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**AID FOR TRADE: HARNESSING THE GLOBAL ECONOMY FOR ECONOMIC  
DEVELOPMENT**

Attached for the October 21, 2007, Development Committee Meeting is a background report entitled "Aid for Trade: Harnessing the Global Economy for Economic Development," prepared by the staff of the International Monetary Fund and World Bank.

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INTERNATIONAL MONETARY FUND AND THE WORLD BANK

**Aid for Trade: Harnessing the Global Economy for Economic Development**

Prepared by the Staffs of the IMF and the World Bank

September 27, 2007

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# Aid for Trade: Harnessing the Global Economy for Economic Development

## EXECUTIVE SUMMARY

**Aid for trade can support countries trying to further benefit from the expanding global market place** by helping to address poorly performing infrastructure and institutions. Needless to say, good policies also matter: trade liberalization, improving incentives for private investment in trade, and reducing the costs and improving the quality of services. Market access also matters; accordingly, a successful conclusion to the Doha Round remains a top policy objective.

**The Bank remains the largest multilateral donor to low-income countries (LICs) in the provision of aid for trade**, as broadly defined under the proposed new OECD methodology (there are major differences between this and the Bank's methods for estimating trade-related assistance, however). **Difficulties with measuring aid for trade include:** (i) donors each use their own definitions; (ii) infrastructure and budget support serve both traded and non-traded sectors; and (iii) OECD-DAC reporting is still being fine-tuned.

A range of activities are underway on aid for trade. Further progress has been made in establishing the Enhanced Integrated Framework for LDCs. The World Bank has increased its trade-related activities across lending, technical assistance, training and analytical work. In addition, the Bank produces a range of research and global public goods on trade to assist developing countries in making the case for, designing, and implementing reforms. The IMF has continued its active support for trade-related reforms and adjustment to other trade policy changes through technical assistance, financial support and policy advice.

The paper highlights three challenges and suggests some areas for further consideration/action:

### **1. Making competitiveness a pillar of country growth strategies:**

- Developing countries that want to use trade to accelerate growth should begin by making competitiveness a central pillar of their national development and poverty-reduction strategies. Countries need to elaborate comprehensive operational strategies to improve competitiveness encompassing incentives to trade, access to high quality services at competitive costs and pro-active policies to promote exports (such as standards awareness and management, and export promotion).
- Consideration could be given to providing additional grant resources to undertake assessments of competitiveness for all LICs and, where appropriate, for lower middle-income countries (LMICs). The Enhanced Integrated Framework would be an important instrument for addressing the needs of least developed countries (LDCs).
- Investments to put more analytical information (a global public good) at the disposal of countries wishing to undertake trade and competitiveness reforms – international benchmarking is particularly helpful in inspiring policy makers and donors to focus on underperforming areas. In addition to its current funding for the Logistics Performance Index, the Bank is considering additional financing for the World Integrated Trade System (which helps governments analyze trade-related distortions and simulate the economic effects of reforms), and for improvements in the Overall Trade Restrictiveness Index.

**2. Filling the remaining gaps in trade-related assistance:** Consideration could be given

- to making additional funding available for financing small technical assistance projects, project preparation and legal and other assistance needed to put in place WTO disciplines (for example on trade facilitation) for non-LDC LICs, perhaps using extant trust funds, including within the World Bank and other development institutions.
- to exploring the availability of concessional aid for vulnerable middle income countries (MICs), linking funds to ongoing bilateral or multilateral projects that support serious reform programs.
- to making additional funding available for co-financing for regional programs, including in the context of IDA-15 replenishment, as well as making available additional resources for co-financing, or parallel donor financing for parts of regional infrastructure projects.

**3. Expanding the overall aid envelope and making full use of opportunity to replenish the International Development Association (IDA),** the concessional window of the World Bank Group: As a major multilateral vehicle for concessional official development assistance (ODA) in general, and the main source of aid for trade to African and other LICs in particular, a sufficiently large IDA-15 envelope will be required if trade-related needs are to be better addressed, without competing for resources with other existing development priorities.

## AID FOR TRADE: HARNESSING THE GLOBAL ECONOMY FOR ECONOMIC DEVELOPMENT

### BACKGROUND

1. At the 2006 Annual Meetings, Bank and Fund staffs submitted a joint paper to the Development Committee (DC) and the International Monetary and Financial Committee (IMFC) which reported on the status of the World Trade Organization (WTO) negotiations under the Doha Development Agenda and provided a series of recommendations on aid for trade.<sup>1</sup> In the communiqués of both the DC and the IMFC, Ministers underlined their commitment to an ambitious, successful conclusion to the Doha Round and to enhancing aid for trade. This paper provides further information on efforts of the multilateral community to support the integration of developing countries into the global economy, with the aim of contributing to ongoing debates on the measurement and effective implementation of aid for trade.
2. The paper begins with a brief update on the WTO negotiations under the Doha Round and then provides a short discussion of the scope for leveraging the global market place for growth. It briefly outlines some of the challenges faced by many poor countries in taking advantage of new trade opportunities, and underlines the importance of both aid for trade to help address weak infrastructure and institutions and of a comprehensive national strategy to improve competitiveness. The paper then provides an overview of selected multilateral activities in aid for trade, including new efforts at monitoring and the Enhanced Integrated Framework (activities of the World Bank and the IMF are in an Annex). A final section of the paper outlines three challenges for aid for trade and offers some areas for consideration going forward.
3. Reducing protection facing the products people in poor countries produce is one objective of the Doha Development Agenda. To take advantage of new opportunities, many countries have to overcome domestic obstacles to trade expansion, including low-quality infrastructure, weak trade-related institutions, and – all too often – inadequate policies. Taken together, these undermine the willingness of some governments to engage actively in multilateral trade negotiations. For these reasons, ministers at the WTO Ministerial Conference in Hong Kong in 2005 opted to set up in parallel to the negotiations a separate WTO-led effort on aid for trade. Stepping up donor support for the definition and implementation of trade strategies in developing countries was seen as a way to simultaneously improve growth prospects *and* facilitate a more effective multilateral round.
4. Since then, the Doha Round has made uneven progress. Negotiations resumed in late 2006, following their July 2006 suspension, and negotiating group chairs have recently proposed the outlines of draft agreements in the key areas of agriculture and non-agricultural market access (i.e., NAMA or industrial goods tariffs). In each case, these drafts have moved significantly beyond the positions of key Doha Round participants in the direction of a compromise. Early reactions to the draft on agricultural modalities, while cautious, indicate considerable narrowing of gaps separating negotiators; reactions to the modalities paper on industrial goods indicated parties still have far to go to reach consensus.

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<sup>1</sup> See [http://siteresources.worldbank.org/DEVCOMMIT/Documentation/21213505/DC2006-0013\(E\)-Trade.pdf](http://siteresources.worldbank.org/DEVCOMMIT/Documentation/21213505/DC2006-0013(E)-Trade.pdf).

5. The draft NAMA and agriculture papers provide for substantial trade liberalization, albeit tempered by the negotiating group chairs' judgment as to what is politically feasible. The proposed commitments in the NAMA paper would imply, *inter alia*: that no developed country would have an industrial tariff above nine percent, and average tariffs would be cut substantially; and that developing countries would have nearly comprehensive bindings on tariffs and that key emerging market countries would reduce actual applied tariffs on a not insignificant number of products. Similarly, the proposed commitments in the agriculture paper would imply, *inter alia*: a reduction by more than half of developed country agricultural tariffs; a sharp reduction in the ability of major developed countries to subsidize agriculture including significant reductions in the actual subsidies provided for some products; and a substantial cut in developing country bound tariffs on agricultural goods, albeit by a smaller amount than for developed countries (see Annex I).

6. But whatever the fate of the Doha Round, the accelerating pace of global integration and erosion of preferences for poor countries associated with the expanding web of preferential trade agreements make improving domestic competitiveness imperative. Though an eventual protracted hiatus in the Doha negotiations may cause some dampening of interest in aid for trade among bilateral donors as a complement to the talks, the development relevance of the agenda will remain high.

## **TRADING IN THE GLOBAL ECONOMY: INCREASING COMPETITIVENESS AND AID FOR TRADE**

### **Leveraging Trade for Growth**

7. The global market has expanded dramatically in the past three decades – and at a rate roughly twice domestic demand. Falling transport and communications costs have been a major driver, making it easier and less costly to search out and reach foreign markets. Similarly, lowering of trade barriers has propelled integration; major reforms in developing countries, primarily undertaken unilaterally to spur their own development, have slashed applied tariffs in manufacturing from over 30 percent in the early 1980s to under 10 percent on average today. Moreover, the opening of large developing countries, notably China, India, and the former Soviet Union countries, has been central to the expansion of global markets. Manufactures trade in particular has surged, notably in intermediate products, reflecting the fragmentation and global sourcing of parts of the value chain. Developing countries' total share in world exports of non-oil manufactures almost doubled over 1990-2005, from 21.5 percent to 40.2 percent. These same forces also contributed to a massive increase in services trade, if from a much smaller base – global sourcing of services and foreign investment in services have both surged.

8. Export growth has been a central feature of successful development. Whether export growth is a cause or a consequence, no country has grown successfully without a large expansion of its trade.<sup>2</sup> The fastest-growing countries have managed to harness the global

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<sup>2</sup> Much of the debate in this area revolves around the policy implications of cross-country regressions that find a positive association between trade 'openness' (measured by proxies such as the ratio of trade to GDP) and incomes of countries. Critics argue that the direction of causality is not shown by such studies, and that these results are not informative regarding the trade policy stance that accompanies a countries openness ratio. Important econometric studies of the linkage between trade reform and the rate of economic growth include Sachs and Warner (1995) and Frankel and Romer (1999); Rodriguez and Rodrik (2001) is the seminal critique. A recent study by Wacziarg and Welch (2003) addresses a major part of the critique by showing that dates of trade

economy to promote their growth over the long term. Since 1980, sixteen non-oil-exporting developing economies sustained high average annual growth rates of 4.5 percent or more – year in and year out for a remarkable two and half decades. This group includes a diverse array of countries with differing size, human capital, and market access opportunities – ranging from Botswana and Burkina Faso to Sri Lanka and Chile to China and India.<sup>3</sup> Their average share of the global market – using unweighted averages to eliminate the bias of country size – rose nearly threefold for both goods and services (Figure 1).

9. However, not all countries have benefited from trade integration; some countries and regions are being left behind. While both low-income and middle-income countries have made substantial progress in reducing trade barriers over the past two decades, this has not appeared to unleash sustained export growth in many low-income countries. Low-income countries collectively have seen their share of the global market decline since 1980, and the African low-income countries (excluding those in the high performing group) fared even more poorly (Figure 1). In recent years a surge in commodity prices has helped many of these countries, but it has not been enough to help them regain lost global market share. This same pattern is repeated in one of the most dynamic segments of the global economy, services trade.

10. Even within those countries that have used trade to grow rapidly, however, not all social groups have benefited. In many countries, inequality has increased and the position of selected groups of workers has deteriorated, although the precise role of trade is often difficult to isolate from effects of changing technology and demographics. Nevertheless, as with technological change, another potential source of rising inequality, the policy prescription is not to suppress the productivity enhancements that come from greater trade but to identify and implement appropriate measures to strengthen safety nets, provide opportunities for education and otherwise minimize the costs of adjustment for those suffering adverse changes.<sup>4</sup>

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liberalization do characterize breaks in investment and GDP growth rates. Specifically, for the 1950-1998 period, countries that liberalized their trade (raising their trade-to-GDP ratio by an average of 5 percentage points) enjoyed on average 1.5 percentage points higher GDP growth compared with their pre-reform rate. Winters et al (2004) conclude, on the basis of a comprehensive literature review, that the weight of evidence points strongly in the direction that openness enhances income levels..

<sup>3</sup> The others are Indonesia, Pakistan, Mauritius, Uganda, Thailand, Malaysia, Taiwan, Cambodia, Singapore, and South Korea.

<sup>4</sup> See World Bank (2007a) for a discussion of inequality and labor market pressures. Brown (2007) finds that while early empirical evidence suggested little impact of globalization on wages and working conditions, more recent analysis shows significant benefits of increasing trade. However, there is also some evidence of a link between globalization and deteriorating labor practices.

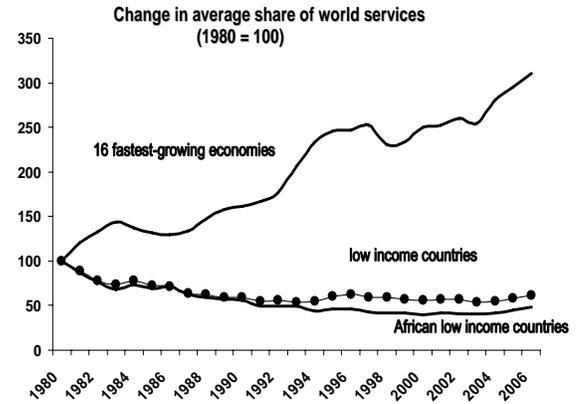
**Figure 1. The 16 fastest-growing economies in 1980-2005 harnessed globalization for growth in ways low-income countries did not... in part using different policies**

The fastest-growing countries have expanded their share of the global market for goods...



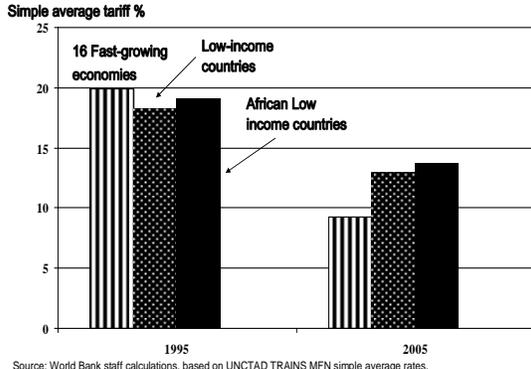
Source: World Bank staff calculations, based on IMF World Economic Outlook, normalized using 1980 as base year (1980=100). Fast growing economies include non-oil exporting countries that have grown at an average annual rate of growth of 4.5 per cent of more over the past 25 years.

... and services



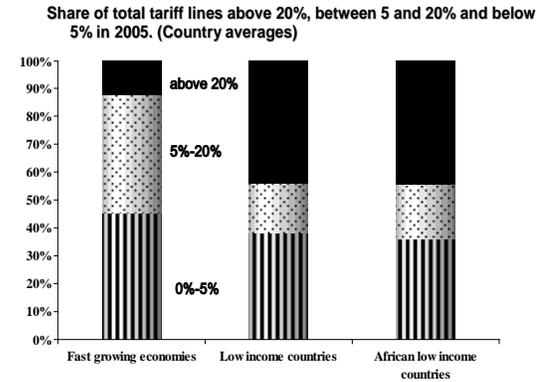
Source: World Bank staff calculations, based on data from IMF World Economic Outlook, normalized using 1980 as base year (1980=100).

Fast-growing countries have reduced tariffs faster than others...



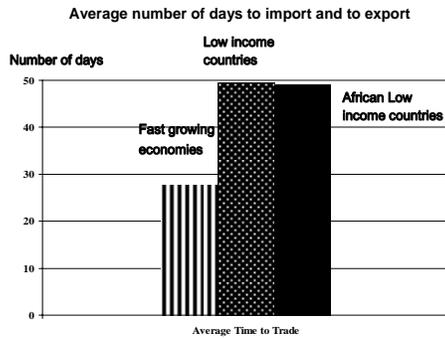
Source: World Bank staff calculations, based on UNCTAD TRAINS MFN simple average rates. Due to lack of data, only 10 countries from the LICs group are included in 1995 figure. They are Cameroon, Central African Republic, Chad, Ethiopia, Kyrgyz Republic, Madagascar, Mali, Nicaragua, Nigeria and Solomon Islands. 7 countries from the ALICs are included. 7 countries from the high performing countries are included: Chile, Indonesia, Korea Rep., Mauritius, Pakistan, Singapore, and Thailand. The 2005 figures contain information of 30 countries in the LICs, 21 countries in the ALICs, and 14 countries in the HPEs.

...with many fewer tariff peaks



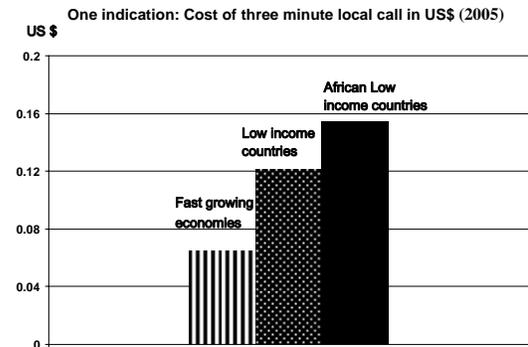
Source: World Bank staff calculations, based on UNCTAD TRAINS

Trade-related institutions are nearly twice as efficient as low income countries...



Source: Bank staff, based on Doing Business data as in World Trade Indicators latest data.

Services are far more efficient in the fast-growing economies



Source: World bank staff calculation based on data from International Telecommunications Union.

## Aid for Trade Matters: Overcoming Policy, Institutional and Supply-side Obstacles to Trade Performance

11. Many political and structural factors contribute to poor trade performance of low-income countries. Civil conflict has disrupted development in a score of countries in Africa – destroying infrastructure, causing investment to flee, draining precious pools of entrepreneurial talent and skilled labor, and destroying social capital built up over generations. At the same time, unfavorable demand characteristics for the primary commodities and raw materials that constitute Sub-Saharan Africa’s traditional exports have led to volatile growth and detracted from industrialization opportunities – problems compounded by the trade-distorting policies of OECD countries that induce instability in commodity prices and adversely affect demand for commodity exports.<sup>5</sup> Given that they export largely agricultural products, exporters in many low-income countries also face on average much higher tariff and non-tariff barriers – as captured in the Bank’s overall trade restrictiveness index – than other exporters.

12. Domestic policies also have contributed to poor performance. *Macroeconomic policies* have led to real exchange rate appreciations and currency overvaluation that have reduced competitiveness although more recently, policies have improved.<sup>6</sup> *Disincentives* embedded in the tax and tariff system continue to bias investment against exports in many countries. High levels of effective protection – the ‘traditional’ trade agenda (high tariffs) – continue to be important in many countries, with effective protection often 30 percent or greater for import-competing sectors.<sup>7</sup> While the fastest-growing countries had tariff peaks (tariffs greater than 15 percent for a given product) covering only about 10 percent of their total tariff lines, low-income countries’ tariff peaks cover more than 40 percent of their tariff lines (Figure 2). In a world of global production chains, the additional costs on production resulting from high tariffs can be sufficient to render a country uncompetitive as a supplier. *Restrictions on services trade* and other “behind the border” regulations have impeded competition, kept costs high and limited access by the poor, notably in rural areas. High costs of telecommunications, electricity, and transportation have depressed trade and growth performance, deterring the foreign direct investment that can provide capital and know-how to underpin exports of business process and other “outsourced” services. High tariffs and other barriers to trade and investment have also impeded the regional integration which can be critical to improving the trade performance of poor – and particularly landlocked - countries.

13. Even if conventional trade liberalization is being pursued, poorly performing trade-related institutions and *inadequate infrastructure* can amplify anti-trade and investment biases in policies. High costs and delays from inefficient customs, ports, and transportation severely constrain exports in developing countries. The location of labor-intensive apparel production, traditionally an important export for poor countries, is increasingly determined by lead time considerations and reliability requirements. Costs per operator hour in Kenya are more than 10 percent lower than in Coastal China, but lower productivity and less efficient supply chains eliminate the labor cost advantage. India has a strong comparative advantage in horticulture, yet many of its products are not internationally competitive due to poor trade logistics. If air and maritime transport costs could be reduced by one fifth, Indian producers could reduce their overseas supply prices by up to 12 percent, making them internationally competitive.<sup>8</sup>

<sup>5</sup> See Ng and Yeats (1997) and (2000).

<sup>6</sup> See Gelb (2000) and more recently, Selassie et al (2006) and Berg et al (2007).

<sup>7</sup> See Hinkle and Herrou-Aragon (2003).

<sup>8</sup> See Werner International (2005) and World Bank (2007b).

Transportation, including the time spent in transit, is now as important as tariffs in determining the landed cost of traded goods,<sup>9</sup> so problems can be particularly acute for landlocked countries (over 20 of which are classified as low income).<sup>10</sup>

14. Weak and high cost transport, energy and telecommunications infrastructure impact particularly heavily on producers of traditional products and standardized manufactures in poor countries. With prices for these products determined at the global level, higher costs for backbone services are reflected in lower prices for producers – so farmers of standard coffee in Rwanda bear the brunt of the high transport and logistics costs of shipping their product through Mombasa in terms of low farm gate prices. Attempts to move into higher quality and higher value added products are also constrained by weak infrastructure. Higher value products are typically more intensive in energy and telecommunications and many poor countries need to import the equipment, packaging and other materials required for higher value added activities - the costs of which are pushed up by the high costs of transport. So improvements in port efficiency, customs, the regulatory environment, and service sector infrastructure could not only sharply increase exports from developing to OECD countries,<sup>11</sup> they could change their composition: improvements in logistics and rail links enabled Mali and Burkina Faso to diversify out of cotton (typically stored at a port for months) exports into higher-value fresh mangoes (3 weeks' shelf life).<sup>12</sup>

15. Institutions that support trade and link exporters to foreign buyers also play a critical role in enabling countries to exploit their comparative advantages. Investments in institutions, such as those related to tax administration, customs, and the rule of law are important in establishing a credible trading system. Institutional quality can itself be a source of comparative advantage if buyers are only willing to deal with countries at a certain level of institutional development – as is the case with global sourcing of high technology products and adequate protection of proprietary knowledge, but also with standards and quality control, as well as export promotion. The quality of institutions plays a major role in determining trade patterns.<sup>13</sup>

16. A review of ten Diagnostic Trade Integration Studies (DTIS) undertaken for least developed countries as part of the Integrated Framework echoes these messages: export growth remained slow and diversification limited, despite substantial progress in increasing macroeconomic stability and trade reform.<sup>14</sup> The primary constraints were found to be on the supply-side, with poor infrastructure (transport, ports, electricity and communications) compounded by weak infrastructure management, costly regulation and corruption. Poorly performing institutions were also identified as a major issue, from customs and export promotion agencies to agencies dealing with research, training and technology transfer.

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<sup>9</sup> See Finger and Wilson (2006).

<sup>10</sup> One study estimates that poor infrastructure accounts for 40 percent of predicted transport costs for coastal countries and up to 60 percent for landlocked countries – see Limao and Venables (1999), while another estimates that every day a product is delayed prior to shipment reduces trade by as much as one percent – see Djankov et al (2006).

<sup>11</sup> Model-based simulation in Wilson et al (2004).

<sup>12</sup> See World Bank (2007c). Nordas et al (2006) finds that time delays reduce the volume of trade and reduce the probability that firms will enter export markets for time-sensitive products.

<sup>13</sup> See A. Levchenko (2004); Anderson and Marcouiller (2002); Francois and Manchin (2007); Islam and Resheff (2006); Ranjan and Lee (2007) and World Bank (2002).

<sup>14</sup> See Biggs (2007).

Coupled with limited credit availability, poor infrastructure and institutions were identified as key impediments to LDC efforts to move up the value chain and diversify exports.<sup>15</sup>

17. The policies of *middle-income countries* and their economic performance are also critical for low-income countries. For example, Brazil's growth creates export opportunities for Bolivia; Kenya's economic performance affects neighbors throughout the East African Community; and Thailand is an important market for Laos and Cambodia. Collier found that resource-scarce landlocked countries piggybacked on the growth of their neighbors — if a country's neighbors grew by an additional one percent, this added fully 0.7 percent to the growth of the landlocked country.<sup>16</sup> Improving the trading capacity of middle-income countries has spillover benefits for low-income countries — improving the efficiency of the port in Mombasa, Kenya makes Rwandan coffee more competitive on the global market. Improving the growth and trading capacity of middle income countries can spur regional integration and growth in low-income countries.

### **The Global Economy Demands Comprehensive Strategies to Improve Competitiveness**

18. Trade openness can spur growth through four particularly important channels. First, engaging with the global economy provides important sources of productivity gains. Exporting provides a wider array of opportunities for firms to sell their wares, giving rise to economies of scale and scope – otherwise unattainable in many poor countries whose domestic markets are too small. Exporting also provides potential boosts to productivity through channels such as the learning gained by serving the most demanding customers. Moreover, productivity differences across firms and the existence of trade costs can mean that only a subset of firms in an industry, the most productive, can export.<sup>17</sup> A fall in trade costs reallocates resources within sectors away from low productivity, non-exporting firms towards the more productive exporters – raising the productivity in the industry as a whole.<sup>18</sup> Second, imports can provide the discipline of competition and drive resources into more productive activities, as well as providing cheaper, more varied and higher quality inputs for firms producing for both domestic and foreign markets.<sup>19</sup> Moreover, imports to developing countries often embody a relatively higher degree of technological content than domestic products, and this by itself spurs productivity. Third, openness to foreign investment provides countries with an additional source of capital that can supplement domestic savings to finance investment growth; also, foreign *direct* investment entails a package of assets along with capital – such as a differentiated product, access to production chains, and managerial know-how – that can spur growth. Finally, openness is associated with access to global information, new know-how, and new technology, at the heart of most recent rapid growth stories.

19. Leveraging the global economy for growth requires taking advantage of all four channels by adopting a broad view of trade and investment strategy – designed to improve

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<sup>15</sup>One example where improved market access failed to achieve significant export expansion is the limited success of efforts to provide preferential access to Sub-Saharan Africa and other poor countries. Along with the restrictiveness of rules of origin requirements, the limited capacity in public sector administration made it difficult to provide the necessary documentation to profit from these arrangements. See Brenton (2003).

<sup>16</sup> See Collier (2007).

<sup>17</sup> See, for example, Melitz (2003) which looks at heterogeneous firms with differing levels of productivity.

<sup>18</sup> See Bernard et al (2003).

<sup>19</sup> Broda et al (2006) find that in developing countries, the average impact of new imported varieties is one quarter of national productivity growth.

competitiveness.<sup>20</sup> These have to go beyond tariff policies that affect merchandise trade. Policies to improve competitiveness are aimed at increasing productivity; thereby increasing the number of firms that export and allowing efficient domestic firms to more effectively compete with imports (by removing policy and other constraints, such as poor infrastructure or high cost services). In economies integrated into the global market, the line between factors that affect domestic economic performance and those impacting on trade performance is blurred.<sup>21</sup>

20. To be effective, strategies have to encompass reforms of three policy domains:

- *Improving incentives for private investment in trade.* In many countries, high tariffs for particular products often interact with tax policies and investment promotion schemes to channel private investment into protected local markets rather than exports. Similarly, tax and labor market policies can discourage small firms from becoming formal and linking up with global markets.
- *Reducing the costs and improving the quality of local services.* Reaching the global economy requires constantly improving transportation systems, high quality telecommunications, and better financial services. These can entail policy reforms to provide for new competition in services sectors, efficient provision of universal access for low-income groups to network services, and improved business regulation. In some cases, improving services may require action at the regional level.
- *Pro-active policies to promote competitiveness.* Laissez faire policies, even with an adequate incentive framework, are rarely sufficient to promote productivity gains through trade. In small, low-income countries, the government's role in coordination, supplying missing markets, and overcoming informational gaps is critical. Strategies therefore have to incorporate new efforts to address government failures, such as policy barriers to competition that inadvertently create private monopolies, and to address market failures, such as disseminating and certifying standards, providing information on foreign markets, and even providing infrastructure unattractive to the private sector. Export promotion, especially in new markets for existing products, is a potentially high-return activity. Pro-active tasks also involve reform of trade-related institutions to “get the government out of the way” – by reducing administrative delays in the import and export procedures.

21. Countries reforming their broad trade strategies have much to learn from the experience of others. Information about effective trade strategies is available from many sources, including consultancies, academia, the media, and from bilateral and multilateral donors, most

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<sup>20</sup> We use the term ‘competitiveness’ here, as Krugman (1994) argued, to mean improvements in productivity. Because all countries can gain from simultaneous improvements in productivity and trade, the concept as we use it should not be interpreted to mean an ordinal ranking of countries. It is meant to capture the trade effects of policies behind the border, wider in scope than conventional definitions of “trade policy”. As Cohen (1994) and others have argued, the concept of competitiveness highlights the role of trade in raising living standards, and provides a way of benchmarking against others that can be useful for mobilizing reform. It is in that spirit that it is invoked here.

<sup>21</sup> Similarly, competitiveness also needs to be seen through the lens of sustainable development. Efforts aimed at improving trade integration need to be analyzed in terms of their potential domestic and global environmental impacts. This includes trade in environmentally sensitive products – such as illegally or unsustainably harvested natural resources – as well as the impact of trade patterns on, for example, greenhouse gas emissions (as emissions related to production of items consumed in high income countries are emitted in middle income countries).

of which try to learn from past mistakes (see the last section of this paper.) Because ultimately knowledge about best practices is at least as important as money, the very concept of aid for trade has to include this expertise and thus be much larger than simply obtaining finance.

### SELECTED MULTILATERAL ACTIVITIES IN AID FOR TRADE

22. This section provides information on major international activities on aid for trade: notably, efforts to improve monitoring under the WTO and the implementation of the Enhanced Integrated Framework for Trade-related Assistance to LDCs. Activities of the World Bank and IMF are discussed at Annex II.

#### Global Monitoring: The WTO/OECD Initiative

23. In the Hong Kong declaration in December 2005, Trade Ministers called on bilateral and multilateral donors to increase the resources for aid for trade, endorsed the enhancement of the Integrated Framework for least developed countries, and established a Task Force on Aid for Trade. The Aid for Trade Task Force recommended among other things, improvements in global monitoring efforts to ensure that pledges on aid for trade were fulfilled.

24. Monitoring donor pledges in a consistent fashion is difficult because: (i) donors each use their own definitions of aid for trade (for example, while EU pledges are limited to ‘trade policy and regulations’ and ‘trade development’,<sup>22</sup> both the US and the Japanese pledges contain activities relating to infrastructure); (ii) infrastructure and budget support serve both traded and non-traded sectors (for example, transport investments may include roads to ports or rural feeder roads, and budget support may be associated with policy changes in trade-related activities or improvements in governance); and (iii) centralized reporting through the OECD-Development Assistance Committee (DAC) is still being fine-tuned.

25. The WTO, with the assistance of the OECD-DAC, initiated a process of global monitoring to compile information from bilateral and multilateral donors on concessional flows – that is, grants and loans that have a high grant component (such as credits from the International Development Association, or IDA, the soft loan window of the World Bank). The aim is to be able to use the existing OECD Creditor Reporting System, which collects information on both commitments and disbursements of ODA, to measure aid for trade. The proposed new WTO/OECD reporting system uses a broad definition of aid for trade in an effort to capture the elements identified in the report of the WTO Task Force on Aid for Trade: trade policy and regulations, trade development, trade-related infrastructure, building productive capacity, trade-related adjustment and other trade-related needs.<sup>23</sup> While an existing WTO/OECD-DAC database already collects information on donor activities in trade policy and regulations, trade development, and to some extent building productive capacity,<sup>24</sup> it is difficult to distinguish between assistance for the non-tradable and tradable sectors for economic infrastructure and to capture trade adjustment assistance. The WTO/OECD is thus proposing to include *all* investments in transport, energy and telecommunications infrastructure as trade-related, and *all* budget support as adjustment assistance and therefore aid for trade.

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<sup>22</sup> ‘Trade development’ covers business development and activities aimed at improving the business climate, access to trade finance, and trade promotion in the productive sectors (agriculture, forestry, fishing, industry, mining, tourism, services), including at the institutional and enterprise level.

<sup>23</sup> See WTO (2006a).

<sup>24</sup> See the Doha Development Agenda Trade Capacity Building Database at <http://tcdbd.wto.org/>

26. Under this broad definition, aid for trade commitments amounted to \$25 billion annually – or roughly *40 percent of all ODA* excluding debt relief for 2002-2005 (Table 1). On average 60 percent of this amount was for infrastructure (\$10 billion) and for budget support (\$5 billion). If this broad definition is used, it seems difficult to argue that aid for trade is under-represented in development assistance.

27. At the same time, however, the proposed *OECD reporting includes only concessional aid*, and therefore omits consideration of all IBRD and other multilateral trade-related lending to middle-income countries. This definition effectively *excludes trade-related lending* to virtually all of Latin America, most of Asia, and many important countries in Africa- and understates the role of the regional development banks as well as the World Bank in aid for trade.

28. Leaving these methodological limitations to one side, several noteworthy points emerge from the preliminary data in Tables 1 and 2:

- With such a large share of total ODA already appearing to be directly or indirectly directed at trade, and to avoid competition with other urgent development needs, future increases are likely to occur only if the envelope for all concessional aid expands.
- Low-income countries, including LDCs, received only about half of the total aid for trade commitments by this measure in 2001-2005. Of this, the LDCs received between one-fourth and one-third of aid for trade commitments; other low-income countries experienced *a declining share* over this period. Middle-income countries averaged just under 40 percent of aid for trade commitments, mostly from bilateral sources.
- The multilateral development banks on average channeled 77 percent of every aid for trade dollar to low-income countries (\$5.7 billion of a total of 7.4 billion in assistance in Table 2). Bilateral donors gave 47 percent of their aid for trade to low-income countries.
- The World Bank is the largest donor of aid for trade to low-income countries, providing some 30 percent of the total through IDA (Table 2). This highlights the importance of multilateral concessional lending for trade, and the urgency – from an aid for trade perspective – of successfully completing the replenishment of the International Development Association’s concessional fund for low-income countries (IDA-15)

29. By comparison, the World Bank uses a much narrower definition of concessional aid for trade in that it does not include all investments that improve the productivity of the tradable sectors, it involves some discretion in selecting among non-mutually exclusive “themes” (e.g., poverty reduction or trade expansion), and it records only that portion of an individual project that is trade-related. This method, unsurprisingly, shows a much smaller amount of concessional resources devoted to trade (Box 1).

30. In addition, the Bank lends approximately \$2 in non-concessional funds to its clients on trade for every \$1 of IDA resources, some \$600 million on average over 2000-2006 (although of course total IDA resources are much larger). Both concessional and non-concessional lending by the Bank’s narrower measure have increased over this period.

**Table 1: Concessional Aid for Trade, if broadly defined, subsumes 40 percent of all ODA**  
(Commitments of DAC donors and multilateral agencies; US\$ bn at 2004 constant prices and exchange rates)

<b>Trade related commitments for:</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Trade policy and regulations	0.9	0.8	1.0	0.8	0.9
Infrastructure	9.8	9.4	9.7	13.7	12.1
Productive capacity building	9.3	7.4	9.2	9.6	9.5
Structural adjustment	4.8	5.9	6.4	5.2	3.5
Total aid for trade	24.9	23.5	26.3	29.3	26.0
<b>Memo: Aid for trade as percent of sector allocable ODA a/</b>	46.0%	42.1%	40.9%	40.8%	36.5%

a/ Sector allocable ODA includes general budget support and excludes food aid and other commodity assistance, debt relief, humanitarian aid, administrative costs, support to NGOs, refugees in donor countries, and imputed student costs.

Source: OECD (2007).

**Table 2: Most bilateral aid for trade goes to middle income countries, and most multilateral aid to low income countries**  
(Concessional AFT commitments, 2002-2005 average in constant US\$2004 bn)

	<b>LDC and other Low income countries</b>		<b>Middle Income Countries</b>		<b>Total aid for trade</b>	
	<i>US \$Billion</i>	<i>% of total</i>	<i>US \$Billion</i>	<i>% of total</i>	<i>US \$Billion</i>	<i>% of total</i>
Japan	2.2	15.9%	2.8	26.2%	5.0	20.4%
United States	0.6	4.4%	3.1	29.0%	3.7	15.2%
EC	1.9	13.5%	0.8	7.5%	2.7	10.8%
Other EC Members a/	1.1	8.0%	0.7	6.1%	1.8	7.2%
United Kingdom	0.9	6.5%	0.2	2.2%	1.1	4.6%
Germany	0.4	3.0%	0.7	6.0%	1.1	4.3%
France	0.4	2.9%	0.3	3.0%	0.7	2.9%
Canada	0.2	1.1%	0.1	0.8%	0.2	1.0%
Italy	0.1	0.7%	0.1	1.1%	0.2	0.9%
Other bilateral b/	0.4	2.9%	0.2	1.8%	0.6	2.4%
<b>Sub total bilateral</b>	<b>8.1</b>	<b>58.8%</b>	<b>9.1</b>	<b>83.7%</b>	<b>17.2</b>	<b>69.8%</b>
World Bank	4.2	30.6%	0.5	4.2%	4.7	19.0%
Asian Development Bank	0.6	4.3%	0.4	3.9%	1.0	4.1%
African Development Bank	0.6	4.6%	0.1	0.5%	0.7	2.8%
Interamerican Development Bank	0.1	0.8%	0.1	1.0%	0.2	0.9%
Other agencies	0.1	0.8%	0.7	6.6%	0.8	3.4%
<b>Sub total multilateral</b>	<b>5.7</b>	<b>41.2%</b>	<b>1.8</b>	<b>16.3%</b>	<b>7.4</b>	<b>30.2%</b>
<b>Total</b>	<b>13.8</b>	<b>100.0%</b>	<b>10.8</b>	<b>100.0%</b>	<b>24.6</b>	<b>100.0%</b>

Note: Excludes amounts relating to regional and multi-country activities. a/ Includes Austria, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, b/ Includes Australia, New Zealand, Norway, Switzerland

Source: Creditor Reporting System (CRS), DAC/OECD.

31. Since public pledges were made on the basis of non-comparable, donor-specific definitions, strict monitoring of performance against pledges is not currently possible on a consistent basis. To improve transparency and monitoring, more work is needed to arrive at a conceptually compelling and commonly accepted definition of aid for trade. The OECD recognizes the problems with its broad approach, and is working with others to explore whether greater precision will be possible. For example, consideration is being given to allowing donors to separately identify budget support given for the purpose of assisting trade adjustment under the CRS. Moreover, the OECD has sent a questionnaire to all donors setting out their current aid for trade profile, drawing on the above proposed definition and using data from the CRS, and asking each donor to identify – on the basis of their own policies and programs – what they consider to be aid for trade. Responses are expected in September 2007, with a view to serving as an input to the first Annual Global Review of Aid For Trade, to be hosted by the WTO on November 20-21 2007. The WTO and the OECD have also initiated a technical group on monitoring the framework on aid for trade, with membership from bilateral and multilateral development agencies, as well as a small number of recipient country governments. The World Bank is actively engaged in these efforts, with a view to helping to develop a more accurate picture of assistance related to trade.

**Box 1: Differing Estimates of Aid for Trade...the case of World Bank trade-related lending**

Estimates of aid for trade can vary widely as donors tend to use different definitions. For example, the World Bank defines trade-related lending far more narrowly than the proposed WTO-OECD definition of aid for trade by counting only that portion of a project that focuses on trade (The WTO/OECD overall estimate for Bank aid for trade adds numbers for lending to estimates from Bank submissions to the Joint WTO-OECD Trade Capacity Building Database (TCBDB), but only lending is discussed here).

The task manager for every Bank project is asked choose up to five themes that characterize the expected outcome of the project such as trade, environment, poverty reduction, etc. The loan amount is notionally broken down into allocation by themes with a proportional formula. Hence the trade share of an infrastructure project – whether a road, power, or even water project – depends not only on the loan amount, but whether the infrastructure supports international “trade” as well as other objectives: a procedure that avoid double counting between trade and the other objectives. This same methodology applies to its projects financed with nonconcessional resources (IBRD lending). For example, the *Customs Development* project in the Russian Federation is allocated as: trade (25 percent), tax policy and administration (25 percent), administrative/civil reform (24 percent), legal institutions and markets (13 percent) and standards and financial reporting (13 percent). So the amount of trade-related lending is \$35 million, based on the 25 percent allocation.

While the Bank definition allocates on average a small share of trade-related loan (about 30 percent on average for IDA lending), the proposed OECD definition appears to take 100 percent of a given project. If 100 percent of the value of Bank projects including trade a theme were counted as trade-related lending, instead of only that portion that relates to trade, Bank figures for trade-related lending would jump from \$1.6 billion to around \$5 billion (IDA increases from \$569 million to \$2 billion and IBRD lending from \$1 billion to \$3 billion).

The WTO/OECD definition also omits nonconcessional trade-related lending, while Bank figures include both concessional (IDA) and nonconcessional lending. The World Bank provided roughly \$2 in nonconcessional financing for trade for every \$1 in concessional lending. This ratio is likely to be even higher for the Interamerican Development Bank and the Asian Development Bank, if lower for the African Development Bank

The World Bank definition is designed to avoid double counting, but by focusing only on export-related infrastructure and reforms, it misses the effects of other infrastructure investments on import-competing activities and overall competitiveness. Both the Bank and the OECD are working to refine their respective methodologies.

Source: World Bank staff

32. Ultimately the allocation of aid for trade and its effectiveness is arguably more important than the amounts (Box 2). Equally, monitoring needs to take account of the extent to which developing countries are incorporating trade into their national development strategies. To ascertain gaps and understand problems from the countries themselves, the WTO and the regional multilateral development banks, with the support of the World Bank, have organized high-level regional conferences of Finance and Trade Ministers to consider problems and priorities in aid for trade. Meetings are to take place in mid-September in Latin America (with the Interamerican Development Bank) and in Asia (with the Asian Development Bank), with a meeting in Africa (with the African Development Bank) following in early October. These are intended to inform the above-mentioned broader discussion in the WTO on aid for trade in November, 2007. In line with the recommendations of the WTO Task Force on Aid for Trade, this will include discussion of monitoring of existing aid for trade, identification of any gaps, and a review of experience with aid for trade to date (based on agency self-assessment, and recipient evaluations).

**Box 2: Evaluating aid for trade**

As with other development efforts, careful evaluation – and learning from past shortcomings—is essential if aid for trade is to be effective. The OECD recently undertook a comprehensive evaluation of concessional aid for trade. Though hampered by unclear project documents, many with insufficiently clear monitorable objectives, and by an absence of quantitative links to overall trade performance, the report concludes that, in half of the evaluations, trade-related assistance contributed to raising awareness of the importance of trade and knowledge of trade issues, while helping to strengthen country dialogues on trade policy. But the effectiveness of projects depended critically on the overall investment climate and the determination of political leaders to promote trade.<sup>25</sup>

Evaluations have also been undertaken for export development projects targeted on specific export products. On average, these projects: (a) have coincided with, or predated, stronger export performance in the targeted commodities; (b) have had a greater impact on export growth for products with initially high export levels than on those with low export levels (although this may be because technical assistance is directed towards industries that are already set to take off); and (c) were likely to be more successful if they addressed specific market failures or policy shortcomings in activities in which the country had a long-run capacity for global competitiveness (as was the case in Rwanda’s donor-supported strategy to move into the high quality, specialty end of the coffee market). Done well, export development programs can succeed: cut flowers had been a growing export industry in Uganda for a decade when an export development program was started in 2003. Following the program, export value almost tripled within one year. Although other Ugandan exports also rose strongly at this time, cut flowers significantly increased their export share. Furthermore, Mongolia had traditionally been an exporter of wool products, however exports had declined and lost share in the export portfolio in the late 1990s and early 2000s. After the Export Development program in 2003, exports of wool products entered a steady growth path, outperforming overall export growth in 2005.

In sum, evidence to date suggests that aid for trade can be effective, provided that countries own the program and incorporate them thoroughly into their development strategies (central tenets of the Paris Principles). Nearly all bilateral and multilateral organizations are working to improve effectiveness, but not all have recent, comprehensive evaluations of their programs.<sup>26</sup> With more than 40 bilateral and multilateral agencies involved in trade-related technical assistance, the scope for learning from each other is presumably great.<sup>27</sup>

<sup>25</sup> Major project weaknesses included inadequate needs assessments, weak project management and governance, projects that were not integrated into an overall trade strategy or development program, weak links to poverty reduction, inadequate donor coordination, and inadequate communication to, and expertise in, field missions. Ensuring country ownership of trade programs as a key to economic development remains an important challenge in designing effective aid for trade programs.

<sup>26</sup> Six important donors have undertaken evaluations relatively recently: USAID, DFID, CIDA, the Netherlands, the World Bank and the IMF.

<sup>27</sup> Donors involved in providing assistance for trade-related analysis or programs include the International Monetary Fund, the International Trade Commission, the United Nations Conference on Trade and Development,

Donors and agencies that have not undertaken recent evaluations of aid for trade projects and programs should consider doing so to create feedback loops to improve effectiveness over time. There is also much to gain from improving evaluations. Moreover, comparing both nonconcessional and concessional programs among donors, with participation of recipient countries, would enhance learning and help disseminate best practice. The First Annual Global Review of Aid Trade to be hosted by the WTO on November 20-21 2007, in which the Bank will participate will be an important step in this regard.

Sources: OECD (2006a) and (2006b), Brenton and von Uexkull (2007), Independent Evaluation Group (2006).

## **Multi-Donor Activities for LDCs: The Enhanced Integrated Framework**

33. An important instrument to help least developed countries (LDCs) reach the global market is the Integrated Framework (IF). The IF is a multi-agency (IMF, ITC, UNCTAD, UNDP, the World Bank, and the WTO), multi-donor program to assist such countries in setting national competitiveness priorities through trade diagnostics. In the last three years, 25 LDCs have completed DTISs (of which about 20 were led by the World Bank), 10 are now in progress, and 8 are under consideration.

34. However, evaluations of the IF have highlighted shortcomings, including the need for improved governance, as well as improved communication and coordination between Geneva-based trade representatives, country-based trade and customs officials and experts, private sector stakeholders, and officials within the finance and planning ministries. Similarly, donors have not always provided adequate financial and human resources to follow up diagnostics with bankable projects and priority-setting. Finally, resources were deemed insufficient to meet challenges of project preparation and necessary technical assistance.<sup>28</sup>

35. In September 2005, the Bank and Fund presented the Development Committee and the IMFC, at their request, with a paper proposing enhancements to the Integrated Framework.<sup>29</sup> Subsequently, in June 2006 an IF Task Force formulated a set of recommendations for addressing these shortcomings and laid the groundwork for a new *Enhanced Integrated Framework*.<sup>30</sup> On May 1, 2007, the IF Steering Committee adopted the Transition Team's recommendations, and created the Enhanced Integrated Framework (EIF).<sup>31</sup> A new executive

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the United Nations Development Program, the World Bank, the World Trade Organization, the Bank for International Settlements, the Food and Agriculture Organization, the International Standards Organization, the United Nations Industrial Development Organization, the World Customs Organization, the World Intellectual Property Organization, several regional groups, and many bilateral donors. See Suwa-Eisanmann and Verdier (2007).

<sup>28</sup> Capra-TFOC Consortium (2003), Agarwal and Cutura, (2004) and Integrated Framework Simulation, Addis Ababa, Ethiopia, September 2005.

<sup>29</sup> See [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20651864/DC2005-0016\(E\)-Trade.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20651864/DC2005-0016(E)-Trade.pdf).

<sup>30</sup> The Task Force recommendations focused on expanding the coverage of activities supported by IF financing and considered in the DTIS, improving the integration of trade into both donor and country planning, strengthening the management of IF activities at donor and recipient country levels, establishing effective monitoring and evaluation, and increasing the level and predictability of funding (WTO (2006b)). These recommendations were discussed in *Doha Development Agenda and Aid for Trade*, the September 2006 Development Committee paper.

<sup>31</sup> To a degree, the outcomes of this process differed from the original Task Force recommendations. For example, the Task Force had recommended that the WTO manage the IF Trust Fund, but in studying this recommendation it was decided that the WTO lacked the expertise to allocate funds for developmental purposes,

secretariat was established in the WTO Secretariat, though operational decisions are to be taken by a new EIF board, composed of three bilateral donors, three LDCs, and the six multilateral agencies as non-voting members. Thus, the EIF governance structure is intended to set up a country-driven process (with donors and recipients taking primary responsibility) rather than a multilateral-agency-driven process as before. The World Bank has participated actively in the development of the EIF, presenting its views and working with others in an effort to make the new structures as effective as possible.<sup>32</sup> The Bank's main role in the new structure will be to act as technical advisor and to provide other forms of support as needed; it is no longer responsible for leading the DTIS process. There remains scope for the Bank to be engaged with the EIF at the country level, where the government has made trade a priority in its national development strategy and seeks Bank involvement. As has been the case under the IF, the Fund's main role will continue to be acting as a technical advisor. It has also been agreed that any additional costs related to the EIF incurred by the multilateral agencies will be covered by the Trust Fund.

36. The EIF framework emphasizes country ownership and management and includes the creation of a National Implementation Unit to work closely with in-country donors. Governments will propose how resources are to be used. Though not yet fully operational, it is expected that the Trust Fund may raise \$200-400 million over 5 years. A high level meeting will be held in Stockholm on September 25, 2007, hosted by the Swedish Ministers of Development and Trade at which it is expected that a number of donors will announce contributions. Still, several challenges remain to be resolved before adequate operational mechanisms are in place, including providing adequate in-country support to the IF process, linking the WTO-based secretariat adequately to the in-country process, selecting the Trust Fund manager, clarifying fiduciary obligations, and establishing clear lines of responsibility for financial management and monitoring and evaluation. Special care will need to be taken to avoid mixing EIF decisions with the process of trade negotiations, as well as other forms of politicization.

#### **PROMOTING SUSTAINABLE INTEGRATION WITH AID FOR TRADE: CHALLENGES AHEAD**

37. Three challenges are particularly critical to the success of the aid for trade initiative.

##### **Making competitiveness a pillar of country growth strategies**

38. Expanding aid for trade goes beyond funding. Country ownership and political will are central, with governments incorporating trade more centrally into their development and poverty reduction strategies. Countries wishing to use exports to accelerate growth need to develop a strategy to improve competitiveness. Some countries are doing so explicitly: Mauritius embarked on a major program last year, and Cambodia did so the year before. Other countries are doing so implicitly: Kenya has launched a private sector development program

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so an independent Trust Fund Manager will be selected. The WTO will house the Secretariat of the EIF and host the Board meetings.

<sup>32</sup> One area of particular concern to the Bank is how to ensure appropriate functioning of the EIF on the ground, given that its secretariat is Geneva-based and it does not have a field presence. It will be important to ensure that the new structure and division of labor in the EIF provides client countries with adequate support, allows for appropriate selection and oversight of projects, and does not create incentives for strategic behavior by agencies or clients.

with a substantial competitiveness dimension; Costa Rica and Vietnam both have programs to harness trade for growth; and South Asian countries are bringing down tariffs and barriers to foreign investment, addressing behind the border issues, and making moves to increase regional trade and economic cooperation.

39. Low-income countries, however, have generally lagged middle income countries. Governments are only beginning to incorporate policies to address supply-side constraints on trade into country strategies. Of 71 Poverty Reduction Strategies (PRSs) reviewed since 2005, 70 percent mentioned trade as part of the strategy for growth. However, fewer, especially earlier PRSPs, articulated operational programs to address constraints on trade. Overall, specific and monitorable policy measures to address transport and trade facilitation were included in only 26 of the 71 strategies, export promotion in only 23, and regional integration issues in only 25.<sup>33</sup>

40. Many low-income countries have yet to elaborate comprehensive operational strategies to promote competitiveness. As noted above, strategies today have to be more comprehensive in dealing with the *incentives* to trade – and include not only tariffs and other border barriers but their interaction with the tax system, investment policies, and even labor market regulations. In the new global economy, access to high quality *services* at competitive costs – particularly transport, telecommunication, finance and power – is central to growth and export development because these are critical inputs both for the domestic economy and for the export sector. Firms cannot participate in global production chains requiring reliable delivery when they face constant power outages: while firms in Bangladesh struggle with up to 248 days per year in power outages, those in Chile experience just under 4.<sup>34</sup> Finally, getting prices right through tariff and exchange rate reforms is not enough to foment exports; *pro-active policies* to promote exports are needed to complement price incentives to producers. These include government assistance in obtaining information about export markets, help in meeting and verifying technical and phytosanitary standards, coordinating the marketing selected exports, and ensuring adequate infrastructure as well as efforts to make trade-related institutions more efficient. In Madagascar, for example, the public sector is playing an important role in guaranteeing food safety in the shrimp industry to the EU. While the private sector is responsible for producing the quality products, the authorities are responsible for controlling the overall system and demonstrating compliance to foreign buyers.

41. In most countries, policy instruments in these three policy domains are dispersed across several ministries. The Minister of Trade, whose nominal responsibility it is to be the chief advocate of trade, often has only marginal influence in policy domains that affect competitiveness and export performance. Moreover, Ministries of Trade rarely nominate a large number of projects for review by the Ministry of Finance or the economic cabinet, and hence these do not find their way into proposals to donors for funding in country strategies.

42. Donors too have often paid insufficient attention to trade. The World Bank, for example, sharply reduced its activities in trade in the 1990s, in part because the wave of tariff reforms in the prior ten years was thought to be enough to help countries integrate better into

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<sup>33</sup> In some cases, PRSs may have addressed infrastructure issues such as roads, railways or telecommunications, but not linked these to facilitating external trade. Such analysis would not have been viewed as supporting trade in this discussion of PRSs. It also may be that countries are undertaking trade-expanding measures that are not reported in PRSs.

<sup>34</sup> See World Bank Investment Climate Assessments.

the global market.<sup>35</sup> Since 2000, it has steadily reversed this trend, invested more in country analyses of competitiveness, increased its lending rather steadily, and made greater operational expertise available for country work. This has been reflected in a sharp up-turn of analytical and financial work on trade in all regions. Other donors are beginning to do the same.

43. An important part of the Bank's strategy moving forward will be making globalization sustainable, assisting those countries left behind to improve their competitiveness as part of their growth strategy. As part of the increased attention to growth-oriented strategies under the PRSP process, incentives to integrate trade into PRSPs could be increased by the availability of both timely and relevant analysis on country trade and competitiveness needs, and financing to address those needs.

- Developing countries that want to use trade to accelerate growth could usefully begin by making competitiveness a central pillar of their national development and poverty-reduction strategies. The World Bank and other international organizations have indicated they would provide resources to any countries that requests help in doing so – though increased demand would require greater investment by these agencies and donors. For example, consideration could be given to providing additional grant resources to undertake assessments of competitiveness for all low-income countries and, where appropriate, for lower-middle income countries. The EIF would be an important vehicle for addressing the needs of LDCs.
- Investments in global public goods for trade would also put more analytical information at the disposal of countries wishing to undertake trade and competitiveness reforms - international benchmarking is particularly helpful in inspiring policy makers and donors to focus on underperforming areas. Donors should consider providing additional resources to enhance the informational platform for trade indicators of policy and performance now underway in the ITC, UNCTAD, World Bank, and WTO. For its part, in addition to its current funding for the Logistics Performance Index, the World Bank is currently considering additional financing for the WITS data platform, and for efforts to improve the Overall Trade Restrictiveness Index.

### **Filling the remaining gaps in trade-related assistance**

44. There are several gaps in the current provision of aid for trade. None of these necessarily requires the creation of new instruments, but all point to areas where there is a strong case for increasing commitments.

45. Non-LDC low-income countries have been overlooked in the effort by the trade community to mobilize concessional aid for trade. These include African countries (such as Cameroon, Cote d'Ivoire, Ghana, Kenya, and Nigeria) as well as a few Central Asian countries (Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan). These countries could use aid for trade for technical assistance projects, funding preparation of projects, and funding legal and other reforms in implementing WTO obligations, notably for an agreement on trade facilitation.

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<sup>35</sup> See Independent Evaluation Group (2006).

46. A second gap concerns certain middle-income countries. For example, small island states or landlocked countries, can confront particular problems in sustaining rapid export growth, are subject to unusually wide swings in terms of trade, and may merit particular attention by the international community. More broadly, growth in middle income countries often creates ripples of demand for exports from neighboring low-income countries, so helping the wealthier economy to grow faster has positive spillovers for regional growth. While these countries collectively already receive concessional assistance from bilateral donors, it is not clear that all individual countries meriting resources receive them. Further monitoring and additional concessional aid may be worth considering, given the range of “global public goods” benefits that arise from trade reform in these countries. All countries benefit from each other’s trade reforms and, as noted above, smaller, poorer countries may particularly benefit from their neighbors’ reforms. The demonstration effect for other countries of successful trade reforms is not to be underestimated, including in the context of the influential position of many middle income countries in international trade negotiations. Some middle income countries may also face resource constraints in investing in infrastructure where payoffs in terms of poverty-reducing growth may be high, while others still contain large numbers of poor people, and may face difficulties in managing transitional adjustment costs from their own or others’ trade reform.

47. The experience of Mauritius provides a germane, if cautionary, tale. Hit by three external shocks – the phase out of the textile and clothing agreement, reductions in sugar prices in the EU, and rising oil prices – at the same time the trend growth had been falling, the government adopted a bold reform program in June 2006. The program emphasized control of public spending, reforms of the incentive system to improve competitiveness, reforms of the investment and regulatory regimes, and programs to empower the poor and broaden their participation in the economy. With the endorsement of this program by the World Bank and an Assessment Letter from the IMF staff in the context of its aid for trade initiative, the government sought some concessional resources from the international community to support this program.<sup>36</sup> While some assistance was provided in the form of a World Bank program loan of \$30 million co-financed with an additional \$30 million by the French development agency, no additional concessional resources were forthcoming.<sup>37</sup> To be sure, the country is benefiting from its own improved policy regime – and that is the biggest pay-off to the Mauritian effort – but the adjustment would have arguably been politically easier, somewhat faster, and with less reduction in public investment had some extra resources been available.

48. A third gap is regional projects. As outlined in last year’s paper to the Development Committee on aid for trade, the potential benefits of regional cooperation can be large, particularly for small, very poor, landlocked countries.<sup>38</sup> As noted above: country

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<sup>36</sup> In response to requests from the government, both the IMF and the World Bank provided technical assistance. The IMF Fiscal Affairs Department in February 2006 provided a report on tax and expenditure policies to support a sustainable macro environment. The World Bank sent a mission in April 2006, and produced a report *Mauritius: From Preferences to Global Competitiveness* Report of the Aid for Trade Mission, April 26, 2006.

<sup>37</sup> However, Mauritius is expected to benefit from transfers from the EU under the EU sugar protocol funds that will be used to finance accompanying measures to restructure the sugar sector.

<sup>38</sup> In the paper for the Development Committee, three options were put forward: (i) to improve existing bilateral and multilateral facilities; (ii) to provide access to dedicated grant financing to facilitate regional coordination and support regional policy and regulatory reforms; and (iii) to create a dedicated fund to cover a share of the costs associated with large-scale infrastructure projects or other joint regional facilities. An appropriate balancing of the need to strengthen regional coordination and the desire to avoid the establishment of a large, dedicated fund which could distort country priorities would argue for adoption of the second alternative.

competitiveness can be greatly enhanced by regional integration: cross-border coordination of infrastructure and policy (e.g. mutual recognition and adoption of common regulatory systems) can help lower trade costs, and for landlocked countries corridor access may be essential to trade. However, weaknesses in regional institutions hamper the channeling of aid for trade funds for regional concerns. For example, many regional bodies in the developing world do not earn revenues and thus cannot borrow from donors without country guarantees. At the same time, weak incentives for individual countries to initiate projects with large regional benefits and difficulties in securing effective coordination among countries limit the introduction of regional transport issues into country strategies. Since last year's Development Committee paper, there has been some progress in addressing regional programs, but more is needed.<sup>39</sup>

49. Under IDA14 approximately \$1 billion is available to assist regional programs (this amount corresponds to two-thirds of regional project commitments, while the source of the remaining one third is participating countries' IDA allocation). Of this, 90 percent is being utilized in Africa, with IDA13 and IDA14 currently covering 18 regional programs at a total of US\$1.8 billion, including guarantee projects.<sup>40</sup> Infrastructure projects (energy and transport, followed by communications) account for more than 80 percent of total commitments,<sup>41</sup> and many of the Bank's engagements to assist regional integration are in partnerships with other donors.<sup>42</sup> However, IDA regional funds do not allow for grants to supra-national bodies, restricting Bank support for capacity development of Regional Economic Communities. Limited support has been provided through the Institutional Development Fund (IDF), partnerships and bilateral trust funds. However, this fragmented and limited funding has made it difficult for the Bank to provide assistance commensurate with the strategic importance of capacity development.<sup>43</sup> Moreover, demand for resources in FY08 is more than triple available financing. Demand for regional assistance in Africa in FY08 totals approximately \$1 billion (based on requests for regional projects for FY08 commitments) of which two thirds is

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<sup>39</sup> The Africa Regional Integration Department is now developing an Africa-wide Regional Integration Assistance Strategy, to identify priority regional programs; provide a framework for capacity building in key regional institutions; and serve as a platform for joint efforts with other donors. Board presentation is envisaged by mid-FY08. The East Asia and the Pacific region has also prepared a similar strategy for the Greater Mekong Sub-region (GMS). The Bank's Legal Department has also been working on formulating guidance for staff on how to address the legal challenges arising from regional projects.

<sup>40</sup> In FY06, IDA commitments for regional projects reaches \$538 million, 11 percent of total IDA commitments by Africa, and FY07 Africa regional project commitments amount to \$707 million, 12 percent of IDA commitments by Africa.

<sup>41</sup> Projects include: the West Africa Power Pool Project to build an efficient power market in six countries; the East Africa Transport Project to reduce transport costs by 20-35 percent through improved roads; and the Southern Africa Power Market Project (\$179 million) to connect the electricity grid of the Democratic Republic of Congo to that of Zambia, with the aim of eventually integrating all southern African countries into a regional energy market.

<sup>42</sup> The African Development Bank has become a close partner, sharing in the development of complex infrastructure programs and co-financing most large regional investments. Other significant partners include the European Union, the Islamic Development Bank, the Development Bank of Southern Africa, DFID, AfD, USAID, Germany, Japan and Nordic countries.

<sup>43</sup> Several regional organizations have approached the World Bank to request assistance to strengthen regional coordination of trade issues. While the Bank is hampered by a lack of a grant instrument to provide financing to regional bodies, it undertook several regional diagnostic studies in FY06 and FY07, including reviews of implementation of customs unions and analyses of gaps in regional infrastructure, and is currently analyzing the major impediments for improving the business climate in the Common Market for Eastern and Southern Africa (COMESA) that should be addressed at the regional level.

required as regional funds.<sup>44</sup> Africa's demand for regional IDA projects is projected at over US\$ 700 million per annum (including one-third co-financing) during IDA15.<sup>45</sup> A strong replenishment of regional resources under IDA15 will be critical in meeting this rising demand.

- Consideration could be given to financing small TA projects, project preparation and legal and other assistance needed to put in place WTO disciplines (for example on trade facilitation) for non-LDC low-income countries, perhaps using extant trust funds within the World Bank, or other development institutions.
- Likewise, consideration could also be given to exploring the availability of concessional aid for certain middle-income countries, linking funds to ongoing bilateral or multilateral projects that support serious reform programs. Donors could also consider additional resources for co-financing for regional programs, including in the context of IDA-15 replenishment, as well as making available additional resources for co-financing, or parallel donor financing for parts of, infrastructure projects.

### **Expanding the overall aid envelope and making full use of the IDA replenishment opportunity**

50. At the outset of the aid for trade discussions in the context of the Doha Round, developing countries sought commitments that increased aid for trade be additional to extant resource commitments. This was to ensure that aid for trade did not detract from scarce funds already allocated to other, high priority development activities.

51. However, it is becoming apparent that assessing additionality is virtually impossible for two reasons. Quantifying aid for trade is imprecise as many activities (notably infrastructure projects and budget support) usually serve multiple purposes. Second, even if it were possible to define strictly trade-related activities, commitments are built from the country level up. All development assistance involves mutual commitments made by both donors and recipients in the context of a country strategy. It may be that, following Paris Principles,<sup>46</sup> countries choose to relegate trade to a lower priority relative to other urgent activities. Since the totality of aid for trade is the sum of donor commitments that reflect individual country strategies, there can be no guarantee that total aid for trade will reach a pre-designated level. Said differently, the overall amount of aid for trade cannot be determined *ex ante* in Geneva (or Washington or London), but only as a result of a process in the collection of capitals around the world.

52. Nonetheless, the donor community endorsed additional development assistance to improve trade capacity in developing countries, as reflected in the statement by G-8 leaders at the 2005 Gleneagles Summit. The fate of the WTO's Task Force recommendation for increases in concessional aid for trade, and the opportunity to scale up support for trade-related infrastructure (including regional projects in, for example transport and communications), is

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<sup>44</sup> The emphasis remains on power, transport corridors, trade facilitation and support for telecommunications. Additional assistance is also anticipated for environmental protection, management of shared natural resources, regional initiatives to raise agricultural productivity, combating migratory diseases and capacity development.

<sup>45</sup> See IDA (2007).

<sup>46</sup> These include country ownership of proposed programs, alignment of donors to country strategies, harmonization of donor programs to provide collective assistance with common procedures and effective division of labor, and managing for results. See [www.oecd.org/documentprint/0,3455](http://www.oecd.org/documentprint/0,3455).

linked ineluctably with the success or failure of bilateral donors to fulfill their Gleneagles commitments on overall aid. With stagnant or declining ODA levels, competition for funds among various needs is likely to be too intense to allocate additional funds to trade. If overall aid envelopes do not expand, or worse shrink – as occurred in 2006 – it is virtually inconceivable that concessional aid for trade will increase sufficiently to meet needs. According to the WTO/OECD proposed methodology (Table 2), the World Bank is the largest single source of aid for trade funds to low income countries, increasing aid for trade to low income countries is dependent on efforts to replenish IDA.

- As a major multilateral vehicle for concessional development assistance and source of aid for trade to African and other low-income countries, a sufficiently large IDA-15 envelope will be required if trade-related needs are to be better addressed, without competing for resources with existing development priorities.

## ANNEX I: STATUS AND PROSPECTS OF THE DOHA ROUND AS OF SEPTEMBER 26, 2007

53. Trade negotiations under the Doha Round have progressed unevenly since their resumption in early 2007, with talks among trade ministers of the G4 (Brazil, the EU, India, and the U.S.) breaking down in June. In July, chairs of the agriculture and industrial goods committees circulated draft texts proposing the main elements of a possible agreement in these key areas. Early reactions to the draft on agricultural modalities, while cautious, indicate considerable narrowing of gaps separating negotiators; reactions to the modalities paper on industrial goods indicated parties still have far to go to reach consensus.

54. Although by no means assured, agreement within the parameters suggested by the chairs' proposals in the July 2007 modalities papers would, for example:

- For industrial (“non-agricultural”) tariffs:
  - Sharply cut developed countries’ peak tariffs. As these peak tariffs tend to be on labor-intensive products, they are of particular interest to developing countries. For the developed countries, the top rate would be cut from over 50 percent to 9 percent, and the average rate from 3.3 to near 2.3 percent.
  - Further cut tariffs of (non-LDC) developing countries. Many developing countries have cut tariffs unilaterally, often to well below their WTO “bound” rates. Nevertheless, for key emerging market countries, the proposed parameter would imply applied tariff rate reductions for a substantial minority of industrial tariff lines; for others, WTO bound rates would be brought more in line with presently applied rates, limiting scope for any future tariff reversals.
- In agriculture:
  - Eliminate agriculture export subsidies by 2013. Cotton export subsidies would be eliminated at the start of the (to be determined) Doha Round implementation period. Disciplines would be introduced on food aid and be tightened on export credits and state trading enterprises.
  - Sharply cut farm tariffs, particularly in developed countries. Those rates now above 75 percent would be cut by about 7/10 and rates from 50 to 75 percent cut by nearly 2/3. (Developing countries bound tariffs would be cut by 2/3 of the amount required of developed countries.) Developed countries could designate as “sensitive” about 5 percent of tariff lines (and developing countries a somewhat higher proportion), allowing shallower cuts in those tariffs. Developing countries would in addition be allowed to designate certain “special” products for differential treatment.
  - Developed countries’ scope to compensate farmers for lower tariffs by raising domestic farm subsidies would be sharply curtailed, although current and planned adjustments in the major developed country members have already reduced some actual subsidy payments towards these limits. Special provisions for cotton would, however, appear to require substantial cuts in actual U.S. domestic cotton support.

- Developed countries would (and developing countries would be encouraged to) provide duty-free, quota-free treatment (DFQF) of imports from least-developed countries on at least 97 percent (and preferably all) tariff lines.

55. Whether agreement can be reached in this “landing area” is not yet clear, and may depend in part on progress in areas such as rules, services, and trade facilitation. Should agreement on “modalities” be reached, several months would be needed to clarify and specify details.

56. This will be a challenging task, but other recent multilateral trade rounds have shown that persistence can pay off. The Uruguay Round (1986-94) remains longer to date than the Doha Round, begun in 2001. The former was itself complex, introducing multilateral rules on services, creating the first comprehensive multilateral rules for agriculture, erecting a powerful dispute settlement mechanism, and setting up a new international organization—in addition to bringing further progress on the issues dealt with in earlier multilateral trade rounds. The Doha Round has proven similarly complex, both because of the breadth of issues being covered and because of the number of countries (and variety of interests) actively participating in the negotiations. Underlying this complexity are diverging views on what the Doha Round’s development emphasis should mean in practice.

57. Many observers point to relatively weak private sector engagement, including in developed countries, as another factor behind the pace of negotiations. Such support has been important to highlighting the potential benefits of past Rounds, benefits which—despite outweighing losses in other areas—are often too diffuse to garner political support. However, prospective gains to business from a Doha Round seem to be at least as great as in previous multilateral rounds. Perhaps reflecting frustration with the pace of multilateral negotiations, much of the attention of business has centered on regional trade agreements (RTAs).

58. A Doha Round conclusion anchored in the agriculture and industrial product modalities proposed in July 2007 and supplemented by agreement on other parts of the Doha agenda would provide a boost to the global economy and provide particular benefits to developing countries. Progress has proven highly uneven over the course of the negotiations, but an early conclusion is needed to assure these benefits are realized and to ease mounting protectionist pressures while promoting multilateralism. Staffs of the World Bank and International Monetary Fund will remain vigorously engaged in support for the Round.

## ANNEX II: WORLD BANK AND IMF ACTIVITIES ON AID FOR TRADE

### The World Bank's Trade Program

59. The World Bank Group has a wide range of instruments and expertise to provide aid for trade to developing countries. The ability to bring together a range of experts, a whole of economy perspective, and financing is a key comparative advantage of the Bank in contributing to the aid for trade agenda.

60. World Bank *lending* is an important vehicle for mainstreaming the trade and investment agenda in country policy dialogues. World Bank trade-related lending has increased substantially in recent years. Using its own, narrow definition (see Box 1) with amounts estimated project by project by task managers, rather than the much broader OECD/WTO estimates, Bank lending – concessional and nonconcessional – has grown from about \$400 million in total commitments in fiscal year 2000 to about \$1.6 billion in 2006 and 2007. This represents about 10 percent of total Bank lending. Nonconcessional lending accounted for about 70 percent of total World Bank lending over this period. Loans involved 42 countries, plus 3 multi-country loans, with the majority of lending going to Europe and Central Asia and Africa. Projects approved by the Board in fiscal year 2007 cover a wide range of areas directed at boosting trade, including communications, transportation, regulation and standards, finance, power, rural development and export promotion.

61. Bank trade-related *technical assistance* has also increased over the past five years, from 21 projects in fiscal year 2003 to 37 projects in fiscal year 2007.<sup>47</sup> In fiscal year 2007, the Bank undertook 37 technical assistance projects including trade, involving 21 countries, plus an additional 5 regional/multi-country events. Most projects were undertaken in Africa and East Asia and the Pacific, followed by the Middle East and North Africa. The Bank also provides a range of *trade-related training*, covering for example, WTO accession, policy reforms and WTO negotiating options, standards and food trade, export diversification and services. In fiscal year 2007, the Bank conducted 34 activities for around 2550 participants. Of these, 15 were country-based and 19 were regional/global activities. Country activities were held in 14 countries, the vast majority of which were low-income or lower-middle income countries.<sup>48</sup> The number of participant training days has remained relatively stable over the last 5 years, and the number of participants per training activity has increased, reflecting the fact that the Bank is undertaking more in-depth, focused and customized events.

62. The Bank also provides an increasing amount of *analytical and advisory services*. For example, in Mauritius, Bank analysis provided input into subsequent major trade reforms, later supported with Bank lending.<sup>49</sup> Similarly, the Bank supported both Peru and Tunisia with analyses and lending in their efforts to enhance export competitiveness. Growth and competitiveness reports have been produced for Pakistan, Bangladesh and India (focused on agriculture), and analytical reports on services and rules of origin in preferential trade

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<sup>47</sup> Note that these figures may under-estimate trade projects due to potential miscoding by task managers.

<sup>48</sup> These were: low income countries - Bangladesh, Kenya, Madagascar, Senegal, Vietnam; lower middle income countries - Cameroon, China, Egypt, Indonesia, Iraq, Morocco; upper middle income countries - Russian Federation, Uruguay; and one high income country - Saudi Arabia.

<sup>49</sup> See *Mauritius -- From Preferences to Global Competitiveness: Report of the Aid for Trade Mission*, World Bank, April 2006.

agreements for East Asia. Regional studies have also featured trade integration.<sup>50</sup> Trade-related economic and sector work continues to expand, with 66 studies in FY2007 in more than 41 countries (plus an additional 9 regional studies). Most of this work was for Africa, followed by Europe and Central Asia and East Asia and the Pacific. Analytical work includes Diagnostic Trade Integration Studies (DTIS), Trade and Competitiveness Reports, regional trade studies, and more narrowly focused policy notes. Business environment diagnostics, such as Enterprise Surveys in developing countries, also provide important insights on business and trade impediments. Bank analytical work has played an important role in informing policy reform and project design (Box A1).

63. The World Bank has also developed a number of generalized products to assist developing countries in benchmarking their trade performance, making the case for trade reform, and estimating the impact of those reforms. These include, for example, the World Bank/UNCTAD *World Integrated Trade System (WITS)* data platform (which helps governments analyze trade-related distortions and simulate the economic effects of reforms), the Bank's *Customs Modernization Handbook* (which provides a practical, comprehensive guide on reforming customs administrations in developing countries), and IFC's *Doing Business* (which provides measures of business regulations and their enforcement, including related to trading across borders, across 175 economies). Other IFC activities related to trade are in Box A2.

**Box A1: Aid for Trade: from analysis to action**

The November 2005 Kenya DTIS identified Kenya's poor quality of transport and trade facilitation as a major constraint to export competitiveness. Improving land and sea routes along the Northern Corridor which links the port of Mombasa with Nairobi, inland Kenya as well as Uganda, Northern Democratic Republic of Congo, and Rwanda would enhance not only Kenya's trade competitiveness but also have significant benefits for neighboring countries. This analysis was a key input into the design of the US\$200 million East Africa Trade and Transport Facilitation Project. The project aims to enhance transport and logistics efficiency along key corridors by reducing non tariff barriers and uncertainty of transit time, and provides both investment to enhance infrastructure at the ports of Mombasa and Dar-es-Salaam as well as institutional support for strengthening the Northern Corridor Transit Agreement between Kenya and the Great Lakes countries.

The April 2006 Pakistan Growth and Competitiveness Study analyzed the key cross-cutting business environment barriers that hinder investment, productivity growth, and export competitiveness. Value-chain analyses were undertaken for shrimp, marble tiles, powdered milk, auto radiators, and textiles. Feedback from the Government was very positive and, the Government made a number of policy changes based on the recommendations of the report in the FY07 budget (such as reduction of tariffs on multi-axle trucks to encourage renewal of Pakistan's truck fleet and removal of domestic content requirements in the auto industry).

The government of Indonesia is using the findings from the 2005 Trade and Competitive Study to refine its negotiating position in the Doha Round, and, in line with the study's findings, has requested assistance with improving the technical and human capabilities in the trade ministry. The Bank is helping the Ministry to put in place a capacity enhancement project that will improve coordination by strengthening the decision-making and policy formulation process.

Source: Bank staff

<sup>50</sup> In Africa, for example, "*Africa's Silk Road: China and India's New Economic Frontier*" shed light on the growth impact of China and India's trade and investment in Africa. In Latin America, "*Natural Resources: Neither Curse nor Destiny*" analyzed ways natural resources could promote development and economic diversification based on experiences from around the world.

64. The Bank's *research program* provides information needed for better policy formulation at national, regional and multilateral levels. A key focus is on the trade and complementary policies needed to reduce poverty. Major areas of study since 2006 include the design of agricultural trade policies, the impact of transport and transactions costs on export competitiveness, the impact of trade and FDI on productivity growth, the consequences of services trade liberalization and implementation practices, migration (brain drain, temporary migration programs and linkages between migration, trade and FDI), and the impact on developing countries of liberalization programs, global reforms, and the competitive effects of large emerging markets.<sup>51</sup>

65. Some key findings from this research are: market access, rather than subsidies, is the dominant source of potential gains from agricultural trade reform in the WTO; unilateral and WTO reforms have been much more important than regional arrangements in liberalizing developing country trade; gains from opening to trade are significantly larger in a more flexible economy--without excessive regulations on business entry and labor; FDI increases productivity through knowledge transfer to input supplying firms; migration can contribute to poverty reduction, although brain drain and brain waste may reduce these gains; services trade reform has enormous potential for developing countries; infrastructure upgrades and increasing the transparency of trade policy can expand intra-regional trade; and complementary policies, including aid for trade, are needed to maximize the poverty-reducing potential of trade reform.

66. The Bank has also conducted comprehensive analyses of the regional preferential trade agreements (PTAs) that are reshaping the world trading system,<sup>52</sup> and is providing technical assistance to countries negotiating PTAs in an effort to improve their design and help governments use them to promote domestic reforms. For example, the Bank has maintained a dialogue with the EU on the design of Economic Partnership Agreements (EPAs), particularly with respect to restrictive rules origin and sequencing of tariff reductions. We have also provided assistance to the Eastern and Southern Africa group and the Caribbean group in their EPA negotiations, as well as to the Central Americans and Andean countries as they negotiated FTAs with the US. The Bank is also assisting Morocco and Tunisia on the prospects for deeper regional integration, in particular in the context of the European Neighborhood Policy.

67. A further important strand of the Bank's trade-related work is related to standards. Given the critical role that trade in agricultural products has in catalyzing rural growth and poverty reduction, the Bank: (1) raises developing country awareness about evolving public and private standards; (2) identifies priorities for investment, regulatory reform, and other measures to attain compliance; (3) identifies and disseminates 'good practices', (4) supports inter-donor coordination for capacity building; and (5) provides technical and financial assistance at the country level. The Bank lent around \$175 million for standards and quality management for agricultural products between 1996 and 2006, across 38 projects (Box A3).

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<sup>51</sup> For example, "*Services Trade and Development: the Experience of Zambia*" analyzed the regulations dealing with market failures and suggested new proactive policies to widen the access of firms, farms, and consumers to services.

<sup>52</sup> See World Bank (2005) for comprehensive treatment, and Newfarmer (2005) for selected topics in regional agreements. World Bank (2000), discusses the pros and cons of regional preferential trade agreements.

**Box A2: Examples of IFC activities related to trade**

**Global Trade Finance Program (GTFP)** of \$1 billion facilitates trade to underserved clients and markets by providing partial or full guarantees for individual trade transactions, covering the payment risk of local banks.

**Trade infrastructure.** Investments in transportation (including ports, roads, rail) and warehousing account for 6.1 percent of IFC's FY06 committed portfolio. Specialized investments and advisory work related to export-oriented industrial zones and e-commerce export marketing has also been provided.

**Agricultural trade companies.** A growing part of IFC's agribusiness portfolio consists of transactions with integrators and traders, enabling IFC to reach a large number of ultimate beneficiaries in an efficient manner and at a competitive cost. Such key clients are major players in the commodity sector, interacting directly with farmers and producers.

**Exporting companies.** IFC invests regularly in businesses that are engaged in substantial trade (e.g., in the general manufacturing, agribusiness, and oil, gas and mining sectors), strengthening the trade potential of countries. These sectors make up about 20 percent of the FY06 IFC portfolio.

**South-South investments.** As part of the strategic priority 'Build Long-Term Partnerships with Emerging Players in Developing Countries' IFC places a lot of importance on supporting South-South investments. These investments often promote trade, either directly or through the transfer of knowledge and expertise

**Advisory services related to trade.** FIAS' core advisory services include advice on import/export policies and procedures (customs), and advice on investment promotion strategies and tools. Other advisory activities also support trade; for example, an SME advisory program in South Asia has facilitated improvements in cross-border trade between Bangladesh and North-East India, and has promoted new trading links for SMEs in the garment industry.

Source: IFC staff

68. Beyond facilitation of compliance with trade norms, Bank SPS-related activities in the animal sphere interact with other major international public goods that the Bank wishes to support. For example, the rapid rise in consumption of animal-origin foods in developing countries since the early 1980s (from one third of the world's annual meat production to almost two thirds presently) has been mirrored by both growing pressure for safer trade in animal products and the adoption of standards and risk-mitigation measures more adapted to the needs and realities of developing countries and growing trade among developing countries. The Bank is actively engaged in supporting the World Animal Health Organization (International Office of Epizootics) in the assessment of needs for new institutional development in this area. In addition, the rising incidence of international transmission of animal diseases is drawing increased attention to the setting and monitoring of sanitary standards for trade in animal products. Where international transmission of public health risks are also involved, as in Highly Pathogenic Avian Influenza, the Bank has been extensively involved in project activity that includes elements of facilitating compliance with animal health regulations and standards, and reducing the risks of trade. For example, the Bank has invested US\$344 million since 2005 under the Global Program for Avian Influenza (GPAI) and the Avian and Human Influenza Facility (AHIF); this presently involves 42 projects around the developing world, with a further 19 projects worth \$64 million in the pipeline.

### **Box A3: Bank Activities on Agri-food Standards**

With more trade over long distances, and increasing emphasis on higher-value items such as fruit, vegetables, fish and fish products, meat and dairy products, assured compliance with sanitary and phytosanitary (SPS) standards has become a fundamental requirement for competitive success in international trade. Developing countries often struggle to deal effectively with SPS standards.

Bank work on SPS management takes a variety of forms. A 2005 study, *Food safety and agricultural health standards, challenges, and opportunities for developing country exports*, influenced the development paradigm on the subject, moving from an emphasis on ‘standards as barriers’ to consideration of both challenges and opportunities, the catalytic role of standards, and the positive capacity building agenda.

At the country level, SPS capacity assessments, stakeholder consultations and action plans are being undertaken in 14 countries — in East and Southeast Asia (China, Vietnam and Lao PDR), South Asia (Bangladesh, India and Pakistan), Eastern Europe (Armenia and Moldova), and Africa (Kenya, Tanzania, Rwanda, Niger, Uganda and Zambia). Examples of other projects include: agricultural diversification in the Philippines; agricultural competitiveness in Kazakhstan, Burkina Faso, and Zambia; EU accession support for Croatia, Bosnia and Romania; food safety in China, and livestock competitiveness and food safety in Vietnam; and supply chain interventions in Bosnia and Northeastern Brazil.

To address concerns that standards may ‘crowd out’ smallholder farmers from lucrative domestic and international supply chains, the Bank is also exploring good practices to strengthen smallholder compliance with standards in supply chains in Kenya, Uganda, Zambia, and Ghana. Other analytical work is covering the implications of food retail modernization for agricultural trade. Additionally, e-learning events raise awareness and facilitate dialogue among policy-makers, technical specialists, and the private sector in developing countries.

The Bank’s analytical and operational work in these areas is increasingly being undertaken in partnership with other organizations. For example, the Bank is a member of the Standards and Trade Development Facility (STDF), which brings together the WTO, Food and Agricultural Organization, International Office of Epizootics (OIE), World Health Organization, and the International Plant Protection Convention (IPPC) to finance and coordinate SPS capacity building. The Bank is also a core member of the Trade and Standards Practitioners Network, and has been involved in joint country work with other multilateral (i.e. UNIDO; FAO) and bilateral (i.e. USAID, EU) agencies.

Source: World Bank staff

69. The Bank also provides significant assistance on transport and trade facilitation, including multi-country projects, such as the WAEMU/UEMOA (West African Economic and Monetary Union) facilitation initiative. Finally, since 2001, the Bank has been working with global partners to promote a pro-development WTO round. Bank staff have analyzed the possible benefits of global trade reform in three issues of *Global Economic Prospects*, have conducted research into effects of specific policy options, and have undertaken detailed work on trade liberalization and poverty and other issues (including services liberalization, preference erosion, and problems of net food importing countries). The Bank has also been actively assisting developing countries negotiators in trade facilitation (Box A4).

**Box A4. The Trade Facilitation Negotiations... Low cost (it turns out) for large benefits**

Trade Facilitation is the main area where new disciplines in the Doha agreement may require governments to invest in legal and regulatory reforms of institutions. Many Geneva negotiators were reluctant to agree to new disciplines until they had a clear understanding of the cost implications – and some assurance of finance. To assist low-income developing countries in the negotiations, the World Bank, the IMF and other partners helped link trade negotiators with their own customs and other experts in capitals, so that countries with small Geneva delegations would be able to negotiate disciplines on key institutions more effectively.

The project involved creating a *Trade Facilitation Negotiation Support Guide* to provide practical advice on support mechanisms in member capitals, and a series of national workshops to demonstrate the utility of capital-based support groups to Geneva negotiators. Workshops were conducted in Jamaica, Uganda, Sri Lanka, Benin and Peru and results were shared with all WTO Members. Second, the project researched the potential costs to inform developing countries and alert the donor community about potential resource requirements. A team of experienced customs and trade facilitation specialists drawn from the Bank, the IMF and the WCO undertook a study of six representative countries to identify gaps between current systems and the measures currently under negotiation in the WTO. A comprehensive report was presented to WTO members in December 2006. Since most countries have on-going technical assistance programs the *additional* costs of implementing the WTO accords was found to be relatively low. However, much work beyond these reforms was necessary to actually create more expeditious and effective trade—an aid for trade investment that would have a higher pay-out. Finally, the project created a self-assessment tool to assist WTO Members establish their own priorities for reform and technical assistance. The tool is now being used as the basis for several national and regional workshops conducted throughout the world by the WTO Secretariat with the assistance of the Bank, IMF, UNCTAD, OECD and WCO. All components of the Bank's Support Project were conducted in partnership with the IMF, WCO, OECD, and UNCTAD in close cooperation with the WTO Secretariat.

Source: World Bank staff

## **IMF Activities**

70. The IMF has continued its active support for trade-related reforms and adjustment to other trade policy changes through technical assistance, financial support, and policy advice.

71. *Technical assistance (TA)* on trade, an important part of overall Fund TA, concentrates on tax, tariff, and customs reform. IMF TA in this area is provided through headquarters-based staff, regional TA centers and peripatetic and resident advisers. Countries receiving TA related to strategic trade reforms customs administration, which are closely linked to national development strategies, include Kenya, Liberia, Mexico and Tanzania. Some recent TA targets tax reforms to compensate for lower trade-related revenue resulting from lower tariffs—often related to the implementation of free trade and customs union agreements, or preference erosion. Recent examples include TA provided to the Maldives, Ethiopia, and several Central American economies, the latter in the context of the Central America FTA (CAFTA-DR). The IMF, along with the World Bank and other partners, has also been active in the area of trade facilitation, notably on the modernization of customs administration. Also, the Fund has worked with the World Customs Organization on issues related to the implementation of the Framework of Standards to Secure and Facilitate Global Trade, and participated in a number of joint workshops on trade facilitation with regional development banks such as the IADB.

72. *Fund financial support for trade liberalization.* The Fund provides financing through arrangements under its Poverty Reduction and Growth Facility, stand-by arrangements, and extended arrangements to help address the overall balance of payments need, including need resulting from adjustment to trade-related reforms and other trade policy-related shocks. Specific instruments that can be tailored specifically to trade liberalization include the Trade

Integration Mechanism (TIM) and the Exogenous Shocks Facility (ESF). The TIM was established by the IMF Executive Board in April 2004 as a policy to augment access to Fund resources under existing Fund facilities so as to more directly assist member countries requiring balance of payments adjustments as a result of trade liberalization by other countries. Thus far, three countries (Bangladesh, Dominican Republic, and Madagascar) have activated this mechanism, with total approved financing amounting to SDR 141 million (about US\$210 million) as of August 2007, of which SDR 55 million (about US\$80 million) has been disbursed. Though it has yet to be used, the ESF, a Fund facility approved by the IMF Executive Board in early 2006, could also be used to provide concessional financing to low-income members affected by trade or other exogenous shocks.

73. *Regular policy discussions and diagnostic analyses.* Trade issues feature prominently in selected Article IV consultations, policy discussions surrounding Fund-supported programs, and Fund research. This includes consultations under bilateral and multilateral surveillance that cover members' own trade reforms, multilateral trade negotiations, and trade policy spillovers from actions of other economies and the appropriate adjustment of other policies to the trade policy environment. In addition, the Fund remains involved in the EIF process in coordinating with bilateral donors and other international agencies to help least developed countries identify and implement policies and projects to facilitate their integration into the global trading system.

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