynamic (changing globalization)

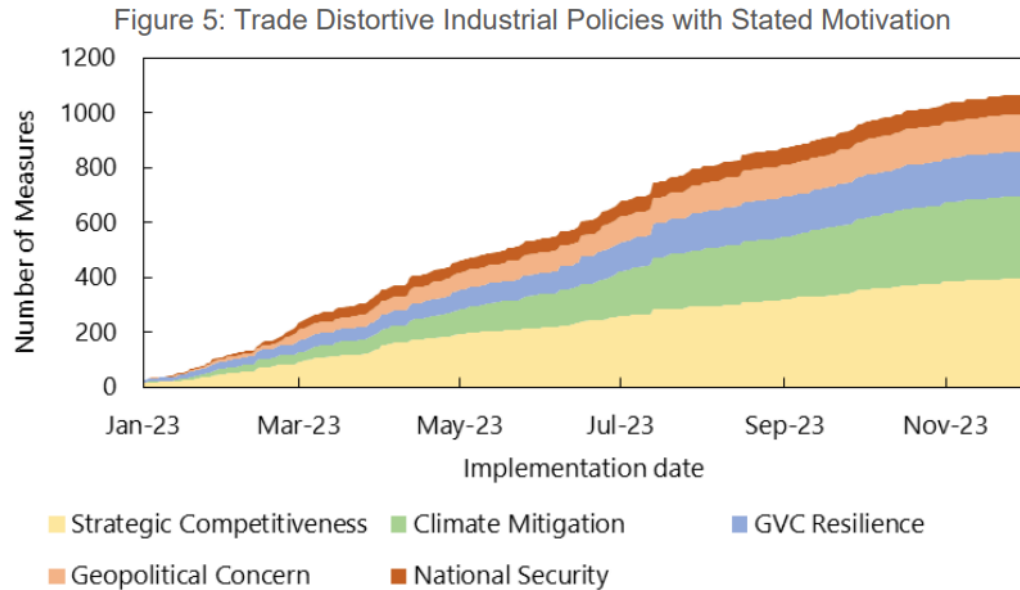


Note: based on trade and GDP in current US dollars



World Bank Global Economic Prospects, January 2024:
www.worldbank.org/gep

Industrial policy could lead to fragmentation of world economy and flouting of global trade rules, but different regions make different choices



Note: Cumulative stock of measures. For measures with multiple motives, each motive is given equal weight.

Table 5. New Industrial Policies by Region

Breakdown of active distortive industrial policies by policy instrument

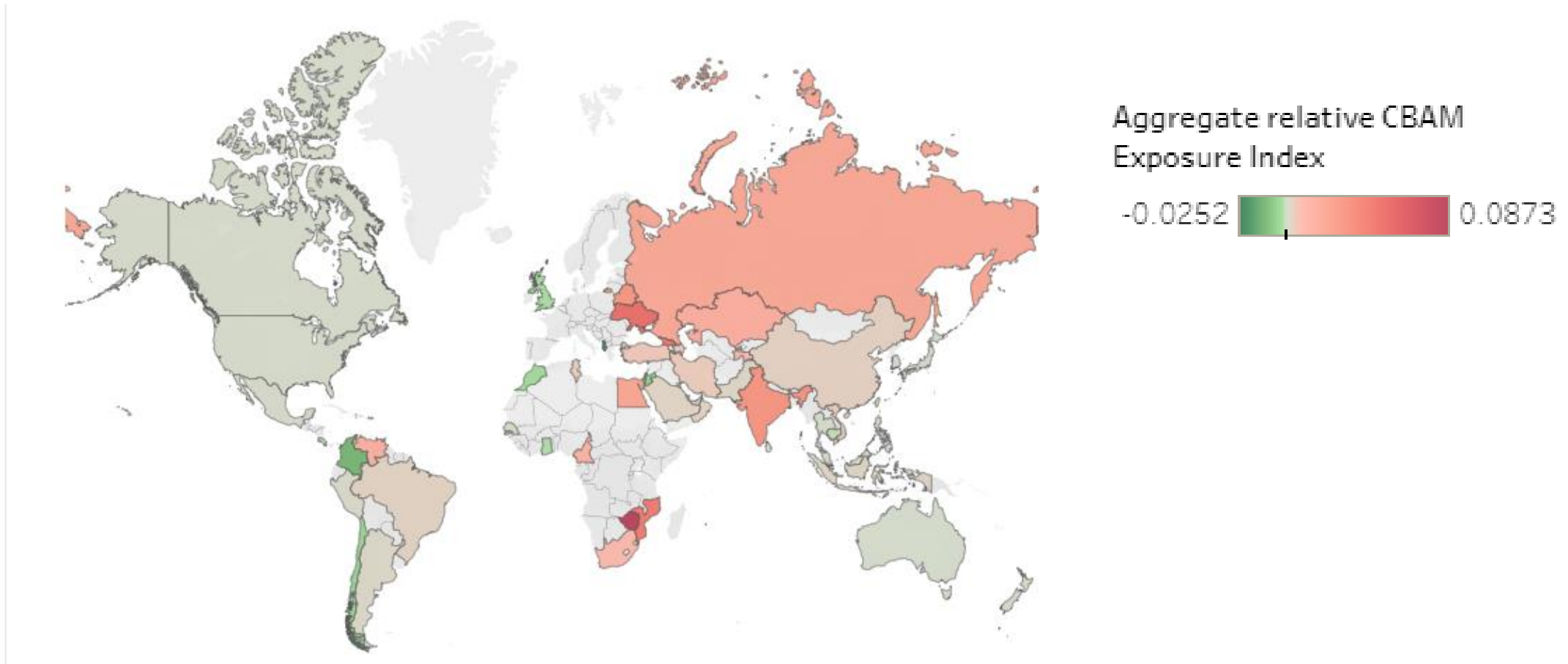
Region	Domestic subsidy	Export barrier	Export subsidy	FDI	Import barrier	Localization	Procurement
Sub-Saharan Africa	6	2	1	0	3	1	0
South Asia	37	26	6	1	73	29	1
North America	209	20	26	4	21	55	22
Middle East and North Africa	7	0	1	0	3	0	0
Latin America and the Caribbean	84	7	11	3	104	13	0
Europe and Central Asia	427	47	53	14	68	5	13
Asia Pacific	148	40	55	6	278	15	2

Legend for policy instrument counts:

- 0: Grey
- 1-25: Light blue
- 26-50: Medium blue
- 51-100: Dark blue
- >100: Darkest blue

<https://www.imf.org/en/Publications/WP/Issues/2023/12/23/The-Return-of-Industrial-Policy-in-Data-542828>

Many exporting countries exposed to EU's CBAM



<https://blogs.worldbank.org/trade/how-developing-countries-can-measure-exposure-eus-carbon-border-adjustment-mechanism>

Effects of rising trade protectionism on poverty, inequality, and the prospects for inclusive and sustainable growth? Gains and losses can vary by region, country, and within countries

Negative welfare effect of protectionism depends on regions' RTA commitments

Table 2: Regional welfare impact

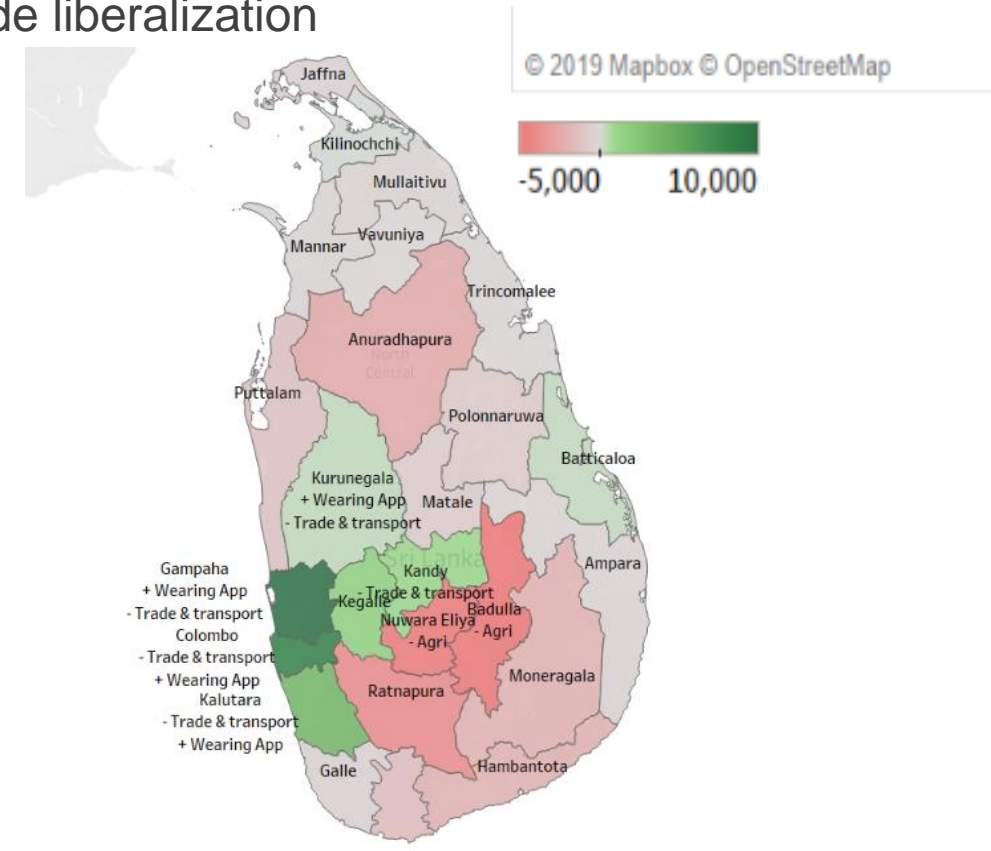
	Percent	US\$ billions
East Asia and Pacific	-0.9	-33
Latin America and the Caribbean	-0.5	-30
Middle East and North Africa	-0.5	-20
Sub-Saharan Africa	-0.4	-9
Europe and Central Asia	-0.4	-15
European Union	-0.3	-55
Other Advanced Economies	-0.2	-33
United States	-0.1	-11
South Asia	-0.1	-2
China	-0.1	-5
Total	-0.3	-211

Source: Authors' simulations.

Note: Results are reported relative to the baseline in 2020.

Scenario: all WTO members simultaneously withdraw their tariff commitments (unilateral preferential schemes, existing bilateral/RTAs) coupled with 3% increase in cost of traded services

Sri Lanka's western urban areas see the highest potential gains in employment under full trade liberalization



<https://documents1.worldbank.org/curated/en/962781513281198572/pdf/WPS8277.pdf>

<https://www.worldbank.org/en/news/infographic/2021/05/19/distributional-impacts-of-trade>

What options are open to emerging markets and developing economies to adjust to the changing environment?

How can developing countries navigate changing globalization, (green) industrial policies and CBAM?

- Opportunities for countries with comparative advantage in services trade
- Industrial policy can be a threat or an opportunity
- Green value chains can be opportunity
- Removal of tariff and non-tariff measures - Liberalize with a view to remove any bias towards more emission-intensive sectors
- Support the carbon competitiveness of exporters
 - Build capacity of systems for measurement and certification to comply with green regulations on export markets (e.g., CBAM)
 - Support decarbonization of exporting sectors

What options are open to emerging markets and developing economies to adjust to the changing environment?

Get the basics right:

World Bank analysis of 192 episodes of investment accelerations in 129 countries from 1950 to 2022

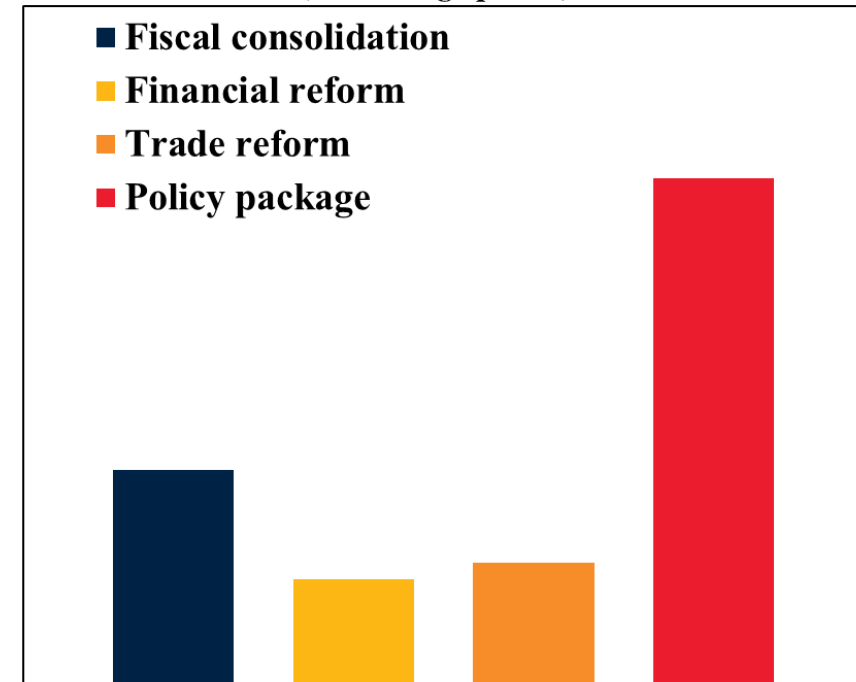
Coincided with better outcomes:

- **Macroeconomic:** improved fiscal balances, faster credit expansion, and larger net capital inflows
- **Development:** faster poverty reduction, lower inequality, and improved access to infrastructure, such as the internet

Good policies have helped to ignite investment accelerations:

- **Policies to improve macroeconomic stability and structural reforms,** including measures that ease cross-border trade and financial flows
- **Well-designed policy packages:** Although individual policy interventions have played a role, country-specific comprehensive packages of policies fostering macroeconomic stability and addressing structural issues have tended to be more potent in driving investment accelerations.
- **Better institutions:** Having high quality institutions (such as a well-functioning and impartial legal system) is critical for the success of policy interventions in starting investment accelerations

Increase in probability of accelerations
(Percentage points)

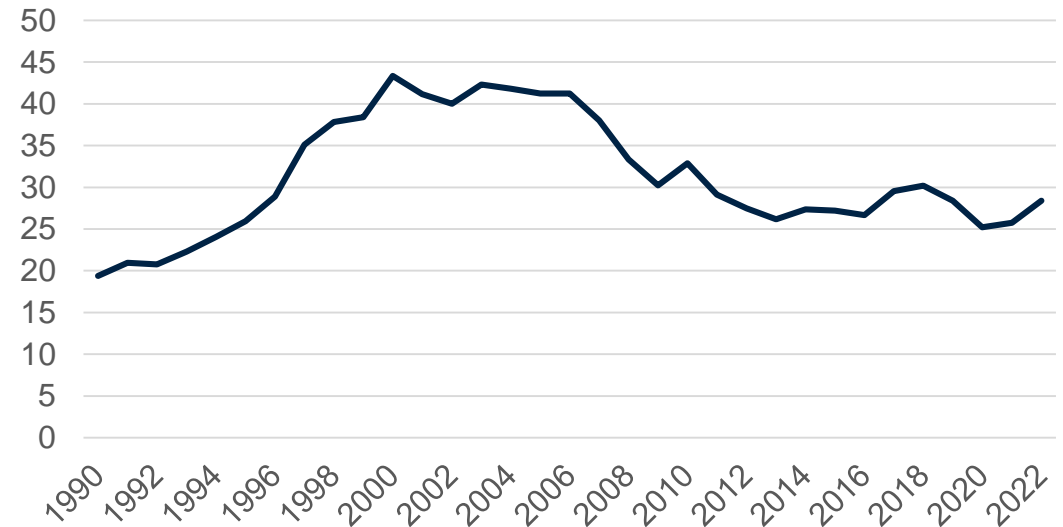


World Bank Global Economic Prospects, January 2024: www.worldbank.org/gep

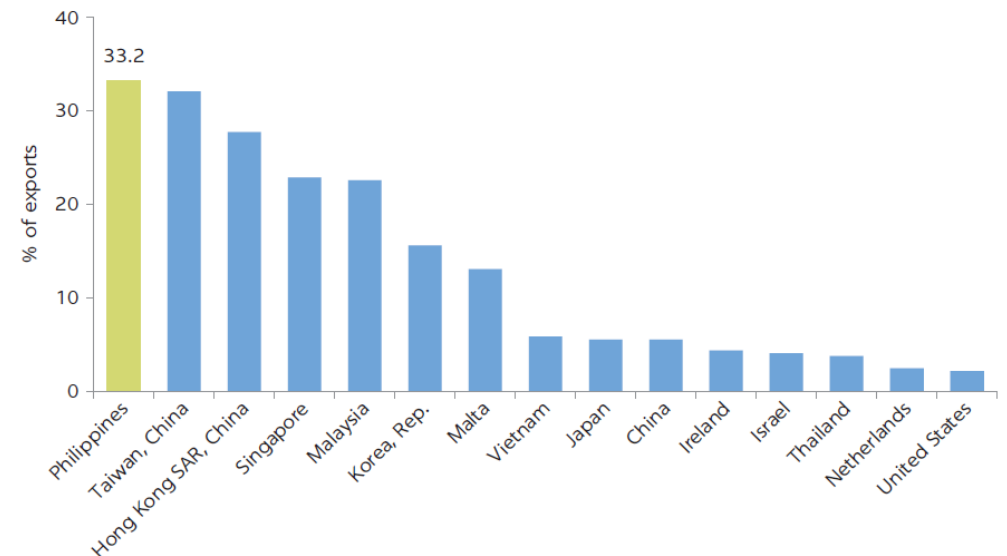
Philippines perspective

- Trade:
 - Secular decline in goods exports-> “missing” trade (competitiveness?)
 - Although strong position in some value chains (semiconductors, IT/BPO)-> services exports
 - Import dependence
- Geopolitical tensions: may affect supply chains, food prices
- Climate policies (CBAM): not a large effect yet but could become bigger in future

Philippines: Exports/GDP



Share of semiconductor exports in total exports in select economies, 2019



Source: United Nations Comtrade data.

What has the Philippines done?

- Remove trade barriers and integrate with region:
 - Replaced rice import quotes by tariffs and set up Rice Competitiveness Enhancement Fund
 - Joined RCEP
- Improve business environment:
 - Revised investment tax incentives framework in 2019
 - Ease of Doing Business law (Anti-Red Tape Authority), Ease of Paying Taxes law
 - Foreign equity restrictions removed on retail trade, solar and wind energy, backbone services (shipping, aviation) -> may boost productivity of downstream industries
 - Streamlining permitting to attract more investment
- Close infrastructure gap:
 - Build-Build-Build and Build-Better-More infrastructure program (on budget)
 - Improvements in PPP framework
- Prudent macro-fiscal policy:
 - Inflation targeting, medium-term fiscal framework
- But the agenda is unfinished:
 - Revenue still low
 - Education and skills, human capital
 - Infrastructure gap still large
 - Implementation challenges
 - Climate and disaster exposure