



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



DC2003-0018
September 19, 2003

TRADE AND DEVELOPMENT AFTER CANCUN
Information Note Prepared by World Bank Staff

Attached for the September 22, 2003, Development Committee meeting is an information note prepared by the staff of the World Bank entitled "Trade and Development After Cancun: Information Note Prepared by World Bank Staff." This is relevant background for Item III of the Provisional Agenda.

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Trade and Development After Cancun: Information Note Prepared by World Bank Staff

Introduction

On September 14, after four days of intensive talks, Ministers adjourned the 5th Ministerial Meeting of the WTO without agreement. Though Cancun is a setback, multilateral trade liberalization remains essential to achieving the MDGs. The coming months will be important to the fate of the multilateral trade talks, and the development community has to draw the relevant lessons and implications for their work. This note suggests three main areas of action that the development community may wish to consider: improving policy coherence in the developed countries; increasing attention on trade in the developing countries; and supporting pro-poor outcomes in the Doha negotiations.

Towards More Coherent Trade and Development Policies in Rich Countries

Trade policies of high- income countries too often do not support their development policies. Donor countries generously agreed in Monterrey Mexico in 2003 to provide additional development assistance to help countries meet the Millennium Development Goals. However, as noted, protection and subsidies in agriculture often impede growth, and, even if Doha eventually succeeds, resulting new measures are likely to fall short of fully removing their adverse development consequences. Similarly, in manufactures trade, rich countries collect higher tariffs on average on the exports of developing countries than on exports from other industrial countries. Tariff peaks and escalation also systematically discourage adding value in developing countries, and developing countries are more frequently the targets of anti-dumping suits. This reduces the productivity and effectiveness of development assistance.

Some - perhaps many - relatively wealthy countries can go considerably beyond the Doha agenda toward adjusting their trade policies to achieve development objectives. This would include undertaking unilateral action to correct anti-development incentives created by their trade-related policies, in their application of rules governing special preference systems, and in providing improved support mechanisms for groups and regions that might be adversely affected by greater openness and become a source of demand for protection.

Greater coherence is most likely to come out of a more intense dialogue between the trade and development communities. Mirroring efforts at the international level, individual donor countries would often benefit from greater interaction between trade, finance, and development ministers. It also means helping domestic constituents to put development objectives on the table along with other objectives for the consideration of national policymakers, through exchange of information, analyses and dialogue among development institutions, academic specialists, private businesses and civil society organizations. Greater coherence is most necessary in industrial country policy towards agriculture, since over 70% of the world's poor directly depend on that sector for their livelihood, and since the highest trade barriers and largest subsidies are in agriculture. Making trade an effective instrument of development is a long-term agenda that requires a multi-year effort by the development and trade communities working together.

The World Bank can help promote greater alignment between development and trade policies over the next year and beyond. This includes several initiatives:

- The importance of greater donor assistance – “aid for trade” – has become even more evident and urgent following the Cancun meeting. Building on the significant progress made in recent years, continued efforts to assist countries to improve their infrastructure and supply capacity is necessary to enable firms and farmers in poor countries to fully utilize both improvements in market access and adjust to possible erosion of preferential access. These needs are particularly acute for the poorest countries. Ensuring the success in implementing the recommendations of country diagnostic studies through adequate provision of grant financing remains critical.
- As part of the Global Monitoring effort, monitoring trade and development policies of countries, including the design of better and more comprehensive indicators of the magnitude of trade barriers, will help catalyze more discussions among trade and finance ministers about development objectives.
- Undertaking new research in selected issues that would inform policy in industrial countries, such as planned research on the implications for international agreements (WTO and other trade agreements) of current agricultural policy distortions; the benefits of existing preference programs and the possible magnitude of preference erosion; the impact of the rising use of antidumping; and the distribution of benefits and costs of economic policies in developing countries—e.g., the poverty impact of trade and agricultural policies in both poor and middle income countries.
- Using our analysis and that of partners in developing countries as the basis for greater engagement in dialogue with private business audiences and constructive civil society organizations (CSOs) that are interested in development and trade issues. We intend to deepen our efforts in communicating with these groups in the next two years.

Policies to Promote Growth and Competitiveness in Developing Countries

Even with the most ambitious possible Doha Round outcome, much greater potential gains are within reach through changes in their own policy. This is particularly true for the low-income developing countries that appear likely to be largely exempted from new WTO disciplines on border protection. Progressively lowering border barriers, recasting protection towards greater neutrality, reducing peaks, decreasing tariff escalation as well as liberalizing services in the context of a sound regulatory framework can provide an impulse to growth. Such actions would also contribute to growth in neighboring countries, as the tariffs of a country typically fall hardest on neighbors. Similarly, many countries have undertaken autonomous reductions in protection of services, such as in telecommunications, to stimulate growth outside the reciprocal bargaining framework of the WTO.

Most successful trade policy changes have occurred as part of a phased program implemented with determination of over several years. Moreover, experience has shown that realizing the

gains from new liberalization requires complementary policies to protect the vulnerable, orchestrate the smooth flow of investment resources away from internationally uncompetitive sectors to ones that can constitute the basis for more rapid growth, and ensure an adequate supply of infrastructure and public goods. Without these complementary policies, exports are unlikely to reach their potential and reforms will fall short of aspirations to drive growth and poverty reduction.

As mentioned, the Doha Agenda has led to a resurgence of interest in trade as a potential source of growth. Governments are interested in trade policy and are interested in linking it to growth - and poverty reduction - strategies. Private business people and CSOs in developing countries are increasingly looking to governments to incorporate trade elements into their PRSPs - and in a way include them in the basic design and implementation of these strategies. Capitalizing on this interest will require riding the Doha wave to achieve greater domestic policy coherence - between professed poverty reduction efforts of governments and misaligned trade policies that often insulate economies from new competition.

The development community could step up its aid for trade efforts. Virtually all donors have expanded their country programs. So too have global CSOs, such as Oxfam. These groups provide opportunities for partnerships with the Bank at the country level.

The Bank is now supplementing its advice on reductions in border protection with suggestions on ways to design and implement the complementary policies that are needed to benefit from trade reforms. Such actions span a broad array of policy domains that differ significantly across countries, reflecting vast differences in the development of services industries, infrastructure and social protection programs among our clients.

The Bank's efforts in this area will include:

- As part of the Trade Assistance Program announced in Cancun, the Bank intends to ramp up its financial assistance in trade logistics and facilitation as well as its financial support to countries embarking on substantive trade reform programs. Trade logistics programs, now amounting to some \$2 billion spanning 50 countries, could be increased to as many as 75 countries, with additional investment lending and technical assistance. Support for implementing countries' programs associated with any Doha agreement, as well as pro-poor trade reform programs more generally, could be undertaken through new programmatic lending.
- Continuing to develop our program of diagnostic trade integration studies in low-income countries, now numbering over 20, will help them identify obstacles to trade. The Bank is committed to helping countries mobilize adequate resources to finance the implementation of the institutional development components of these studies.
- Develop and customize tools for analyzing the impacts of trade reforms and changes in the external trade environment. These tools will allow Bank staff and other interested analysts within our client governments to better design and integrate trade reforms into national development strategies. They will also allow countries to ascertain the effects of changes in

other countries trade policies on their terms of trade, market access for exports, and specific sectors..

Supporting Pro-Poor Outcomes in the Doha Negotiations

The Doha process has shown that developing countries can be effective participants in negotiations on agriculture and other issues on importance to their populations, and that the rich countries were willing to engage on development issues across the whole spectrum of negotiations.

At the same time, the lack of a common framework of special and differential treatment for developing countries has been the source of many frictions and taken up inordinate amounts of the time of negotiators with few results. Moreover, negotiations have also been complicated by the breadth and complexity of the agenda, extending to a wide range of what had been traditionally considered domestic regulatory issues. This has taxed the capacity of even the largest and most qualified teams of developing country negotiators in Geneva. Despite earnest efforts by donors to provide training and other forms of assistance, it has been virtually impossible for the smallest and poorest countries (several of which are not physically represented in Geneva) to engage in a large part of the negotiating agenda.

The next three months will be important to the ultimate fate of the Doha Agenda. Leadership from both the developed and developing countries will have to emerge to capitalize on the progress to date, and reinvigorate the process.

The alternative to redoubling efforts in the Doha process is to witness even greater proliferation of bilateral and regional arrangements. While these arrangements can help generate trade and promote cross-border investment and cooperation in some cases, they are an inadequate substitute for a multilateral approach for most developing countries. Many developing countries do not fit naturally in the kinds of arrangements most likely to generate trade, foreign investment, and innovation (Bank research suggests that this is most likely in the case of North-South arrangements), and those that do are unlikely to find themselves in a partnership among equals. Moreover, to address protection in agriculture, regional or bilateral negotiations are unlikely to give rise to the trade-offs necessary for reducing trade-distorting subsidies. Proliferation of bilateral arrangements will place even greater demands on the limited negotiating capacity of developing countries, and also reduce their incentives to pursue multilateral liberalization by creating constituencies in support of preferences. Because multilateral negotiations can effectively take up protection in agriculture and because they cover the largest market, the WTO talks offer the greatest promise for raising the living standards of the poor.

The development community can help this situation in several ways. First, the development community has to maintain its analytical focus on development issues, particularly market access for the products the poor produce. Second, it should consider expanding capacity building on trade issues and trade negotiations, especially in new areas of WTO rules. Third, it has to evaluate carefully the costs and benefits of extending WTO rules to behind-the-border issues, focusing especially on major impediments to market access and on issues where the WTO represents the best vehicle to promote change.

The World Bank can continue to support the Doha process in several ways:

- To respond to the concerns of countries engaged in Doha discussions for assistance in managing any domestic transitions, the Bank's Trade Assistance Program announced in Cancun is designed to provide financial resources as needed in support of trade reform programs. Moreover, since creating a capacity to export often requires new public investment in infrastructure to take advantage of opportunities associated with new market access, the Bank is prepared to assist countries overcome any obstacles to trade. Despite the hiatus in the global talks, the Bank intends to work with partners in refining this program.
- WBI will play an increasingly important role in deepening the knowledge base of low-income countries, particularly in Africa; training negotiators to understand the range of options open to them and to provide them with tools to evaluate their interests in a negotiation remain a priority. Country specific analysis and technical assistance, such as recent work on services in India and Brazil, can help inform policymakers on the full range of benefits open to them from a successful outcome.
- Regional work on cotton in Africa to deal with the effects of cotton subsidies in the global market, remains a priority, because of its importance to these economies and to the global discussions.
- Engagement with stakeholders in the private sector and civil society is crucial to educating potentially influential groups on the benefits of mobilizing support for a pro-poor outcome.
- Research and analysis will continue the bedrock of our work, including new work on preference erosions, additional work on commodities, the shape of an appropriate special and differential treatment regime, and the analysis of extension of WTO rules to behind-the-border regulations (e.g. transparency in government procurement).