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TRADE, DEVELOPMENT AND POVERTY REDUCTION

Attached for the April 17, 2000, meeting of the Development Committee is an issues paper, prepared jointly by the staff of the World Bank and the International Monetary Fund, on Trade, Development and Poverty Reduction. This subject will be considered under item 1(B) of the Provisional Agenda.

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Trade, Development and Poverty Reduction

Prepared Jointly by the Staffs of the IBRD and the IMF
for the Development Committee, April 17, 2000

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I. Introduction

1. At the last meeting of the Development Committee, Ministers noted that development and trade agendas had become increasingly intertwined. In particular, they emphasized the importance of trade for development and poverty reduction, and the need for developing and transition countries to become active partners in the next round of trade negotiations. They called on the World Bank, IMF, and WTO to cooperate with other parties in supporting enhanced trade performance and capacity building, especially with respect to the least developed countries (LDCs).[1]

2. The WTO's Ministerial Conference at Seattle sought approaches to strengthen the rules-based multilateral trading system, initiating a new round of trade negotiations and helping the poorest countries. The February 2000 UNCTAD X conference in Bangkok considered the trade agenda in a development context, and gave the international community an opportunity to take stock and consider options for moving forward. Both reaffirmed a commitment to a multilateral trading system that was fair, rules-based, and transparent, and that provided benefits for all countries.[2] The Bank and the Fund have long been active on trade issues, both in their analytical work and in their country programs. Both see trade policy reform as an important element of a more comprehensive framework for development and poverty reduction. Against this background, this paper focuses on the trade and development issues that confront the poorer developing countries, namely those eligible for assistance from the Bank's IDA and the Fund's Poverty Reduction and Growth Facility (PRGF).

3. The paper suggests that trade reform, broadly conceived, goes far beyond reduction of border restrictions and plays a critical role in supporting growth and poverty reduction. It offers a brief overview of the poverty challenge facing the world community; it notes that the poorest countries are too often lagging behind in terms of integration into the world trading system; and argues for further, more inclusive, trade reform. It emphasizes the critical importance of viewing trade expansion in the broader context of a comprehensive framework for development that ensures that trade measures are accompanied by complementary country-level institutional reform and investment needed to realize their development potential. Finally, it presents an overview of what the Bank and Fund are doing, in collaboration with the WTO and other partners, to assist their developing country members, and seeks views on how these activities might be made more effective.

II. Poverty, Development, and Trade

A. The Enduring Challenge of Poverty

4. While the percentage of the world's population living on less than US$1 a day has fallen in recent years, world population growth has meant that the absolute number of people living in

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[1] Communiqué of the Development Committee, September 27, 1999. A background paper for the Committee's discussions was prepared by the Bank entitled "World Bank Support for Developing Countries on International Trade Issues" (DC99-19, 9/14/99).

[2] Bangkok Declaration, "Global Dialogue and Dynamic Engagement," UNCTAD X.

dire poverty in 1998 has remained roughly at its estimated 1987 level of nearly 1.2 billion. Taking a higher cut-off point of US$2 a day, the total number of poor has grown from a little over 2.5 billion in 1987 to an estimated 2.8 billion in 1998—nearly half the world's population.

5. Although these numbers conceal very wide regional variations, projections for the coming decade are not encouraging. World Bank estimates suggest that under a "business as usual" scenario of continued relatively slow growth and intermittent crises, the number of people living on under US$1 a day would remain roughly constant, still totaling about 1.2 billion, by 2008. Under a brighter scenario of smoother, more rapid growth, the total would fall to about 700 million, but two regions—Latin America and the Caribbean and Sub-Saharan Africa—would see little change; in fact, Sub-Saharan Africa—in which the bulk of LDCs are concentrated—would experience an increase of nearly 40 million, or about 14 percent.

6. In these circumstances, the International Development Goals for 2015 may prove difficult to reach (see Box 1). Can trade expansion help to change the picture?

B. Trade, Growth, and the Speed of Integration

7. Experience has shown that while economic growth alone cannot guarantee substantial and sustained reductions in poverty and inequality, accelerated growth is a necessary condition for reducing poverty. A large body of empirical literature has now established that more open economies tend to grow faster than closed ones. But available evidence suggests that many of the poorest developing countries have not as yet been able to integrate successfully into global markets, and hence to participate in the growth-inducing (and potentially poverty-reducing) benefits of trade. Research into the past pace of integration, which divided a sample of 93 developing countries into rapid, moderate, and slow or weak integrators,[3] has shown that only 1 of the 28 LDCs in the sample fell into the rapid integrator category, and only 7 more were "moderate" integrators. Thus the majority of the poorest countries—those most in need of the spur to growth that trade integration can provide—are being left behind in the race towards effective participation in global markets. Their share in global trade has declined steadily, from 0.8 percent in 1980 to 0.4 percent by 1997.[4]

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[3] The research used a "speed of integration" index derived from changes between the early 1980s and the early 1990s in four indicators: the ratio of real trade to GDP, the ratio of foreign investment to GDP, Institutional Investor credit ratings, and the share of manufactures in exports. The index is the simple average of changes in the four indicators over the period (each expressed as a standard deviation from its average). See *Global Economic Prospects and the Developing Countries* (World Bank, 1996).

[4] Many of the problems of the LDCs are also shared by small states. See "Small States: Meeting Challenges in the Global Economy," (DC/2000-04, 3/24/00).

Box 1. Development Goals for 2015

The last decade has seen a series of international conferences on the goals of development. Based on agreements reached at these meetings, several goals have been proposed, most to be achieved by 2015, relative to 1990 levels.

Economic well-being

- Reduce extreme poverty by half.

Social development

- Ensure universal primary education.
- Eliminate gender disparity in education (2005).
- Reduce infant and child mortality by two-thirds.
- Reduce maternal mortality by three-fourths.

Environmental sustainability and regeneration

- Implement a national strategy for sustainable development in every country by 2005, so as to:
- Reverse trends in the loss of environmental resources by 2015.

Source: *World Development Report, 2000/1*, “Attacking Poverty,” World Bank, 2000, draft.

8. The experience of the past two decades suggests that the world economy, often portrayed as subject to a two-way division between rich, industrialized countries on the one hand and developing countries on the other, now seems to be on the point of de facto division into three groups—the industrialized countries; middle-income developing countries (that are more or less successful participants in global trade); and the remaining group of almost 80 developing and transition economies, comprising 35 percent of the world population, including virtually all the LDCs, who are failing to keep pace with globalization.

9. The failure of the majority of LDCs to grow and to integrate into the global economy as rapidly as other developing countries has occurred despite multiple efforts at reform, including in trade. It reflects complex and profound weaknesses in policies, institutions, economic structure, and initial conditions. These weaknesses may help to account for the inadequate export supply response, in some cases even in countries that have initiated comprehensive trade reforms. Experience of successful integration suggests that triggering rapid growth and integration in the LDCs requires multiple and coordinated initiatives across a broad front. At the same time, protection against developing country exports, in both developed and other developing countries,

has also contributed to the difficulties faced by the LDCs in integrating into the world economy. Options for reform to alleviate this problem are discussed in the next section.

C. Priority Areas for Further Trade Reform

10. If rapid economic growth is integral to poverty reduction, and trade opening supports growth, then there is a clear case for further trade reform. Developing countries need to implement appropriately sequenced outward-oriented reforms that will allow trade expansion to help promote development and poverty reduction. Developed countries also have much to do to improve market access for developing countries' exports. And the global trading system as a whole needs to be more inclusive than it has been to date. A quick examination of recent patterns in world trade suggests some priority areas for further reform.

11. Global trade expansion has far outstripped global GDP growth for many years. During the past decade, world trade grew at an annual average rate of 6.5 percent compared to world output growth of 2.7 percent. Developing countries as a group have played a major role in this process, including by substantially, and often unilaterally, liberalizing their trade regimes. They now account for almost 20 percent of total goods exports and some 16 percent of services exports, compared with 15 percent and 13 percent, respectively, at the beginning of the decade. Taking all developing countries as a group, manufacturing exports have increasingly come to the fore—now accounting for over 70 percent of their total exports. Meanwhile, South-South trade has been growing—from about 20 percent of developing countries' total merchandise exports in the 1960s to over 40 percent at the end of the 1990s. There has also been an increasing tendency in recent years for developing countries to come together in regional groupings that liberalize intra-regional trade and investment barriers.

12. The recent improvements in some developing countries' trade participation have taken place against the background of high, albeit declining, barriers to their export diversification reflecting policies in both developed and in other developing countries. While average tariff rates in developed countries against developing countries' manufactured exports are now relatively low (about 4 percent), they understate the full extent of tariff protection because they mask tariff peaks and escalation on products in which developing countries have a comparative advantage.[5] Developing countries' tariffs against other developing countries' manufactures are higher—averaging nearly 13 percent. With respect to agricultural products, the position is substantially worse. High-income countries impose tariffs on developing countries' agricultural exports that, on average, exceed 15 percent. Developing countries' tariffs against other developing countries' agricultural exports are even higher—over 18 percent. In addition, developing country exports are frequently subject to nontariff barriers (NTBs), such as restrictive quotas (e.g., textiles and bananas); as well as to antidumping and other forms of contingent protection; and to competition from subsidized agricultural exports.

[5] Some industrial country tariffs on products of interest to developing countries include 826 percent on meat products in the EU, 781 percent on processed food products in Japan, 147 percent on fruit and processed food products in the United States, and 123 percent on footwear in Japan. It should be noted, that some established suppliers benefit from preferences that reduce the applicable tariffs on at least part of their exports.

13. High trade barriers to agricultural exports clearly have not helped poor developing countries to become increasingly integrated in world trade during the last 20 years. LDCs, as well as the Heavily Indebted Poor Countries (HIPCs), depend disproportionately on agriculture for both national income and exports. In the case of the LDCs, agriculture accounts for an average of 35 percent of GDP, compared to 17 percent for lower middle-income countries. The proportion of LDCs' food exports to total exports is twice as high as the proportion in lower middle-income countries; their proportion of nonfood agricultural exports is nearly four times that of lower middle-income countries. Most HIPCs are also LDCs, and they face similar problems with respect to trade. HIPCs, like other LDCs, have nearly the same ratio of exports to GDP, and agriculture is disproportionately important in GDP.

14. The foregoing suggests that substantial benefits could be gained from further liberalization of trade regimes in both developing and industrial countries. Developing countries need to reduce further their own trade barriers, both to strengthen their own economies and to reduce the disproportionate burden imposed on exports from other developing countries. The past decade has been characterized by marked progress in trade liberalization across the world, including developing countries and most notably IDA- and PRGF-eligible developing countries, many of which have substantially reduced tariffs and NTBs. This liberalization has continued in the past two years. Nevertheless, the data suggests that there remains considerable scope for further liberalization by developing countries, especially the poorest. The average tariff of IDA-/PRGF-eligible countries in 1999 was 17.1 percent, compared with 12.9 percent for other developing countries and 6.9 percent for industrial countries.[6] On the basis of a broader definition of aggregate trade restrictiveness, which also takes account of the prevalence of NTBs, 17 percent of the relatively better-off developing countries, and 26 percent of the IDA-/PRGF-eligible countries fall into the "restrictive" category.[7]

15. In addition, substantial new efforts by the international community to enhance the market access opportunities of poorer developing countries would be valuable. Agricultural liberalization is a prime candidate. Moreover, agricultural trade liberalization would actually create larger benefits in aggregate for industrial countries than for developing countries, through more efficient resource allocation, reduced budgetary costs, and enhanced consumer welfare. Quantitative analysis suggests that complete liberalization of global agricultural trade could yield benefits to developing countries of over US$40 billion per year.

16. Further liberalization of trade in manufactures is also important because of their greatly increased weight in the exports of many (predominantly middle-income) developing countries, and because export diversification provides opportunities for the poorest countries to reduce their vulnerability to commodity price shocks. Within manufactures, textiles and clothing are of special significance because they represent an area of comparative advantage for developing

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[6] The caveat about average tariff rates noted earlier also applies to the tariff regimes of many developing countries.

[7] Based on the IMF Trade Policy Information Database, which covers 175 members of the Fund and Bank, the classification of countries' trade restrictiveness as "open," "moderate," or "restrictive" is based on the Fund's Trade Restrictiveness Index, which includes tariffs and NTBs. The index is discussed in detail in Annex 1 of *Trade Liberalization in IMF-Supported Programs*, World Economic and Financial Surveys (IMF, 1998). On the basis of the 10-point index, countries with a rating of 1–4 are "open," 5–6 are "moderate," and 7–10 are "restrictive."

countries, are subject to many tariff peaks, and are seriously constrained by quotas. Industrial countries could abolish these quotas to the benefit of their own economies, and to the export opportunities of developing countries.[8]

17. Special efforts may also be warranted to assist the poorest developing countries. The present systems of trade preferences operated under the Lomé Convention and the Generalized System of Preferences (GSP) have benefited mainly the higher-income developing countries.[9] Moreover, the benefits of many of these schemes to the poorest countries have been diminished by the exclusion of a number of so-called "sensitive products," primarily in the areas of agriculture, textiles, and footwear, the very areas in which many poor countries have the greatest potential to expand and diversify their exports. In addition, the schemes are extremely complex and nontransparent, and the preferences can be withdrawn unilaterally in case, for example, imports from any country increase significantly.[10] To be more effective, it would be desirable for any new market access initiatives for qualifying poor countries to be comprehensive, predictable, simple, and transparent.

18. The Director-General of the WTO has advocated granting duty-free and quota-free access for exports from LDCs and members of the organization have been considering various proposals to this end. In the same vein, the President of the Bank and the Managing Director of the Fund have called upon members of the WTO, both at Seattle and Bangkok, to approve an initiative that covers all exports from LDCs and HIPCs as part of a coherent approach which would also include a reversal of the declining trend in foreign aid flows to these countries.[11] This approach recognizes the critical importance of complementarity between debt relief and enhanced market access.[12]

19. Finally, much work is needed to help developing countries effectively participate in the world trading system and implement agreements. Although developing country membership in the WTO and in regional arrangements has grown in recent years, membership does not necessarily equate with effective participation. With regard to the implementation of WTO agreements, such as customs valuation, sanitary and phytosanitary standards, and TRIPS, many developing countries have found that deriving the full benefits of the reforms requires complementary investments that can be expensive and technically demanding. Much remains to be done by developing countries and their development partners to design approaches for dealing

[8] Under the Uruguay Round Agreement, all quotas on these products are to be progressively removed during 1995–2005, but only 12 percent of the previously restricted products have been liberalized to date.

[9] As an example, only one percent of U.S. imports under the GSP originate in Africa with the main beneficiaries of the system being middle-income countries such as Brazil, Malaysia, the Philippines, and Thailand. For the EU, the share of African products in EU imports is only 3.5 percent and has been declining.

[10] There may also be nontrade reasons for the withdrawal of preferences.

[11] There are 10 members of the WTO which, at present, are eligible for debt reduction under the enhanced HIPC Initiative but which are not LDCs. These are Bolivia, Cameroon, Congo (Rep. of), Côte d'Ivoire, Ghana, Guyana, Honduras, Kenya, Nicaragua, and Senegal. Vietnam qualifies under the HIPC initiative but is not yet a member of the WTO.

[12] The need for such coherence in assistance to developing countries is still more important in light of the lags in the export supply responses.

with these problems in ways that are consistent with countries' development needs and their WTO obligations (see below).

III. Supporting Trade Reform and Poverty Reduction

A. Trade in a Comprehensive Development Framework

20. This paper has already noted that economic growth, while essential, is not always sufficient for sustained poverty reduction. Equally, trade liberalization, traditionally defined in terms of reduction of border protection, cannot alone guarantee economic growth. A strategy for trade expansion, properly defined, needs to embrace a far broader set of country-level initiatives, framed within an appropriate macroeconomic incentive environment and a comprehensive approach to overall development goals and poverty reduction strategies. Specifically, attention needs to be paid to investments in the necessary infrastructure and human capital development that enhance the payoff to developing countries from trade liberalization. Complementary institutional reform efforts and improvements in the legal environment that increase investor confidence are also critical for trade liberalization to serve as an engine of growth. Countries are likely to need substantial help from their development partners in undertaking these complementary efforts and investments. Some comparisons between the LDCs and the "rapid integrator" countries (RIs), mainly middle-income countries in Asia and Latin America, and near neighbors of the EU, make the point (Box 2).

Box 2. Indicators of Infrastructure and Education in LDCs and Rapid Integrators

The LDCs are far behind the RIs with respect to trade-supporting infrastructure. Some of the key indicators are listed below.

Indicator	LDCs	RIs
Electric power production (kwh/person)	136	2,164
Telephone main lines (per 1,000 population)	11	187
Mobile phones (per 1,000 population)	0.8	55
Cost of a telephone call to the USA ($ per 3 minutes)	11	5
Paved roads (as percent of total)	20	49
Gross primary enrollment rates (in percent)		
Male	87	101
Female	69	100
Average literacy rates (in percent)	51	83

Source: World Bank staff estimates, latest available years, variously 1996, 1997, 1998.

21. In addition, there needs to be an appropriate focus on the social dimension. Countries need to have in place social programs including provision of safety nets, retraining and other transitional arrangements, to offset the adjustment costs of trade liberalization for those who may initially suffer as a result of moves towards liberalization. Increasingly, Bank and Fund assistance strategies for a number of economies have supported liberalization efforts with measures to strengthen social safety nets.

22. National strategies for effective trade expansion in the service of development need to take account of these variables as well as narrower issues of reduction of protection. The Bank has introduced a Comprehensive Development Framework (CDF) to support countries in preparing their own long-term development strategies. Trade reform is an integral element of the CDF, and is expected to be based on the following three principles. *First***,** a comprehensive country-centered approach is needed to focus on trade policy priorities for a country at each stage in its development. *Second*, trade policy must be consistent with appropriate policies in other areas such as foreign investment, competition, environmental protection, and labor practices. *Third*, the linkages among trade reforms, growth, and poverty reduction will be made explicit, along with the appropriate timing and sequencing of reform initiatives in line with individual country circumstances.

23. The 1999 Annual Meetings agreed to make poverty reduction a more central and explicit goal in both Bank and Fund lending programs to poorer members. This approach requires the introduction and preparation of comprehensive, country-owned Poverty Reduction Strategy Papers (PRSPs) by country authorities with broad participation of civil society and with assistance from the Bank, Fund and other partners. The preparation of a country-led PRSP will underpin programs supported by IDA credits from the Bank or by loans from the Fund's PRGF.[13]

24. The PRSP process will influence the formulation and implementation of trade reform in at least three ways. *First*, transitory adverse consequences that planned trade reforms may have on poor groups in the country will be made explicit, and provide a framework to design appropriate policies to offset them. Such short-term adjustment costs would need to be quantified and carefully designed and suitably targeted. Social safety nets could be put in place to help the most vulnerable.[14] In some cases, consideration of the distribution of adjustment costs could lead to rethinking about the speed and sequencing of reform. *Second*, the PRSP, in line with CDF principles, is envisaged to be the result of a participatory process which should strengthen the sense of ownership of the policies by the authorities and the public. This is particularly significant in the context of trade reform, because it should help to effectively counter affected interest groups' resistance to trade reforms and support the implementation of agreed policies. *Third*, the PRSP process includes systematic monitoring of changes in poverty outcomes over

[13] Since the adoption of this new approach, the staffs of the Bank and the Fund have been assisting countries with the preparation of interim PRSPs and with strategies for the preparation of full PRSPs. See "Poverty Reduction Strategy Papers—Progress Report" (forthcoming).

[14] In addition, vocational training may be offered to facilitate the employment of displaced workers. In cases where the impact is concentrated in a particular region, regional development policy may be used to create the right conditions for the emergence of new industries.

time, as well as evaluation of the impact of key policies which can be used to inform and enhance the ongoing dialogue about the impact of trade reform on different groups in the society.

25. Bank and Fund programs have long supported developing countries' integration into the world trading system and the construction of trade-related infrastructure. Between 1990 and 1998, 68 percent of Bank adjustment operations included support for reform of trade and exchange rate policies. Bank investment lending for trade-related activities, including infrastructure, accounted for around 26 percent of the Bank's total lending from 1994 to 1999. In addition to economic and sector work and research that have demonstrated the benefits and costs of integration, both institutions have focused on promoting trade liberalization, helping countries to expand trade-related infrastructure, and the strengthening and modernization of institutions. Assistance with the trade agenda has thus expanded into a range of activities designed to promote trade expansion broadly defined in the service of development and poverty reduction. The policy dialogue with member countries has also stressed strengthening the regulatory and social environment, areas of critical concern for successful trade expansion. As already noted, the CDF and PRSP initiatives are intended to mainstream trade into countries' development and poverty reduction strategies.

26. In supporting trade reforms in the context of PRSPs, programs of both institutions will continue to focus on the implementation of sound macroeconomic policies and complementary structural reforms aimed at developing competitive markets. Such an appropriate macroeconomic incentive environment is an essential complement to outward-oriented national trade policies. Trade policy reforms would typically include the elimination of quantitative restrictions, state trading monopolies, and other NTBs on imports; the removal of export subsidies and controls; and an appropriate movement toward reasonably low and uniform tariff regimes.[15] In this regard, it will also be important to ensure that any revenue losses associated with tariff reduction are, where necessary, compensated for by the introduction of less distortionary broad-based domestic taxes. In addition, reforms will aim at strengthening key institutions, such as tax and customs administrations, and scaling back administrative discretion in granting tax and tariff exemptions. Aside from their direct impact on improving the efficiency and performance of the trade sector and, in turn, on spurring economic growth, such policy reforms contribute substantially to enhanced transparency and improved governance. In an effort to help vulnerable commodity-dependent economies, the Bank and a number of partner institutions are exploring the feasibility of market-based commodity price risk management systems.

27. Trade liberalization has been a key element of development strategy in many poor countries. Countries as diverse as Bangladesh, China, Ghana, Indonesia, and Uganda have implemented substantial reforms, with assistance from the Bank and the Fund, and have subsequently been able to sustain very high rates of export growth over extended periods. Uganda provides a particularly good example (Box 3). Both the successful and

[15] As noted in the recent Fund paper "Trends in Trade Liberalization" (FO/DIS/00/40, 3/10/00), of the 40 countries that liberalized their trade regimes during 1997-99, 27 had Fund-supported programs in place with some trade policy content.

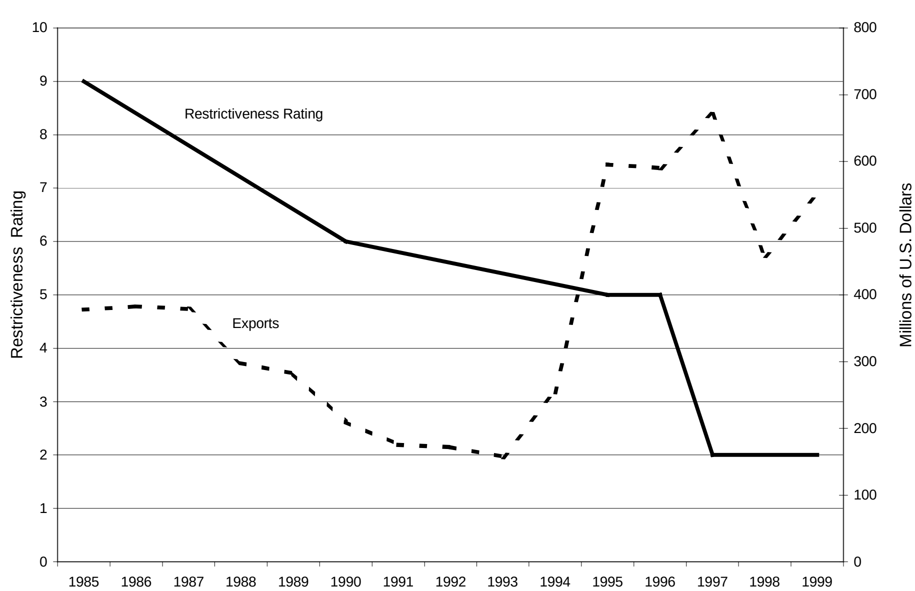
Box 3. Uganda: Export Growth in the Context of Trade and Complementary Structural Reform

In 1985, Uganda had a highly restrictive trade regime characterized by high tariffs and pervasive NTBs, that was rated a 9 on the Fund's index of trade restrictiveness. Its foreign exchange regime was distorted, while structural impediments to growth were widespread throughout the economy. Uganda initiated trade reform in the context of a comprehensive adjustment program. In the area of trade, efforts were initially directed to eliminating NTBs, and thereafter to lowering tariffs. As a result, Uganda's restrictiveness rating has declined steadily to a rating of 2 by the late 1990s.

The lowering of tariffs was facilitated by key reforms in the fiscal area, including the establishment of the Uganda Revenue Authority and the introduction of a VAT, both with significant technical assistance from the Fund. In the financial sector, monetary and banking sector reform, and the adoption of a flexible exchange rate system were central to Uganda achieving a viable external position. In addition, Uganda removed price restrictions in the agricultural sector, eliminated restrictive marketing boards in the coffee, cotton, and tea industries, undertook civil service reform, and upgraded its infrastructure. These reforms have also been complemented by active social policies, notably the introduction of universal primary education. Uganda's reforms since 1987 have been supported by Bank adjustment operations amounting to nearly US$800 million, and Fund arrangements amounting to nearly US$700 million. In 1998, Uganda became the first country to benefit from the HIPC initiative, and in early 2000 was granted additional assistance under the enhanced HIPC initiative. Total debt service relief under the original and enhanced HIPC frameworks will amount to approximately US$2 billion.

As a result of these measures, during 1992–99, Uganda's exports grew annually by 23 percent in value, and by 16 percent in volume. There was substantial export diversification as the volume of noncoffee exports grew by 24 percent. Nontraditional exports (including horticulture, fish, and maize) grew by 32 percent during this period. These developments were key to Uganda maintaining an annual average real GDP growth rate of about 7 percent over the period. Owing to the strong economic growth, between 1993 and 1997 the incidence of poverty declined from 56 percent to 44 percent.

Uganda: Restrictiveness Rating and Value of Exports, 1985-1999



Source: IMF staff estimates.

unsuccessful cases have provided important lessons. A key feature of the more successful cases has been complementary investments in infrastructure and in the institutions needed to facilitate growth of trade and investment. The successful integrators have typically seen substantial reductions in the incidence of poverty, although these reductions have not benefited all groups to the same extent. In Bangladesh, for example, the reduction in poverty has been much more rapid in the urban sector than in the rural sector.

28. The Bank and the Fund are taking a number of steps to integrate trade more deeply into operational work, and to make maximum use of the synergy between research findings and country experience. At the Bank, a Thematic Group on Trade and Competitiveness brings together over 100 staff from across the Bank to work on key trade-related problems such as improving export competitiveness, facilitating trade, and assessing the trade barriers affecting developing country exporters. The Thematic Group maintains a Knowledge Management System on the Bank's internal (and external) web site (at www.worldbank.org/trade) that provides accessible information on key trade issues facing developing countries and links to relevant new research. The objective of this effort is to provide country teams with timely and relevant information on analytical tools and international best practice in mainstreaming trade into country programs. Members of the thematic group are also preparing a PRSP sourcebook on trade that will help guide those preparing PRSPs in dealing with issues such as: techniques for evaluating trade policies; options for policy reform (including complementary policies such as institution-building); the links between sectoral programs in human development and infrastructure and trade, and techniques for evaluating impacts of reform on the poor. The sourcebook will be continuously updated in light of research findings and operational experience in the Bank and the Fund. To build capacity to deal with trade issues in the preparation of PRSPs, the World Bank Institute is running a training program, to be inaugurated with the African Poverty Reduction Forum in Abidjan, June 12–16, 2000, that will include specific content linking trade with poverty reduction strategies.

29. The Bank and the Fund's research program on trade deals with a number of key issues for developing countries. Given the increasing importance of regional arrangements involving developing countries, a forthcoming policy research report on regionalism distills lessons from Bank research on regional arrangements involving developing countries. A study undertaken in partnership with the United Nations Conference on Trade and Development (UNCTAD) is assessing the trade barriers facing developing country exports. Two major projects focus on the interests of, and options for, developing countries in future WTO negotiations, including traditional trade liberalization issues; institutional strengthening and implementation issues; and analyses of possible new areas for negotiations, such as competition policy. Workshops were held with policy makers and researchers from developing countries to ensure the research was relevant to their concerns. Key policy messages were presented to negotiators at conferences held in Geneva during the lead-up to the Seattle Ministerial; analytical results are being released through international journals; and the full set of findings is being disseminated through the Bank's web site. Similarly, the Fund's October 1999 World Economic Outlook report included a chapter on trade, that focused on recent trends in trade policy and key issues for a forthcoming round of multilateral trade negotiations.

30. Several key research projects in the two institutions are aimed at strengthening the information base necessary for trade policy formulation. In this regard, the Fund is preparing a paper on impediments to trade in services, and work is also underway on a study of the linkages between trade reform and poverty. Notable projects of interest in the Bank include studies on services trade; product standards; technology absorption; and trade and poverty. The services trade study includes the construction of a database on trade and trade barriers in services, and sector-specific studies in areas such as telecommunications, finance, and transportation. The product standards study is generating information on the significance of standards and regulations as barriers to trade; on options for countries to minimize the trade-distorting impacts of standards as barriers to trade and to take advantage of trading opportunities created by international standards. The technology absorption study uses firm-level data to assess how developing countries can use foreign trade and investment to upgrade their technology. The trade and poverty study uses a number of approaches to assess the consequences of trade reforms for the well-being of the poor.

B. Working with the WTO

31. The Bank, Fund, and the WTO share some common objectives, and have taken steps to strengthen mutual coordination and policy coherence. The WTO concluded Cooperation Agreements with the Fund and the Bank in 1996.[16] These provide for regular consultations between the heads of the three organizations; a High Level Working Group on Coherence, consisting of senior staff of the three institutions; enhanced procedures for the exchange of documents; attendance by staff (as observers) at appropriate Board and Committee Meetings in the other institutions; and both formal and informal contacts among the staff, including the pursuit of joint research projects and seminars.[17]

32. The three organizations have continued to explore ways to strengthen cooperation and coherence, each within its own jurisdiction and respecting its own mandate and expertise. One example of this was the issuance of a joint statement by the heads of the three organizations during the Seattle Ministerial Conference.[18] That statement underscored the importance of focusing on development and poverty reduction, and of putting trade reforms in a comprehensive framework, and endorsed the launch of a new trade round. Another example was a recent proposal for the WTO to give credit for autonomous trade liberalization in future negotiations provided that such liberalization was bound.[19] Such a declaration would encourage further

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[16] See “The Fund/WTO Cooperation Agreement” (EBD/96/85, 7/5/96) and “The World Bank/WTO Cooperation Agreement” (R96-239, 12/3/96), “Review of the Cooperation Agreement Between the Fund and the World Trade Organization” (EBD/98/78, 7/15/98), and “Report of the Managing Director, President, and Director-General on Coherence” (EBD/98/109, 10/21/98).

[17] Examples of recent joint activities include a seminar on regionalism in June 1999, complementary research papers on trade in financial services, a conference on trade in financial services, and two conferences on trade policy issues for developing countries in a possible round of trade negotiations.

[18] See “Joint Statement by the Heads of the International Monetary Fund, the World Bank, and the World Trade Organization (WTO),” (EBD/99/132, 11/30/99).

[19] This was discussed by the WTO’s General Council in an informal session on coherence on May 27, 1999.

unilateral liberalization (perhaps with the support of the Bank and the Fund) by ensuring that it would be recognized during a multilateral trade round.

C. Trade-Related Technical Assistance

33. The Bank and the Fund provide their developing country members with trade-related technical assistance to support the kind of trade policy reforms discussed earlier. Fund technical assistance tends to be in the areas of customs administration and reform, statistics, and broad-based tax reforms including reduction of dependence on trade taxes. Bank technical assistance covers a wider range of areas, such as competition policy, infrastructure development, institution building, and elements of trade facilitation.[20]

34. A current example of trade-related technical assistance is the Bank's two WTO 2000 programs—one on agriculture and one covering the overall negotiations—which build on research findings to help developing countries participate effectively in WTO negotiations. Discussion and dissemination of findings, through regional workshops for senior policymakers and the preparation of a handbook for trade negotiators form an important element of the program. The research effort and the handbook are intended to be primary inputs for a training program targeting policy advisors, complemented by outreach programs for the press, Chambers of Commerce, and relevant NGOs. The program as a whole is expected to focus on research capacity building in low-income countries, with emphasis on Africa and South Asia. The Bank has also been active in providing technical assistance to countries making offers in particular WTO negotiations, such as those on telecommunication services. It has also provided technical support to many countries in the process of accession to the WTO including China, Russia and Saudi Arabia[21].

35. In addition, the Bank and the Fund participate in the Integrated Framework for Trade-Related Assistance to Least Developed Countries (IF).[22] The IF seeks to enhance the trade-related assistance provided by the six participating agencies and other development partners. So far, 40 LDCs have indicated an interest in participating in the IF by submitting initial "Needs Assessments." Five of these have completed the preparation of programs (Bangladesh, Gambia, Haiti, Tanzania, and Uganda). Uganda is the only case so far in which new projects have resulted from the IF reflecting the fact that its trade-related technical assistance needs were discussed in the context of a donor Consultative Group meeting, and therefore discussed with donors in a broader development framework. This has not been the case for the trade roundtable discussions of the other countries.

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[20] The Bank has also made significant progress in a range of activities in support of developing country trade expansion, including operational support and dissemination of best practice. See the Bank's background paper for the Development Committee meeting last September ("World Bank Support for Developing Countries on International Trade Issues," see footnote 2).

[21] In the case of Saudi Arabia the technical assistance was provided under a program of reimbursable technical assistance.

[22] This initiative was instituted by the High-Level Meeting on Integrated Initiatives for LDCs' Trade Development held in Geneva in October 1997. The participating agencies are: the IMF, the International Trade Center (ITC), UNCTAD, the United Nations Development Program (UNDP), the World Bank, and the WTO.

36. The slow rate of progress under the IF has been a matter of concern for most participants. In addition, LDCs have expressed disappointment with the limited financial pledges in meetings held so far. Recommendations to address the weaknesses of the IF process are expected to come out of an independent review which is being supervised by the Bank at the request of the other agencies participating in the IF. A draft report is expected to be ready this summer.

IV. Issues for Discussion

Ministers may wish to comment on:

- the importance of addressing trade issues in the broader development context emphasized by the paper;
- the need to press ahead with appropriately sequenced trade policy reforms, based on individual country conditions;
- the need for action to help integrate poor countries into the world economy with the aim of tackling the growing problem of poverty and the need for consistency between these actions and other developmental policies;
- the desirability of extending comprehensive and predictable duty- and quota-free market access for products originating in poor countries;
- the potential benefits to developing countries, particularly the poorest, from timely multilateral trade negotiations that address the issues of concern to them.