WORLD BANK SUPPORT FOR DEVELOPING COUNTRIES
ON INTERNATIONAL TRADE ISSUES

Attached for the September 27, 1999 meeting of the Development Committee is a background paper prepared by World Bank staff on World Bank Support for Developing Countries on International Trade Issues for consideration under item 2.C of the Provisional Agenda. Ministers are requested to address this topic in their prepared statements.

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1. After the Uruguay Round and the great wave of liberalization that swept developing countries in the 1990’s, it might have been tempting to believe that the process of integrating developing countries into the world economy was complete. Certainly, the excessive tariffs, quantitative restrictions and non-tariff barriers that stood in the way of integration were dramatically lower after the Uruguay Round. Average tariffs on manufactures in industrial countries fell to an average of 2.5 percent. Developing countries also made impressive strides, reducing their average tariffs on manufactures to below 15 percent, a rate that continues to decline as countries continue to reform their policies and rationalize their tariff structures.

2. Despite this progress there are still substantial potential gains to developing countries from further reductions in conventional trade barriers. Protection to OECD agriculture has actually increased in recent years—from an average of 32 percent in 1997 to 37 percent in 1998. Recent work, (Anderson and Schott, 1999) suggests that reductions in protection to agriculture can generate very substantial gains to developing countries. More analytical work is needed to understand the impact of agricultural producers’ subsidies on poverty in developing nations. Reductions in tariffs on industrial products—conventionally thought of as an issue primarily of interest to developed countries—appear likely to provide substantially greater benefits to developing countries than to the industrial countries (Hertel and Martin, 1999). A significant part of these gains arise from expansion of South-South trade as barriers decline between developing countries.

3. The World Bank has long been active in helping developing countries become more strongly integrated with the world economy. Through research and Economic and Sector Work, the Bank was one of the early leaders among international institutions in showing the benefits to developing countries of greater integration into the global economy. Between 1981 and 1994—the end of the Uruguay Round—the Bank made 238 loans that supported liberalization of trade or foreign exchange policy to 75 different countries. Since 1995, fifty-four additional IBRD and IDA adjustment operations (65 percent of all adjustment operations) have supported exchange rate and trade policy reform.

4. Reducing tariffs, however, turned out to be a relatively easy part of trade reform—able to be implemented at the stroke of a pen. These reforms, while necessary, are by no means sufficient to catalyze lasting development and poverty alleviation. Rather than signaling the end of the Bank’s involvement in trade reform, the reduction in tariffs has actually heralded the beginning of a new era of Bank involvement in trade policy focused on helping countries use trade as a tool for development.

5. The challenge is formidable. Eliminating border barriers revealed the large agenda of development issues that have a direct impact on trade. Opening markets and reducing barriers, while the right prescription for many countries, and a part of the prescription for most others, is
not enough. It has become clear that the interdependent policy issues, regulatory reforms and institutional challenges that provide the foundations for trade must be tackled comprehensively as part of the overall development strategy to enable all countries to gain the most benefit from the world economy.

6. Acknowledging that trade has expanded into a complex and subtle web of issues that form the crux of the development agenda is central to understanding the role of the Bank in supporting low and middle income countries’ efforts to benefit from greater integration with the world economy. The very work involved in helping countries to build the institutional foundations for trade to flourish –improving Customs, developing trade related infrastructure, improving competition policy, increasing access to insurance and credit—are at the heart of the Bank’s structural agenda and go to the very core of development. The objective of the Bank’s work on trade is the same as our objective for much of our development work: to assist our clients in their efforts to use the global economy most effectively to promote the growth that is so vital for poverty alleviation.

7. In recent years, the multilateral trading system has expanded its coverage far beyond its traditional focus on border barriers to trade, and into issues that are part of the broader development agenda. As a result, multilateral negotiations have become increasingly complicated, making effective participation difficult for many low income countries that lack the resources to build capacity in all of the areas covered in trade negotiations. Another critical role for the Bank, then, is to ensure that developing countries have the capacity to participate effectively in negotiations, from setting the agenda to interpreting rules in ways most favorable to their development goals.

Trade Policy Issues for Developing Countries

8. The importance of placing trade issues in a broader development context is illustrated by a number of the key trade issues currently confronting developing countries.

The Social Dimensions of Trade Policy

9. Increasing economic openness is an essential element of any overall framework for sustainable development and poverty alleviation. Open policies allow developing countries to make the most effective use of their limited resources, and to take advantage of the continuing improvements in production techniques that are the key to sustainable improvements in living standards. Further, the gains from increasing openness are typically widely distributed-- the World Development Report 1995 highlighted the strong positive relationship between increases in export orientation and manufacturing wages. Export-oriented development has also created greatly improved employment opportunities for women in many countries.

10. However, open trade policies are by no means a sufficient basis for sustainable development. Governments need to do much more to create the enabling environment for broad-based development. Adequate transport and communications infrastructure both nationally and internationally are an important part of this enabling environment. Improving transport and communications within the country can be particularly important for poverty alleviation—poor
and isolated communities need access to markets if they are to be able to lift themselves out of poverty. Raising education levels can help workers both to adjust to change, and to produce higher quality products. More and more, world markets require countries to be able to produce technically sophisticated products to high standards. Governments need to ensure that their producers can demonstrate their ability to meet these requirements and that their workers are able to take advantage of the opportunities offered. Governments need to put in place sound labor market policies to ensure that these benefits are widely distributed; to protect the vulnerable and to prevent inequitable and inefficient discrimination against particular groups in the labor market; and to ensure that labor markets are sufficiently flexible to adjust to changing market conditions.

11. The social impacts of trade reform also depend heavily on how it is implemented. While it is difficult to provide firm rules on sequencing, it is clear that rapid liberalization in the depths of recession may create adverse social impacts. By contrast, credible, pre-announced, programs of liberalization, such as those agreed in WTO negotiations undertaken in a stable macroeconomic environment—are more likely to stimulate investment and job-creating growth. Social safety-net programs, training and active labor market policies can play a useful role in dealing with short-run transition problems, although they should not be seen as longer-term substitutes for the economic restructuring required by trade reform. Where governments rely heavily upon customs duties for revenue, the development of alternative revenue sources is an essential part of the trade reform process, if inflation is to be avoided and necessary social spending to be maintained. Thus, managing liberalizations to minimize adverse poverty impacts, and tailoring reform to play a positive role in poverty reduction are important aspects of implementing a poverty-focused development strategy.

Implementation of Uruguay Round Agreements

12. A contentious issue in the lead up to the WTO Ministerial to be held in November in Seattle is the implementation of some of the agreements reached in the Uruguay Round, particularly those that involve the introduction of new institutions. Because developing countries were allowed grace periods to implement some of these agreements, some of the changes required by the rules have not yet been implemented. Some developing countries continue to highlight the problems they face in implementation - and point to what they see as the failure of the developed countries to implement the spirit of their obligations in areas such as textiles and clothing.

13. It now seems clear that the problems developing countries would face in implementing agreements such as those on Customs Valuation, Agriculture, and Trade Related Intellectual Property Rights (TRIPS) were underestimated by many at the time. Moreover, the Uruguay Round generated little sense of local ownership for some of these reforms, particularly among the least-developed countries, making implementation all the more difficult.

14. A number of the Uruguay Round Agreements, such as those on Customs Valuation, and on TRIPS, require developing countries to undertake extensive changes in government agencies, or to develop entirely new institutions. Many of these reforms can have a strong development payoff if pursued using approaches focussed on the development needs of poorer countries, rather than on duplication of practices pursued in the industrial countries. The strengthening of
customs administration required for successful adoption of the Customs Valuation Agreement, for instance, is important in dealing with development problems such as smuggling, corruption, process delays, and lack of transparency.

Services Trade

15. Services trade has become a central issue in trade relations between developed and developing countries. Trade in services involves a much wider range of issues than trade in goods and, in particular, it requires policies that extend into issues of market structure and regulation. Because the services sector comprises a very large share of both employment and output in virtually all economies, ensuring its efficient operation is clearly central to achieving sustainable development.

16. In most developing countries, however, service sectors are hamstrung by a combination of inadequate institutions and regulatory failures. The East Asian crisis highlighted one example of institutional inadequacy—the weakness of supervisory bodies for the financial sector. At the other extreme, barriers to entry and inappropriate regulations that reduce competition and create serious rigidities frequently plague the transport and telecommunications sectors of developing (and developed) countries.

17. The trade and development agenda for services includes the design of appropriate regulatory frameworks and the strengthening of institutions which can implement these regulations. Expansion of some important categories of service exports, such as remote computer programming services and labor intensive “back office” functions, is particularly dependent on the availability of infrastructure such as high speed data connections, whose availability in turn depends on the regulatory environment for telecom services.

Trade Administration and Frontier Barriers

18. As explicit trade barriers have come down, excessive costs and delays in trade administration and customs procedures have become increasingly obvious to participants and policy makers. Many of these barriers are directly wasteful and create opportunities for corruption. Perhaps the key constraint in this area is redundant “red tape”—procedural and administrative requirements that needlessly slow trade and movement across frontiers. Without efficient trade logistics, national firms cannot be competitive. Facilitating all physical, procedural and administrative steps involved in external trade transactions, particularly transport and cross-border operations, is critical in an era of economic globalization.

19. Streamlining procedures for trade can contribute to development both directly by lowering the costs of trade and indirectly by reducing the opportunities for corruption. Much can be done by reforming and simplifying outdated procedures, further progress is likely to require institutional strengthening in many countries to support moves such as computerization of customs transactions.
Government Procurement

20. A number of countries are pursuing efforts in the WTO to increase transparency and competition in public purchasing, and to reduce the corruption that is likely to flourish in their absence. A first step in this area might focus on increasing transparency in government procurement, with possible further progress designed to develop an international framework of rules for procurement building on the multilateral Government Procurement Agreement.

21. Ineffective or corrupt practices in government procurement typically reflect more general problems of weak governance. Dealing with these problems is now recognized as a central challenge of development. Improving the rules may help reduce these problems, but major progress is likely to require broader reform of public institutions and strengthening of governance, issues at the center of the contemporary development agenda. Clearly, the Bank has a great deal to offer in this area from its experience with government procurement, and particularly given its keen interest in reducing corruption.

Product Standards and Regulations

22. Product standards and technical regulations play a key role in development. Appropriate standards and regulations are essential for meeting the needs of product users in developing countries, and for assuring consumers of product quality and safety. Further, developing country exporters cannot hope to access export markets unless they can meet the standards required by firms and governments in those markets. Unfortunately, standards and regulations may also be used as disguised barriers to trade, and international trade rules are designed to minimize this problem. Recent disputes regarding genetically-modified organisms and growth hormones for beef cattle illustrate the importance of the issue and the difficulties involved.

23. From a development perspective, making effective use of product standards frequently requires the development of institutions to set appropriate standards and to ensure that products can meet these standards. Where standards bodies are weak, delays in their approval of imported inputs can severely reduce the productivity of domestic industries. Where countries are unable to demonstrate that their products meet foreign standards, they may be seriously hampered in their efforts to use exports of the affected products as an engine of development regardless of their competitive strength in production of these goods.

Regionalism

24. The revival of regional trade arrangements in the 1990s has resulted in a situation where almost all countries are members of one (or more) preferential trading bloc. Traditional economic concerns about possible losses from trade diversion remain strong, although there does appear to have been a shift in emphasis amongst policy makers away from the costly inward-looking approach of the 1960s towards a focus on the use of regional blocs as export platforms.

25. The diversity of regional trading agreements within which developing countries participate is striking. Many regional arrangements go beyond conventional border trade liberalization to include varying degrees of integration of factor markets and/or harmonization of
standards and regulatory policies. Such arrangements involve complex governance issues that can potentially have a large development impact, particularly once the resulting incentives for geographical concentration of activity are taken into account.

Bank Activities in Support of Developing Country Trade

26. The World Bank has under way a substantial program covering most of the new trade issues, as well as reform of the traditional border measures. The activities include operational support and dissemination of best practice information to developing countries; participation in the Integrated Framework for the Least Developed Countries; research and capacity building focussed on the trade negotiations; and research on the new trade agenda issues where information is particularly limited.

27. This program of work relies both on the Bank’s own resources and the generous contributions from a number of donors, particularly the Governments of the United Kingdom and the Netherlands.

Operational Support and Dissemination of Best Practice

28. Between 1990 and 1998, sixty-eight percent of Bank adjustment operations included support for reform of trade and exchange rate policies. Bank investment lending for trade related activities accounted for around 26 percent of the Bank’s total lending from 1994 to 1999\(^1\). It included support for construction of trade related infrastructure facilities such as ports, telecommunications, and export corridors; development and modernization of institutions, such as customs services; and private enterprise development.

29. Indirectly, much of the Bank’s lending program, economic and sector work and advisory services facilitate trade by strengthening the institutional, regulatory and social environment in developing countries. Much of the Bank’s work on private sector development, for example, deals with issues such as the development of regulatory frameworks and the establishment of institutions to manage efficient private provision of infrastructure services—both of which are important for the development of trade in these services. The Bank is now launching the Global Facilitation Partnership (GFP), designed to bring together all interested parties--public authorities, international organizations and the private sector--in order to build a strong constituency in favor of transport and trade facilitation reforms.

30. The Poverty Reduction and Economic Management Network and the World Bank Institute are working to disseminate and promote best practice and cross-country trade experience through seminars in all of the Bank’s regions; helping to develop networks linking local think tanks and policy institutes with external experts and Bank staff, and developing a joint WBI/WTO web site focusing on international trade and development. WBI also provides internal training in international trade for both Bank and Fund staff.

The Integrated Framework for Least Developed Countries (IF)

31. The Integrated Framework is a partnership of multilateral agencies (WTO, World Bank, IMF, UNDP, UNCTAD, and ITC) and least developed countries to provide assistance in integrating those countries into the global economy. The framework includes efforts to build infrastructure, strengthen institutional capacity, and reform the regulatory environment. Implementation requires close coordination, dialogue and consensus-building with a number of relevant ministries that deal with trade and development issues. In addition, the framework aims to enhance least developed countries’ participation in the WTO so that they can exert more influence by taking part in the day-to-day workings of the organization and in setting the negotiating agenda of the next round of multilateral negotiations.

32. Of the 48 least developed countries, 40 have taken steps to participate in the Integrated Framework by presenting their needs assessments, and more than half of them are now preparing country programs to be presented to donors for financing. The Integrated Framework assigns to the Bank and UNDP the task of organizing donor consultations in the context of Consultative Group (CG) and Round Table (RT) meetings.

33. Uganda held the first consultation at its CG in December 1998. As a result, two major capacity and institution building projects have been financed by USAID and the Austrian development agency. Ten more “CG countries” have requested Bank support. Bangladesh, Tanzania and Malawi are planning to discuss Integrated Framework programs in their CG meetings, and the country teams for Ethiopia, Mozambique, and Guinea are supporting efforts to organize trade-related donor consultations. We expect programs of trade-related assistance to be completed and presented to donors in FY 1999-2000 for Bangladesh, Tanzania, Ethiopia, Malawi, Mali, The Gambia, Haiti, and Guinea.

Research and Capacity Building: Supporting Developing Country Negotiators

34. A program of research, dissemination and capacity building is under way designed to assist developing countries in formulating negotiating objectives and priorities for trade policy, and to provide analytical tools to help them negotiate more effectively. The analytical work is being done in partnership with analysts from the WTO and a range of national and international institutions.

35. There are currently two closely-related projects. The first covers the whole range of trade issues confronting the developing economies, while the second focuses particularly on the problems arising in the agricultural trade negotiations. Both projects have followed a very similar structure. First, scholars working in developing countries prepared region or country specific papers that they presented to academics and policymakers at several workshops in June and July 1999. These papers have generated information on the status quo set of policies maintained by developing country governments, identifying the policy options confronting governments in the context of a multilateral negotiation, and analyzing the costs and benefits of these options. The papers are available to a world-wide audience through the Internet. (Some of the papers and a more detailed description of the project are available at www.worldbank.org/trade).
36. The second phase of these projects involves policy papers that build on the findings of the regional meetings. A key set of these papers will be presented at conferences in Geneva on September 20-21, 1999 for the general trade issues, and October 1-2, 1999 for the agricultural issues. An overview paper summarizing the research will be used to disseminate the findings relevant to setting the agenda for the WTO 2000 negotiations.

37. The third phase will involve directly assisting developing country policy makers after the negotiations have commenced through a series of meetings and workshops for policy advisors and senior policy makers, complemented by outreach activities for the press, Chambers of Commerce and relevant NGO’s. These activities will draw heavily on the materials generated by the initial research phase of the project, and will be implemented in close cooperation with World Bank Institute training efforts and through the Integrated Framework for Least Developed Countries. The Bank will also draft and distribute handbooks for trade negotiators, inspired by the World Bank’s successful Uruguay Round handbooks, and provide analytical tools for policy makers to quantify the significance of alternative negotiating scenarios.

Analysis and Advice on Regionalism

38. Ongoing research on regionalism and development focuses on investment and growth, deep integration, politics, regionalism and multilateralism, and on specific regional agreements in LAC, ECA, MENA, SSA and Asia. The research concludes that: regional arrangements are more likely to increase welfare if they enhance competition within markets (unlike the arrangements of 1960s); regionalism can enhance security between neighboring countries; dynamic gains are likely only if regionalism has a strong impact on policy credibility and on the absorption of new knowledge; deep integration is difficult to implement and consequently rare; and regional agreements may slow down multilateral liberalization. A key policy message emerging in all of the Bank's analysis is the need to treat regionalism as a stepping stone towards further liberalization, rather than as a stumbling block along this path. A Policy Research Report is planned for this coming winter.

Research on the Changing Nature of Trade

39. Given progress in the reducing tariffs and non-tariff barriers, many of the most pressing trade policy issues now revolve around the direct and indirect impacts of domestic regulatory regimes on international trade and investment flows. The policy agenda for developing countries has become much more complex, raising numerous challenges for making policy and for participating in the multilateral trading system. Obtaining a better understanding of the economics, institutional and policy dimensions of the complex trade issues that confront policymakers is a key challenge for the Bank and drives our research agenda. Current research includes work on services, product standards, and absorption of technology.

Services: To deepen our understanding of services trade, the Bank is conducting a program of research on trade in services that includes sector-specific work on telecommunications, finance, and transport, and papers evaluating overall developing country strategies in WTO services negotiations. In addition, we are creating a database on measures affecting trade in services,
which will serve the needs of trade negotiators, policy-makers, regulators, researchers and the private sector. The database will identify the most important barriers to trade in services; quantify how such barriers differ across services sectors and across countries; and enable analysis of the implications for overall economic performance of liberalizing trade in services.

**Product standards:** A new World Bank research project, supported by a grant from the UK Department for International Development, will seek to generate information on the quantitative significance of standards/regulations as barriers to trade, and to identify the institutional options available for developing countries to minimize the trade distorting effects of standards regimes. Questions to be explored include the following. To what extent do standards and certification raise trade costs? What has been done—both privately and publicly—to harmonize standards and accept foreign certification? What can be learned from cross-country experience with mutual recognition agreements? What lessons can be learned from the regional integration and WTO experience for developing countries more generally?

**Technology absorption and the location of economic activity:** Research currently underway on technology absorption and growth investigates the contributions of trade and foreign direct investment. It will assess the effectiveness of the numerous, often opposing, regulatory approaches designed to facilitate technology transfer and absorption.

40. We are also examining the barriers to trade and investment created by geographical factors. How disadvantaged are landlocked countries, and to what extent can geographical disadvantage account for the poor performance of many African countries? Is it likely that industrialization will usually take place in regionally concentrated clusters – as in Asia – leaving other more remote regions lagging behind? As globalization changes the costs of transporting goods and ideas across space, what pattern of relocation of activities from developed to developing countries is to be expected?

**Mainstreaming Trade into Country Strategies**

41. Given the breadth of the “new” trade agenda, it is clear that trade must be a part of overall development strategy. Within the Bank, implementation of this broader trade agenda necessarily involves co-ordination between staff working in the Bank’s operating regions and the core group working on trade policy issues in the Research Group and the PREM network, members of the Bank’s two Thematic Groups focussed directly on trade, and cross-Network co-ordination with those working in areas such as Private Sector Development and Infrastructure.

To assist Country Teams in relating trade policy issues to the Bank’s mission of poverty reduction a number of actions are being taken to improve our diagnostic and implementation capability.

**Developing Diagnostic Tools**

42. Integrating trade into the mainstream of our Country Assistance Strategies (CAS) requires trade-specific diagnostic tools. To that end, we are developing diagnostic approaches that will help identify the structural weaknesses that stand in the way of full participation in the global economy. Two diagnostic pilot programs in particular, the CDF Country Briefs and the
Social and Structural Reviews, highlight trade’s relationship to growth and poverty reduction explicitly. Moreover, many of the structural columns of the CDF address key components of trade.

**Improving the Integrated Framework**

43. We are also taking steps to improve the pace of implementation of the Integrated Framework without reducing its effectiveness. Continued close cooperation and dialogue with colleagues at the WTO and other agencies is key to designing ways to speed up the implementation process and make it the effective partnership that was envisioned when it was endorsed by the Executive Directors and President Wolfensohn two years ago. Internally, we are working on two initiatives:

- First, through expanded Network Services to Country Teams, the Bank is focusing more resources on efforts to incorporate the Integrated Framework into the mainstream of the its relationship with the least developed countries via the CAS.

- Second, the Bank is improving reporting and knowledge management for trade related activities.

**Supporting Institution-Building**

44. The recent Asia financial crisis reinforced our growing awareness that building the institutions that form the foundation of a market economy is essential for lasting development. In the coming years, institution building will comprise a large percentage of the Bank’s public sector strategy. Much of our work helping countries to develop the institutions so vital to their economic well-being overlaps with the Bank’s trade agenda. For example, reforming a country’s customs agency to reduce the opportunities for corruption also enables the country to participate more effectively in international trade. Since trade related institutional reforms are frequently subsets of larger general institutional reforms, the Bank must help countries to grapple with the question of how reforms are to be designed and sequenced so that both objectives can be accomplished.

**Expanding Partnerships**

45. In keeping with the spirit of the CDF, Bank work to improve a country’s ability to engage in trade must be a shared objective with the country. One factor in whether countries make trade a development priority is how the benefits of trade are perceived within the country. The Bank will continue its work with members of civil society and business community to communicate the complicated nature of the trade agenda and the benefits of greater integration in terms of growth, poverty alleviation and increasing citizens’ voice and participation in their economy.

46. The Bank works closely with a range of international agencies with an interest in trade, and particularly with IMF, ITC, OECD, UNCTAD and the WTO. Increasingly, we also work with networks of researchers in developing countries, including the African Economic Research Consortium; the Economic Research Forum for the Arab countries, Iran and Turkey; the Latin
American Trade Network, and the Trade Policy Forum of the Pacific Economic Cooperation Council. Under the agreements on cooperation and coherence in international economic policy making, the Bank has a close working relationship with the WTO and the IMF on trade issues designed to ensure that policies are both consistent and mutually supportive. All of the Bank’s work with these partners is oriented towards its fundamental development goals.

47. The intertwining of the development and trade agendas provides important opportunities to cement our shared commitment to making the international trade regime an effective path to development and poverty alleviation. One approach to build on these opportunities will be to issue a Joint Declaration by the heads of the Bank, the Fund, and the WTO at the Seattle Ministerial recognizing the convergence of these policy agendas and seeking to strengthen the development dimension of the forthcoming WTO negotiations. Bank officials are currently discussing the content of such a joint statement with their counterparts at the WTO and IMF.

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Questions for Ministers

1. Are Ministers in agreement that the trade agenda and the development agenda are converging in a way that heightens the importance of coherence between trade and development policies?
2. Do they support the Bank initiatives outlined in this paper?
3. Are there further initiatives that should be taken to strengthen the positive development impact of trade?
References

