UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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MAKING TRADE WORK FOR LEAST DEVELOPED COUNTRIES:

A Handbook on Mainstreaming Trade

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PREFACE

Least developed countries (LDCs) have very high trade-to-GDP ratios, reflecting the fact that they are heavily dependent on trade. Over the past few decades, they have also embarked upon significant trade reforms. Although LDCs had relatively high economic growth during the past decade, unemployment, poverty, and inequality continue to be major development challenges in these countries.

LDCs account for about 12 per cent of world population but less than 2 per cent of world trade, indicating that they have not fully reaped the potential benefits of trade for development. A key reason for this is that these countries have low productive capacity and have not effectively integrated trade into their national development strategies and plans.

Against this backdrop, the United Nations Conference on Trade and Development (UNCTAD) developed a project to strengthen the capacity of trade and planning ministries of selected LDCs to develop and implement trade strategies conducive to poverty reduction. The project was funded by the UN Development Account for the period 2013–2015 and had six LDCs as beneficiaries: Ethiopia, Lesotho, and Senegal in Africa, and Bhutan, Kiribati, and Lao PDR in Asia and the Pacific. As part of the project, national workshops on the trade policymaking and trade mainstreaming experiences of the beneficiary countries were organized by UNCTAD in collaboration with the governments involved and partner organizations. Two regional workshops were also organized: one on Africa and one on Asia and the Pacific.

This handbook is the outcome of the workshops and research conducted under the project. It draws lessons from the experiences of the six countries that participated and provides fresh insights on how to design and implement an effective trade strategy in LDCs. It also provides clarity on the concept of mainstreaming trade and identifies criteria on how to measure success in this endeavour. The handbook should be useful to policymakers in developing countries, development analysts, academics, and students of development. In this regard, it is meant to be a guide to policy formulation and implementation in LDCs, with the understanding that its application will vary from country to country because of differences in economic structure, history, and social and political realities.

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The $ sign refers to the United States dollar.

A hyphen (-) indicates that the data are either not available or not applicable.

ABBREVIATIONS

AEMFI	Association of Ethiopian Microfinance Institutions
AGOA	U.S. African Growth and Opportunity Act
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
ASEPEX	Senegalese Export Promotion Agency
BCCI	Bhutan Chamber of Commerce
CMA	Common Monetary Area
CNNCI	Senegal National Committee for Multilateral Trade Negotiations
COMESA	Common Market for Eastern and Southern Africa
DTIS	Diagnostic Trade Integration Study
EBA	European Union Everything-but-Arms initiative
EIFTRI	Ethiopian Inclusive Financial Training and Research Institution
EIF	Enhanced Integrated Framework
FDI	Foreign direct investment
FYP	Five-Year Plan
GDP	Gross domestic product
GTP	Ethiopia Growth and Transformation Plan
GVC	Global value chain
IF	Integrated Framework
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IPoA	Istanbul Programme of Action
ITC	International Trade Centre
KDP	Kiribati Development Plan
KFL	Kiribati Fish Limited
LDCs	Least developed countries
LNCCI	Lao PDR National Chamber of Commerce and Industry
LPI	Logistics Performance Index
MCIC	Kiribati Ministry of Commerce, Industry and Cooperatives
MCTTD	Kiribati Ministry of Communication, Transport and Tourism Development

MDGs	Millennium Development Goals
MELAD	Kiribati Ministry of Environment, Lands and Agriculture Development
MFED	Kiribati Ministry of Finance and Economic Development
MFMRD	Kiribati Ministry of Fisheries and Marine Resource Development
MLHRD	Kiribati Ministry of Labour and Human Resource Development
MOE	Kiribati Ministry of Education
MOIC	Lao PDR Ministry of Industry and Commerce
MOT	Senegal Ministry of Trade
MSDBCM	Lesotho Ministry of Small Business Development, Cooperatives and Marketing
MTI	Lesotho Ministry of Trade and Industry
NCEI	Lao PDR National Steering Committee for Economic Integration
NGO	Non-governmental organization
NIU	Lao PDR National Implementation Unit
NTAC	Kiribati National Trade Advisory Committee
NTC	National Trade Council
NECC	Ethiopia National Export Coordinating Committee
NSESD	Senegal National Strategy for Economic and Social Development
NPSCSC	Ethiopia National Productive Sector Competitiveness Support Council
OECD	Organisation for Economic Co-operation and Development
PSRP	Poverty Reduction Strategy Paper
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SFC	Sana’s Forum for Cooperation
SME	Small and medium-sized enterprise
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
WEF	World Economic Forum
WTO	World Trade Organization

CHAPTER 1
INTRODUCTION

1.1 Development opportunities and challenges in LDCs in the new global environment

The global economic environment has changed significantly over the past few decades: real output in many least developed countries (LDCs) is growing faster than the rate of population growth; there is increasing trade in tasks and the location of production is shifting; technological innovation and progress have enhanced access to information and communication technologies in developing countries and reduced trade and transaction costs; there is greater international focus on the development needs and challenges of LDCs; and emerging economies — such as Brazil, Russia, India, China and South Africa — are beginning to play more active roles in global trade, finance, and governance than in the past.

These developments present both opportunities and challenges for LDCs in their quest for sustained growth and poverty reduction. For instance, the integration of economic activities into global production networks and global value chains (GVC) presents an opportunity for LDCs to participate in global production networks for manufacturing, where they often do not have a competitive or comparative advantage in the production of entire products, by permitting them to specialize in the production of specific tasks along the value chain for a product. But GVCs also present challenges for LDCs in the sense that they may be stuck in lower-value segments of the chain and hence not derive significant benefits from the globalization process. Similarly, the increasing role of emerging economies in global trade and finance also presents opportunities and challenges for LDCs. It has diversified export markets for LDCs and also increased the sources of development finance available to them, thereby relaxing their development financing constraints. But it has also exposed them to international competition, particularly in export markets for labour-intensive manufactures. These trade-offs underscore the fact that if LDCs are to effectively integrate into the global economy and achieve their development objectives, they and the international community will have to put in place policy measures to maximize the benefits and minimize the risks associated with the changing global economic environment.

The 2030 Agenda for Sustainable Development adopted by the international community in September 2015 is now the framework and vision guiding formulation and implementation of development policies over the next 15 years. The Sustainable Development Goals (SDGs) are more ambitious than the Millennium Development Goals (MDGs), and reflect lessons learned in the implementation of the MDGs.

One of those lessons is that an ambitious development agenda requires credible and ambitious means of implementation to enhance the likelihood of success. Trade is one of the means of implementation identified for financing the SDGs. Its vital role in the development process of LDCs has also been underscored in the Istanbul Programme of Action (IPoA) for the period 2011–2020 (Box 1). Despite this recognition of the potential role of trade in the development process, LDCs have not been able to use trade effectively in support of their development efforts, as evidenced by their very low shares of global trade, high poverty rates, and the fact that they export mostly primary commodities rather than dynamic and rapidly growing products in global trade. UNCTAD research has shown that one of the reasons for the inability of LDCs to fully harness the potential of trade for sustained growth and poverty reduction is that they have not fully and effectively integrated trade into their national development strategies. In this context, if trade is to play a positive and crucial role in the implementation of the SDGs in LDCs, efforts have to be strengthened to fully and effectively integrate trade into the national development strategies and plans of those countries.

Against this backdrop, this policy handbook provides guidelines on how LDCs could effectively integrate trade into their development strategies and plans to achieve better development outcomes from trade than has been the case to date. More specifically, the aims of the handbook are to:

- Provide an operational and results-based definition of the concept of mainstreaming trade with a view to identifying criteria for measuring success;
- Discuss various instruments and approaches to mainstream trade into national development strategies;
- Examine the experiences of selected LDCs in Africa and Asia in mainstreaming trade into their development strategies and draw lessons from these varied experiences for other LDCs; and
- Provide a framework for the design and implementation of an effective trade strategy in LDCs in the new global economic environment.

The handbook is expected to serve as a guide to LDC policymakers in the design and formulation of trade policies and their integration into national development strategies and plans. History has taught us that what works in one country may not work in another due to different political realities and institutional settings. In this regard, the handbook should not be seen as a blueprint but rather as a guide on how to mainstream trade effectively.

1.2 What distinguishes this handbook from existing publications on mainstreaming trade?

There is a literature on mainstreaming trade into national development strategies in developing countries. For instance, UNECA (2004) discussed issues that African policymakers have to grapple with in mainstreaming trade into national development strategies. Sharma and Morrison (2011) focused on how to articulate and mainstream agricultural trade policy and support measures into development strategies. UNDP (2011) examined the role of mainstreaming trade in addressing human development challenges facing developing countries.

This handbook differs from, and complements, the existing literature in a variety of ways. First, in contrast with previous studies, it provides an operational and results-based definition of mainstreaming trade and also identifies criteria for measuring success in mainstreaming trade in LDCs.

Second, the handbook discusses mainstreaming trade in the context of broader efforts to build productive capacity and transform the production structures of LDCs to enable them to better integrate into the global trading system. This distinction is important because mainstreaming trade is a means and not an end in itself. It is useful to the extent that it enables LDCs to address their key development challenges, one of which is how to transform the structure of their economies and exports for sustained growth and poverty reduction. In this context, there is a need for LDCs to consider building productive capacity and undertaking structural transformation as part of the mainstreaming trade agenda, rather than simply focusing on coherence issues and whether or not trade is included in national strategies, as emphasized in existing publications.

Another difference between this handbook and existing studies is that it offers new insights into the question of how to mainstream trade by providing a comprehensive framework for the design and implementation of an effective trade strategy in LDCs. The handbook also focuses specifically on LDCs, in contrast with the above-mentioned studies by UNECA, Sharma and Morrison, and UNDP. As indicated earlier, the UNECA paper was on Africa and not specifically on LDCs. The study by Sharma and Morrison was based on five countries — three LDCs (Bangladesh, Nepal, and Tanzania) and two non-LDCs (Ghana and Sri Lanka) — and the focus was on agricultural trade and not trade in general. The UNDP study focused on 14 countries, six of which are non-LDCs.

Box 1. The Istanbul Programme of Action for LDCs

The basic international framework that has been agreed upon to guide national development policies in LDCs and related assistance by the development community is the 2011 Istanbul Programme of Action (IPoA). The framework aims to overcome the structural challenges LDCs confront to eradicate poverty, achieve internationally agreed-upon development goals, and exit from the LDC category.

The IPoA lays out a vision and strategy for the sustainable development of LDCs during the 2011–2020 period with a strong focus on developing their productive capacity and the specific goal of enabling half of the LDCs to meet the criteria for graduation. The IPoA stresses the importance of a number of key principles, including ownership, a balanced role of the state and market in the development process, genuine partnership and solidarity. It also emphasizes a results-based orientation, an integrated approach to peace and security, development and human rights, equity at all levels, and the effective participation, voice, and representation of LDCs.

Key objectives of the IPoA include strengthening productive capacity in LDCs, reducing their vulnerability to economic, natural, and environmental shocks, ensuring enhanced financial resources, and improving the quality of governance. A number of trade-related areas were identified as priorities, including productive capacity, agriculture, food security and rural development, trade, commodities, mobilizing financial resources for development and capacity-building, and good governance at all levels. Specific goals are to double the share of LDCs' exports in global exports by 2020, commit to ensuring timely and sustainable implementation of duty-free, quota-free market access for all LDCs, and enhance the share of assistance to LDCs by the development partners for Aid for Trade.

The IPoA also puts strong emphasis on technological innovation and technology transfer to LDCs, and on ensuring mutual accountability of LDCs and their development partners for delivering on their commitments. The programme calls for the mainstreaming of its provisions into national policies and development frameworks, as well as regular reviews at the country level with the full involvement of all stakeholders. Likewise, development partners are urged to integrate the IPoA into their cooperation frameworks and monitor the delivery of their commitments.

1.3 Structure of the handbook

Chapter 2 of the handbook examines the role of trade in development, with particular emphasis on the conceptual linkages between trade, on the one hand, and poverty and development, on the other. Chapter 3 discusses the rationale for mainstreaming trade into national development strategies in LDCs, provides clarity on the definition of the concept of mainstreaming trade, and identifies criteria for measuring success in mainstreaming trade in LDCs. It also highlights instruments or vehicles for mainstreaming trade in LDCs and examines the experiences of selected LDCs in Africa and Asia in mainstreaming trade into their development strategies. Chapter 4 draws lessons from the varied experiences of the selected case studies for other LDCs, and Chapter 5 provides a framework for the design and implementation of an effective trade strategy in LDCs. Chapter 6 puts forth some concluding remarks.

CHAPTER 2

TRADE, POVERTY AND DEVELOPMENT: CONCEPTUAL FRAMEWORK AND LINKAGES

2.1 Trade, trade policy, and poverty reduction

Trade has the potential to make a positive contribution to development and the reduction of poverty. It can foster growth, which is a necessary condition for poverty reduction. But whether or not this growth translates into employment creation and sustained poverty reduction will depend on government policies, social and economic conditions, and the external environment. Given that trade promotes economic growth prospects and the link between growth and poverty reduction, trade policy has a role to play in efforts both to promote economic development and to reduce poverty. Economic growth rates in the longer run are determined by the rate of increase in total factor productivity — that is, the ability to generate greater output from any given supply of inputs. Productivity performance is in part a function of the ability of firms to allocate resources to the highest valued activities, which in turn will be affected by the feasibility and ease (cost) of more productive firms expanding and others contracting or exiting.

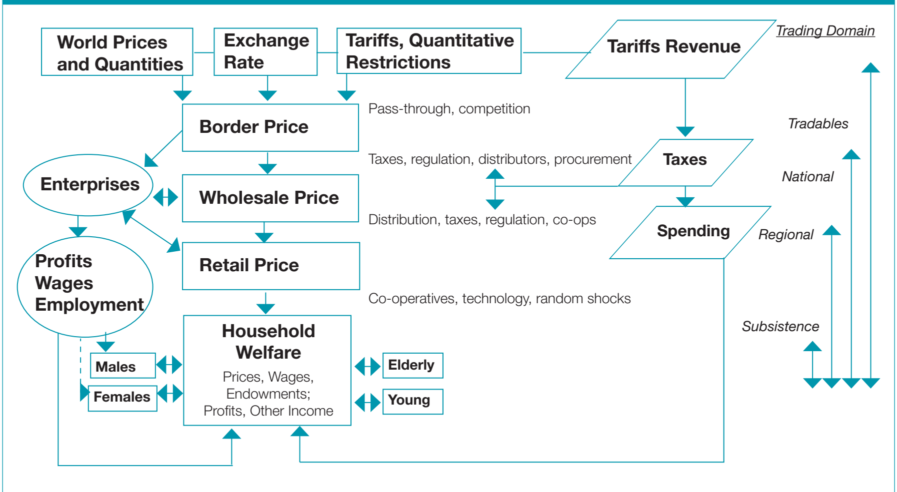
Country experience and extensive research has documented the importance of trade for sustained income growth over a long period of time. A country's trade policy is the interface between the world market for goods, services, and knowledge and the national economy. The prices of products that prevail on world markets are critical sources of information for investors and enterprise managers to determine whether they can be competitive in a given sector of activity. If costs of production are such that they make sales at world market prices unprofitable, then firms will not allocate resources to those activities.

The channels between trade and trade policy and poverty are mostly indirect and operate through the effects that different trade policy instruments have on the relative prices of goods and services. Given that thousands of goods and services are produced, imported, and exported in any economy, determining how trade policy affects relative prices is complex. Political economy forces are often such that the poor have little influence on the policy choices made by governments. Therefore, the impact of a country's overall trade policy on the incomes of different groups in society needs to be taken into account. This impact will be affected by relative prices. Just as or if not more important is to determine how the exercise of trade policy affects incomes.

Trade policy will have an impact on the welfare of households by affecting the prices of the goods and services they buy and produce — either directly (such as agricultural products) or indirectly (by working in a given sector). Food is often the most important item of the total household expenditure of poor people, while much of their income will come from wages and, for rural households, from sales of agricultural products. There is also a gender dimension to the impact of trade and trade policy. In particular, trade reforms tend to have a disproportionately more negative impact on women than men, and women also tend to derive less benefit from the trading system than men. This underscores the need for governments to take the adjustment costs of trade policies into account in policy design, formulation, and implementation.

Figure 1 provides a schematic overview of the various possible effects of a trade policy on the poor. It shows the various links in the chain that connect world prices to the prices paid by households and firms in an economy. Household welfare depends on the retail prices of goods consumed, which are determined by wholesale prices, which in turn are determined by how the world price is affected by the exchange rate and trade policy instruments at the border (tariffs and other policies such as quotas, as well as the costs associated with customs controls, delays, waste and losses, and informal payments and fees that are incurred by importers). This price channel directly affects the cost of consumption goods for the household.

Figure 1. Trade policy and poverty: conceptual framework



Source: McCulloch, Winters and Cirera (2002).

There are two other channels depicted in Figure 1. One is through the effects of the higher domestic price of imports resulting from trade policy on enterprises that operate in the country. These effects may be negative or positive. For example, if tariffs increase the price of key inputs, this will negatively affect a firm, reducing profits and wages and/or employment. If the trade policy increases the price of the enterprise's output it will have the opposite effect insofar as sales on the domestic market are concerned. In practice, because firms will use many inputs, the net effect is an empirical question. From the perspective of the household, what matters are the associated effects on wages and employment.

Another channel through which trade policy can affect household welfare is through the government. Import tariffs or export taxes imposed at the border will generate revenue that can be used to provide transfers to households, either directly in the form of cash transfer programmes or indirectly in the form of public services such as health and education (UNCTAD 2004). The relative importance of tariff revenue depends on how effective a government is in taxing other forms of economic activity — for example, consumption, income, and profits. This channel is relevant from a poverty impact assessment perspective primarily when considering the effects of a change in trade policy. If this involves lower tariffs, the revenue impact needs to be considered and a replacement revenue source identified. It is important to recognize that many forms of trade policy do not generate revenue for the treasury but instead create rents (additional sources of income) for specific groups. These generally will not include poor households, and removing them will therefore in principle benefit the poorer groups in society by reducing the prices and increasing the availability of the goods and services concerned.

Trade policy changes will have differential effects on households and enterprises depending on whether firms and workers are engaged in export production, focused on the domestic market and involved in producing goods that face competition from imports, or engaged in non-tradable activities. Effects of trade policies will also differ depending on the time period that is considered. In the short run, the effects of changes in relative prices will have an impact on profits, wages, and consumer prices; in the longer run, there will be adjustments as firms reallocate resources to sectors that have become more profitable and exit activities that are no longer profitable.

The magnitude of the relative price effects and thus their quantitative impact on poor households, as depicted in Figure 1, depends on the degree to which trade-policy-induced price changes are "passed through" to consumers and enterprises and on the supply responses by firms. If the distribution system is not competitive, or if households are located in remote regions that are badly served, retail prices may not be very responsive to changes in border prices. If, for example, distribution is not a competitive sector, the firms that provide distribution services may not pass on the reduction in prices that comes with a reduction in import tariffs. If transport costs account for a large share of the final price of a good at the retail level, the price effect of a change in trade policy may not affect prices much. In a similar vein, if there are missing markets or prohibitively high costs (because of poor infrastructure or excessive transaction costs and red tape) for firms associated with investing in a sector in which the country has a potential comparative advantage, then the supply responses to trade policy reforms may be weak. These considerations illustrate the importance of complementary policies to increase the poverty-reducing potential of changes in trade policy.

2.2 Productive capacity, trade, and poverty reduction

Empirical research on the linkages between trade and poverty suggests that the direct links are usually limited in the sense that the effects of changes in trade policies will generally not generate large effects for poor households, whether positive or negative, because of limited pass-through of price changes and the fact that changes in prices due to changes in trade policies are mostly small. An implication is that what matters when defining a trade strategy is to put in place complementary measures to allow poor households to benefit from trade-policy-induced economic opportunities and to help poor households manage large world price changes and volatility caused by exogenous shocks and global market developments. The most important effects of trade on poverty are likely to occur through indirect effects and through the long-term effects of sustained economic growth and development (UNCTAD, 2004). Efforts to reduce the trade transaction and information costs that limit the "connectivity" of poor households and small firms and farmers with international markets (through trade facilitation, infrastructure, etc.) are one area that can have significant impact on poverty.

As has been noted repeatedly in UNCTAD reports and research, it is important to recognize that LDCs are often very open if measured by the ratio of trade to GDP or the average level of trade barriers. In practice, the relationships between income (consumption) poverty and trade liberalization, export orientation, and export structure are complex. One factor that has an impact on the poverty-reducing effects of exports is their composition. LDCs that predominantly export primary commodities differ from LDCs exporting manufactures and/or services in that the latter group have generally experienced much more transformation in their export structure in the post-1990 period. This has included a reduction in the share of primary commodities in their total exports and an increase in either manufacturing or service exports (UNCTAD, 2002).

Greater trade openness or export orientation alone is not a substitute for the economic growth that is central to poverty reduction. In growing economies, increasing export orientation enables exports to grow faster than income. But increasing export orientation does not necessarily drive higher economic growth. As mentioned earlier, complementary policies matter importantly — growth is not simply a function of trade policy. Similarly, the links between trade and poverty are in practice neither simple nor automatic. UNCTAD (2004) analyzes the various links from an LDC perspective. An important contribution of the analysis is to make clear that the relationship between trade policy and poverty is different from that between trade and poverty, and that analysis of the latter should inform the former. Trade development depends on macroeconomic policies and non-trade policies as well as trade policies. Particularly important in this regard are policies that promote the development of productive capacity through capital investment, acquisition of skills, organizational change, and technological modernization.

It should be noted that trade policy, understood as “the overall structure of incentives to produce and consume, and hence import and or export, tradable goods and services” (Helleiner, 1998, 588), is not simply a programme that revolves around liberalization. It spans many other elements that also affect relative prices of inputs and final goods and services, ranging from export promotion to investment policies. Many of these trade policy areas address supply capacity constraints and market failures that otherwise may prevent firms from leveraging trade opportunities. It is particularly important to recognize that in designing complementary policies that affect trade opportunities, the focus is not solely on what can or should be done to enhance the positive poverty or growth effects of trade liberalization but also on the broader and more general challenge of identifying the set of trade-relevant policies that will help achieve growth and poverty reduction objectives. Trade liberalization is likely to be part of the mix if trade barriers are significant, but the central focus should be not on starting with a specific policy reform presumption (liberalization), but on identifying the set of trade and related policies that will address constraints that impede economic growth and poverty reduction objectives.

Sustained poverty reduction occurs through the efficient development and utilization of productive capacity in a way in which the working-age population becomes more fully and productively employed. A major contribution that trade can make in this connection is through the indirect links between trade and poverty that occur through the development and utilization of productive capacity. The impact of trade policy changes or world price developments that are the main focus of trade-poverty analysis using the framework discussed above can be important for short-term poverty alleviation, but it is the indirect links to productive capacity that are likely to be most important for sustained poverty reduction in LDCs.

As noted in UNCTAD (2004), the development of productive capacity involves three basic processes: first, accumulation of physical, human, and organizational capital; second, structural transformation; and third, technological progress. Capital accumulation entails investment in material capital equipment; in education, health, and human skills (i.e. the development of human capabilities); and in maintaining renewable natural capital used in economic activities. Structural transformation involves a declining proportion of the labour force employed in primary activities (agriculture, natural resource sectors) and a shift towards other sectors of the economy, in the process increasing productivity throughout the economy. Technological progress is a key factor determining productivity growth, with important potential for developing countries to benefit from knowledge and know-how developed in high-income countries by acquiring and mastering existing technologies.

Enhancing productive capacity involves a variety of non-trade macro- and micro-economic policies. Necessary ingredients include the availability of finance for firms and more generally a supportive business environment that encourages investment by entrepreneurs, including action by governments to address coordination and other market failures (Nicita, Shirotori, and Klok,2013). But international trade plays an essential role in supporting the efficient development and full utilization of productive capacity for reasons mentioned previously, and through those channels works to help reduce poverty.

CHAPTER 3

MAINSTREAMING TRADE IN LDCS: RATIONALE, INSTRUMENTS, AND EXPERIENCES

3.1 What is "mainstreaming trade" and how can success be measured?

Although the literature on and interest in mainstreaming trade are growing, there is no generally agreed-upon definition of what the concept refers to. This has made it challenging to identify criteria on how to measure success in mainstreaming trade into national development strategies. OECD (2001, 29) and WTO (2001, 78) defined mainstreaming trade as "involving the process and methods identifying priority areas for trade and integrating them into the overall country development plan." Sharma and Morrison (2011, 38) suggests that "mainstreaming is a process of formulating the PRSP [Poverty Reduction Strategy Paper] and related policy documents in such a way that contradictions are avoided and strategies and policy statements are made mutually consistent." And UNDP (2011, 1) uses the term "mainstreaming trade" to refer to "the process of integrating trade into national and sectoral development planning, policymaking, implementation and review in a coherent and strategic manner."

Two key points that come out of these definitions is that mainstreaming trade is about ensuring policy coherence and including trade and trade-related issues in development documents, strategies, and frameworks. Osakwe (2015) argues that effective mainstreaming in fact requires much more: it is not only about processes, but about achieving results in terms of building productive capacity, transforming the structure of economies, and lifting binding constraints to trade development in LDCs.

Against this backdrop, mainstreaming trade in this handbook is defined as "the integration of trade into national and sectoral strategies and budgets with a view to enhancing policy coherence and better harnessing the potential of trade for growth, transformation, and development." The advantage of this definition is that it is operational, not focused solely on processes, and reflects the important notion that the ultimate goal of a mainstreaming exercise should be to use trade to address the key development challenges facing LDCs. Research on LDCs suggests that one of the main challenges they face, particularly in the trading system, is how to build productive capacity and transform the structure of their economies from low- to high-productivity activities both within and across sectors. Therefore, at a minimum, addressing this challenge should be one of the main focuses of any effective mainstreaming trade exercise. Another advantage of the definition adopted here is that it provides a good basis for identifying results-based criteria for measuring success in mainstreaming trade in LDCs. In this regard, following Osakwe (2015), a simple test of the success of a mainstreaming exercise in LDCs could be whether (a) it has led to the development of a coherent trade policy framework; (b) fostered productive capacity development and transformation; and (c) enhanced local ownership of the trade policy and development process.

3.2 Rationale and instruments for mainstreaming trade

Over the past decade, LDCs experienced relatively rapid trade and output growth, and this led to significant declines in the poverty rates in many countries. Yet, recent growth in LDCs also went hand-in-hand with an increase in the absolute number of poor people and did not create enough employment to absorb new entrants into the rapidly growing labour force. Furthermore, despite the rapid trade and output growth in LDCs over the past decade, they still account for an insignificant share of global trade and output and are mostly involved in low-value segments of GVCs. What these facts indicate is that (a) the benefits of trade are not automatic; and (b) LDCs have not been able to effectively integrate into the global trading system and fully exploit the potential of trade for employment, poverty reduction, and development. This has to do with the fact that they often lack comprehensive and coherent trade strategies and have not effectively integrated trade into their national development strategies and plans. It is not a coincidence that the developing countries that have been successful in deriving significant gains from the global trading system are mostly those that have transformed the structure of their economies and have comprehensive trade strategies anchored in their national development frameworks.

Mainstreaming trade into national development strategies is also important because trade policies are affected by policies in different sectors of an economy. While the responsibility for formulating and implementing trade policies generally rests with the Ministry of Trade, many trade-related policies are managed by other ministries such as those for agriculture and industry, and there is often poor coordination between these ministries. Furthermore, implementation of trade policies depends on the availability of finance, and Ministries of Finance and Planning often do not take core trade priorities into account in their budgeting and planning processes (WTO, 2001). Therefore, there is a need for a coordinated approach to policy formulation and implementation in LDCs that would inevitably require integrating trade, finance, and development policies. Against this backdrop, this handbook considers mainstreaming trade as an important component of an effective strategy to foster development in LDCs.

A key message from the discussions so far is that national policies which best support poverty reduction should not be based on a trade strategy alone but rather on ensuring that the trade strategy is designed to support the nation's development objectives. In practice this means that trade objectives and trade policy priorities need to be "mainstreamed" into a country's national development strategy. This raises the question of what instruments and tools are available to governments to mainstream trade into development strategies. Ideally, national development plans and related documents should be the main vehicles (Santos-Paulino and Urrego-Sandoval, 2015). However, for many LDCs the Poverty Reduction Strategy Paper (PRSP) has been a key vehicle for mainstreaming trade. For those LDCs that have not gone through the process of developing a PRSP, they usually have an equivalent document that lays out national development objectives and specifies priority areas for action in the coming three- to five-year period. PRSPs are required by the International Monetary Fund (IMF) and the World Bank for countries to be eligible for debt relief and concessional assistance. A total of 37 LDCs have prepared one or more PRSP, making this an important mechanism that countries can use to ensure that trade policy becomes a more integral part of national development strategies.[1]

PRSPs are a medium-term framework for identifying priority areas, specific actions, and the resources required to boost growth and reduce poverty. Mainstreaming trade into the PRSP or national development strategy will help ensure that the role that trade can play is considered in the process of prioritizing interventions and investments. Doing so is important because PRSPs were not originally conceived to provide a comprehensive development strategy that includes an assessment of sectoral priorities. Over time, as discussed at greater length in UNCTAD (2008), PRSPs have become more encompassing, reflecting a desire on the part of developing-country governments to broaden the focus beyond poverty reduction and social sector investment to include national growth and development objectives, including such issues as infrastructure, private sector development, and productive sectors. Ensuring that trade priorities are clearly identified in the national development strategy is not only important from the perspective of fostering economic growth, but also in order to ensure that the allocation of donor funding and the support that is requested from development institutions addresses trade priorities. Development organizations increasing rely on clearly expressed demands and prioritization by governments in determining where and how they will provide assistance to developing countries. If trade is not clearly defined as a priority area for action by the government, it will not be prioritized by development agencies.

Another tool used since the early 2000s to support the mainstreaming of trade priorities into national development strategies in LDCs has been the Diagnostic Trade Integration Study (DTIS), which is supported by the Enhanced Integrated Framework (EIF). This provides a mechanism to identify constraints to trade expansion and provide a basis for agreement at the national level on the priority areas for action that can then be incorporated into the PRSP/national development strategy. An increasing number of LDCs have prepared a DTIS in recent years. As a source of analysis of the prevailing trade situation, the DTIS is an important tool (UNCTAD, 2009), but its narrow focus on trade issues means that it can only serve as a complementary tool rather than as the main vehicle for mainstreaming trade into national development strategies.

Another useful tool that can help LDCs in their mainstreaming processes and activities is the periodic Trade Policy Review reports that are prepared by the World Trade Organization (WTO) secretariat (for countries that are WTO members). These reports provide a detailed description and overview of all the trade policy instruments that a country has put in place. While they do not provide an analysis of the effects of these policies, they are a key source of information that is generally underutilized by governments and stakeholders in developing countries.

The experience to date with efforts to mainstream trade into PRSPs and national development strategies more generally varies greatly. Some countries put great emphasis on trade as a tool to achieve their development objectives, and focus explicitly on actions that will be pursued as a priority to improve trade performance. Examples of countries in this category include Bangladesh, Ghana, and Rwanda. Other countries may barely mention trade. And while most countries mention trade in their PRSPs and/or national development plans, the focus is often on specific issues such as transport infrastructure, trade facilitation, regional integration, or export promotion and not on the overall trade policy framework and how it will be guided by and support the growth objectives set by the government. There is often insufficient focus on trade policy narrowly defined. Mainstreaming trade into development strategies requires considering how trade policy can help reduce poverty, and this must encompass all of the various trade policy instruments that are being used or that could be used by the government, including trade agreements and the WTO.

3.3 Trade policymaking and mainstreaming: the experience of LDCs

This section discusses the trade policymaking process and institutions in selected LDCs and their contributions to efforts to mainstream trade into national development strategies. The selected countries are Bhutan, Ethiopia, Kiribati, Lao Peoples Democratic Republic, Lesotho, and Senegal. Three of the six LDCs are in Africa (Ethiopia, Lesotho, and Senegal) and the other three are in Asia (Bhutan, Kiribati, and Lao PDR). The countries cover various categories of LDCs, including landlocked developing countries (Bhutan, Ethiopia, Lao PDR, and Lesotho), small island developing states (Kiribati), and coastal countries (Senegal). The selected countries also differ in other respects, such as population, GDP per capita, trade ratios, economic structure, and unemployment rates. Because of the heterogeneity of the selected countries, they are representative of the groups of countries in the LDC category. So the lessons from their diverse experiences in trade policy formulation and implementation, as well as in mainstreaming trade into national development strategies and plans, should be relevant for other LDCs.

Ethiopia is the most populous country in the group with a population of about 97 million in 2014, while Kiribati is the smallest, with a population of about 110,000 in the same year (table 1). Real gross domestic product (GDP) per capita in the six countries ranged from $293 in Ethiopia to $1,975 in Bhutan in 2013. All the selected countries experienced increases in real GDP per capita between 1990 and 2013. Bhutan tripled its per capita income from $643 in 1990 to $1,975 in 2013. Ethiopia doubled its per capita income over the same period, but had the lowest per capita income among the six countries in 2013.

In terms of poverty rates measured based on the poverty headcount ratio, almost all the selected countries reduced poverty over the last decade. The greatest achievement was recorded by Bhutan, from 23.2 per cent in 2007 to 12 per cent in 2012. Ethiopia also recorded a significant reduction of about 9 percentage points within a period of five years (from 38.9 per cent in 2004 to 29.6 per cent in 2010). Lesotho is the only country in the group that has not experienced any significant changes in poverty rates in the past decade. It is also the country with the highest poverty rate (at 57 per cent in 2010).

Inequality is a common problem in all six countries but is most pronounced in Lesotho, where the average Gini coefficient for 2005–2013 was 54.2 per cent (table 2). With a Gini coefficient of 33.6 per cent, Ethiopia had the lowest degree of income inequality among the five countries for which data were available. Regarding

Table 1. Basic indicators of selected LDCs

		Status in the World Trade Organization	Population (millions)	Poverty headcount ratio percentage (year)		GDP per capita (constant 2005 dollars)	
			2014			*1990*	*2013*
1	Bhutan	Observer	0.77	23.2 (2007)	12.0 (2012)	643.38	1,974.77
2	Ethiopia	Observer	96.96	38.9 (2004)	29.6 (2010)	143.97	293.35
3	Kiribati	Non-member	0.11	21.8 (2006)		993.54	1,109.11
4	Lao PDR	Member as of 02 Feb 2013	6.69	27.6 (2007)	23.2 (2012)	261.34	774.11
5	Lesotho	Member as of 31 May 1995	2.11	56.6 (2002)	57.1 (2010)	510.67	966.92
6	Senegal	Member as of 01 Jan 1995	14.60	48.3 (2005)	46.7 (2010)	681.11	796.61

Source: World Bank (2015a).

trade, Lesotho is the most trade-dependent country in terms of the trade ratio — measured by the ratio of exports and imports of goods and services to GDP — which is often used as a proxy for the degree of openness to trade. In 2013, Lesotho's trade-to-GDP ratio was 150 per cent, compared with 83 per cent for Lao PDR and 41.4 per cent for Ethiopia. Bhutan and Kiribati also have trade ratios above 100 per cent, although they are not as high as in Lesotho. Of the six countries, Bhutan, Ethiopia, Lao PDR, and Lesotho are landlocked, and Kiribati is a small island developing state. Although all six countries have relatively high investment rates (above 25 per cent of their GDP), Bhutan had the highest investment rate (47 per cent) over the period 2005–2013. In terms of unemployment, Lao PDR had the lowest unemployment rate (1.4 per cent) over the period 2008–2013. Kiribati had the highest unemployment rate (30.6 per cent) of the six countries in the sample.

There are differences in the structure of production across the six countries. Kiribati and Ethiopia have very low levels of industrialization, with the share of industry in GDP in 2013 at 9.6 per cent in Kiribati and 11.1 per cent in Ethiopia. In addition, agriculture has the highest share of GDP in Ethiopia, with about 45.5 per cent of total output. By contrast, the services sector dominates GDP in Kiribati (65

Table 2. Other indicators for selected LDCs

		Bhutan	Ethiopia	Kiribati	Lao PDR	Lesotho	Senegal
Trade ratio (per cent of GDP in 2013)		103.7	41.5	121.0	83.4	150.6	73.6
Unemployment rate (per cent), 2008–2013		2.1	4.5	30.6	1.4	24.4	10.4
Investment rate (per cent), 2005–2013		47.3	35.8		29.2	36.7	25.1
Inequality (Gini coefficient, per cent), 2005–2013		38.7	33.6		36.2	54.2	40.3
Share of agriculture in GDP, 2013		17.1	45.5	25.8	24.1	8.1	16.0
Share of industry in GDP, 2013	Total	44.6	11.1	9.6	34.1	32.4	24.0
	Manufacturing	9.0	3.9	5.3	8.1	14.2	14.0
Share of services in GDP, 2013		38.3	43.5	64.6	41.7	59.6	60.0

Sources: UNDP (2015); and UNCTAD (2015).

per cent), Senegal (60 per cent), Lesotho (59.6 per cent), and Lao PDR (41.7 per cent). Interestingly, Lesotho and Senegal are the only countries where the shares of manufacturing in GDP were above 10 per cent, reflecting the fact that most of the countries in the sample have very low levels of manufacturing development. In this context, structural transformation into manufacturing is a development challenge in the selected countries and should be accorded priority in trade policy design and implementation.

The six LDCs also have different types of status in the WTO. Bhutan and Ethiopia are observers at the WTO and are going through processes of accession. Kiribati is neither an observer nor a member of the WTO. The remaining three countries are currently WTO members. Lesotho and Senegal joined the organization in 1995 when it was established, while Lao PDR acceded to the WTO in February 2013. Furthermore, all the selected countries joined the Integrated Framework (IF) or its successor, the EIF, at different times between 1997 and 2012. The EIF is a framework that supports LDCs to be more active players in the global trading system by helping them tackle supply-side constraints to trade as well as mainstream trade into their national development strategies (Box 2). Since its inception, it has contributed significantly to trade policymaking in LDCs by building technical capacity in trade and trade-related areas.

3.3.1 Bhutan

Bhutan is a small country with a population of about 770,000 in 2014. More than 60 per cent of the population lives in rural areas and depends on small-scale subsistence farming based on traditional technology and with relatively little economic interaction outside local communities. The country is also heavily dependent on trade and has no direct access to the sea. High trade and transaction costs, due largely to having a small domestic market and being landlocked, are significant impediments to trade and development in Bhutan. Despite these barriers, the country has had relatively high output growth in the past decade, with real GDP growing at an average rate of 8.2 per cent over the period 2005–2014. The growth drivers of the economy have been hydropower, agriculture (including livestock and forestry), tourism, and construction.

There are several interesting features of Bhutanese trade and the country's economy that are worth noting and should be taken into account in mainstreaming trade into national development strategies. First, exports are heavily concentrated both in terms of products and markets. Regarding export markets, trade with India accounts for about 80 per cent of total exports and 60 per cent of total imports. Bhutan's exports to India are mainly hydroelectricity, while the bulk of imports are diesel fuel, essential goods, automobiles, and the services of Indian laborers working in the construction sector. On the product side, as with its trade with India, Bhutan's exports are highly concentrated on hydroelectricity, ferro-alloys, basic industrial manufactures, and minerals. Other exports include agricultural products such as potatoes, Cordyceps sinensis, assorted vegetables, oranges, apples, and cardamom. These agricultural products are small in quantity and value when compared with electricity and tourism, but are important to poor households. They also pose challenges, including lack of capacity to meet sanitary and phytosanitary standards and technical standards. High transaction costs as a result of scattered production areas and long distance to markets also affect the competitiveness of exports.

Another interesting feature of trade in Bhutan is the country's high trade deficit over the past two decades. The trade balance on goods increased from 8.7 per cent of GDP in 1997 to about 20 per cent in 2013. One of the reasons for this is that Bhutan is an import-dependent economy. In particular, while the growth of the hydropower sector has helped boost Bhutan's economic development, the substantial reliance on this single sector has had an adverse effect on the country's

Box 2. Selected countries and their accession to the Enhanced Integrated Framework

Country	Accession to the Integrated Framework (IF)/Enhanced Integrated Framework (EIF)
Bhutan	Bhutan joined the EIF in September 2009, and the EIF has since played a key role in institutional strengthening to mainstream trade into the country's planning processes. A Diagnostic Trade Integration Study (DTIS) was conducted and its Action Matrix validated in January 2012.
Ethiopia	Ethiopia joined the IF in 2002 and undertook a DTIS that was validated in November 2003. The DTIS findings were incorporated into the chapter on trade and industrial development in Ethiopia's Plan for Accelerated and Sustained Development to End Poverty of September 2006. The priorities identified included improving the business climate and targeting high-export-potential industries, such as leather, textiles, sugar, and horticulture and floriculture. Ethiopia's DTIS update, coordinated by UNCTAD, started in 2015 and is a key input into the development of the Second Growth and Transformation Plan.
Kiribati	Kiribati joined the IF in May 2008. Subsequently, Kiribati started preparations for a DTIS in July 2008, with the United Nations Development Programme (UNDP) as the main implementing entity and with support from the EIF. In December 2009, capacity development activities were funded under Window I support from the IF Trust Fund, and as a result a National Implementation Unit was set up. Kiribati's DTIS was validated in December 2010.
Lao PDR	Lao PDR joined the IF in 2004 and carried out a DTIS as part of efforts by the government to identify key barriers to becoming more competitive. The DTIS, along with the National Export Strategy, later laid the foundation for developing Lao PDR's trade goals, including membership in the WTO. Under the EIF, the public and private sectors and development partners have come together to update the DTIS, resulting in the Trade and Private Sector Development Roadmap, which has become the key reference document for the country's trade-related technical assistance. A DTIS update conducted in 2012 focused on trade and private sector development.
Lesotho	Lesotho became an IF beneficiary country in 2002 and undertook preparations for a DTIS, which was validated in February 2003. The government approved the final DTIS in February 2004. Subsequently, Lesotho benefitted from two IF Trust Fund Window II projects: (a) export product and market development (a project on mushrooms and peaches entitled Product and Market Development of Agro-based Products and implemented by the WTO's International Trade Centre); and (b) support for an integrated approach to trade enhancement. Other priorities in the DTIS Action Matrix were taken up by other development partners. A DTIS update was conducted in 2012.
Senegal	Senegal joined the IF upon its inception in 1997, and benefitted from the revamped IF. Senegal undertook a DTIS, which was validated in November 2002. The DTIS results were also integrated into the second Poverty Reduction Strategy Paper to ensure continued growth of trade, one of the key sectors providing employment, particularly in urban areas. A DTIS update was conducted in 2013 by UNCTAD in collaboration with the government of Senegal, the EIF, and other agencies.

Source: www.enhancedif.org (accessed on 4 January 2016).

current account deficit. The sector's requirements for imported capital equipment and skilled manpower, as well as servicing of its short-term debts, have enlarged the current account deficit and put pressure on international reserves. Rapid growth in the power sector further spilled over into the other sectors of the economy, creating additional demand for imported goods and services from India. Bhutan's public debt was 95 per cent of GDP as of end-2014 and is primarily triggered by disbursements to on-going hydropower construction projects corresponding to 59.1 per cent of GDP (World Bank, 2015b). The Indian government has been the main purchaser and financier of hydropower projects with a mix of 70 per cent in loans and 30 per cent in project grant assistance.

In addition to the high import demands of the hydropower sector, low productive capacity coupled with high transaction costs, labour shortages, and weak access to credit have also inhibited export expansion, thereby contributing to the growing trade deficit. A key challenge for Bhutan going forward is how to boost exports to reduce the trade deficits and avoid accumulating unsustainable debt that would have implications for long-run growth, trade and development. To expand trade, Bhutan has initiated an export diversification and development strategy, hoping to create employment and earn foreign currency. The aim is to diversify the economy's base, promote industrialization, and reduce the trade deficits. Other policy measures adopted by the government to promote exports include foreign direct investment (FDI), tax holidays, economic development policy, duty exemptions, and simplification of licensing and customs procedures, among others. Bhutan's export strategy also seeks to increase production and improve the quality of exportable products in order to make them globally competitive. The policy emphasizes the need to export high-value-added products and recognizes the need to identify new markets and products to reduce vulnerability to global shocks.

The concept of "gross national happiness" — first propounded by His Majesty the Fourth King of Bhutan in the 1970s — is the main development philosophy guiding Bhutan's trade and development policies, plans, and programmes. The development approach adopted by the government has been one of caution and pragmatism because of the potential problems that could be caused by uncontrolled development. The "gross national happiness" philosophy advocates a multi-dimensional development approach that seeks to maintain harmony and balance between the economic, emotional, and environmental well-being of the people and nation. Hence, development in Bhutan always embraces concerns for environment sustainability, spiritual development, and equitable economic development.

In Bhutan, the Five-Year Plans (FYPs) serve as the main strategic instruments for implementation of development programmes and activities identified through planning processes at the central and district levels. The first FYP was launched in 1961, and the country is currently implementing the 11th FYP covering the period from July 2013 to June 2018. Trade and diversification issues are important elements in Bhutan's national development plans. Efforts have also been made to integrate the issue of graduation from LDC status into national development strategies. The overall goal of the 11th FYP is self-reliance and inclusive and green socioeconomic development. It recognizes that protecting and conserving the environment will require greater attention than before, as the accelerating pace of socioeconomic development accompanied by increased infrastructure development, urbanization, industrialization, and consumption patterns are expected to create additional environmental stress. At the same time, the plan emphasizes the need to use the country's environmental resources as a development asset for economic growth and poverty reduction within the limits of sustainability.

Trade policymaking process and institutions in Bhutan

The overall responsibility for the design, formulation, and implementation of trade policy in Bhutan lies with the Ministry of Economic Affairs, which includes the following entities: Department of Hydropower and Power Systems; Department of Hydro Met Services; Department of Renewable Energy; Department of Geology and Mines; Department of Cottage and Small Industries; Department of Trade; Department of Industry; Intellectual Property Division; and the Office of Consumer Protection. Trade policy and initiatives are coordinated by the Department of Trade housed under the Ministry of Economic Affairs. It is the Department of Trade that takes on specific functions exclusively in charge of the formulation and design of trade policy. It is also responsible for coordinating with other line ministries on trade and trade-related issues with a view to ensuring policy coherence in pursuit of national development goals. But there is no structured institutional mechanism for coordination, and in practice there is duplication and overlapping of functions between the Ministry of Economic Affairs and other ministries.

Bhutan has a mechanism for consultation with various groups of stakeholders on trade issues. For instance a Better Business Council was created to facilitate dialogue between ministries and the private sector, and meetings are held with the private sector once each month. Consultations are carried out with the Bhutan Chamber of Commerce (BCCI) and autonomous government agencies. The BCCI is an apex body for the private sector in the country. Sectoral interest groups such as associations of hotel owners, travel and tour companies, construction firms, industries, pharmaceutical companies, manufacturing firms, and handicrafts firms hold memberships in the BCCI. In general, effective consultations with the private sector are constrained by many factors, including the group's limited awareness of trade and trade-related issues, and its limited inclusion of all interest cadres in the organized private sector. The private sector is very small and at a nascent stage.[2] The size and ownership structure of licensed firms do not help in the consultation process, as about 95 per cent of the firms are cottage and small and medium-size enterprises (SMEs) (sole proprietorships). The operations and performance of these firms are constrained by limited access to finance, lack of skilled workers in some sectors, and poor and inadequate infrastructure, especially transport and essential logistics services. Most business owners have a very low level of education and indeed exporting is new to them.

In sum, the trade policy formulation and negotiation process has evolved from a government-dominated culture to a more broad-based consultations process that includes the private sector and non-governmental organizations. Also, significant progress has been made in introducing formal frameworks for trade policy negotiations and generally in improving the trade policymaking processes. Those processes are conducted by technical working committees that are constituted when the need arises. However, there is room for improvement in terms of inter-ministerial coordination between the Ministry of Economic Affairs and other ministries, as well as in the integration of the private sector and civil society into the trade policymaking process.

3.3.2 Ethiopia

Ethiopia is a landlocked LDC with a population of about 97 million in 2014. Trade is important to the development of the economy, although Ethiopia has very low trade ratios (41.5 per cent in 2013) relative to the other countries included in the analysis. Ethiopia recorded a double-digit growth rate during the past decade, which had positive effects on socioeconomic indicators. Poverty fell from 38.9 per cent in 2004 to 29.6 per cent in 2010, and primary school enrolment rose to 95 per cent of school-age children. Ethiopia has also made some progress in export performance. For instance, exports increased from $600 million in 1995 to $3.2 billion in 2014. Nevertheless, its export performance is well below the $5 billion to $8 billion target set by the government in its Growth and Transformation Plan (GTP I). Ethiopia is a member of a couple of regional integration arrangements, including trade agreements such as the Common Market for Eastern and Southern Africa (COMESA), the Intergovernmental Authority on Development (IGAD), and Sana's Forum for Cooperation (SFC). Ethiopia is yet to take full advantage of its membership in these organizations, however, at least with respect to trade. In addition, the country underutilizes the benefits from different preferential trade agreements such as the African Growth Opportunity Act (AGOA) and the European Union's Everything-but-Arms (EBA) initiative.

Ethiopia's relatively low export performance has been attributed to the poor performance of the manufacturing sector. A major challenge for the country is to achieve export diversification through an increase in exports of manufactures. Available data show that manufactures account for less than 5 per cent of output and about 10 per cent of total exports. In addition, the number of manufactured exports in the export basket has not changed significantly over the years. Although vertical diversification towards manufacturing has not taken place, the country has made progress in terms of horizontal diversification (that is, diversification within the primary export sector).

In 2000/2001, coffee, chat, leather and leather products, oilseeds, and gold were the top five exports, accounting for 88.9 per cent of total merchandise exports. Coffee alone accounted for slightly more than half of total exports, but its dominance has gradually diminished and it accounted for only 32.9 per cent of total merchandise exports in 2011/2012. In 2013/2014, the top five export commodities were coffee, gold, oilseeds, chat, and pulses, accounting for 68 per cent of total merchandise exports. This suggests that some degree of horizontal export diversification has taken place. Interestingly, that diversification has been towards higher-value agricultural products such as cut flowers, oilseeds, and pulses. There is also an encouraging trend in terms of export market diversification. The number of export market destinations more than doubled between 2001 and 2012 (from 67 in 2001 to 132 in 2012). However, at the product level there is still a sizable concentration around limited markets. For instance, 63 per cent of Ethiopia's coffee exports go to four countries: Germany, Saudi Arabia, Japan, and Belgium. More than 67 per cent of live animal exports went to Somalia, Egypt, and Djibouti, with Somalia alone taking 31.4 per cent of the market share. United Arab Emirates and Saudi Arabia were the main importers of processed meat and meat products, with a combined market share of 84.3 per cent over the same period. China was the main importer of pulses and oilseeds, accounting for close to half of the market shares. While textile and textile products were exported mainly to Germany (which took the lion's share of 42.9 per cent), Turkey, China, and Italy, leather and leather products were exported to Hong Kong (China), Italy, and China, which together constitute 71.6 per cent of the market share.

Despite progress in economic performance in recent years, there is an understanding that a key policy question for Ethiopia is how to translate growth into sustainable and inclusive development by fundamentally changing the structure of the economy, particularly towards manufacturing and modern services. The Second Growth and Transformation Plan (GTP II) covering the period 2015/2016 to 2019/2020 addresses this issue with a renewed focus on manufacturing, export promotion, and agricultural transformation grounded in an overarching theme of structural transformation.

Trade policymaking process and institutions in Ethiopia

There are indications that policymakers in Ethiopia have properly recognized the importance of trade-induced development and are taking steps to better exploit its potential for growth and development. Since the early 1990s, major policy documents in Ethiopia have consistently referred to trade and trade-related issues, the most recent being the first and second GTPs. Nonetheless, Ethiopia does not have a comprehensive and well-articulated strategic trade framework that ensures overall coherence between different polices and enables a deeper and more lasting transformation of the economy. Specifically, the country's ability to effectively utilize trade as a tool to achieve its national aspirations has been limited due to the absence of such a strategic direction. The nexus between trade and industry in particular is a key issue of concern, as the achievement of the stated objectives of transforming the structure of the Ethiopian economy and achieving the national vision of becoming a middle-income economy in the next 10 years heavily depends on this.

In general, the Ministry of Trade has overall responsibility for trade policy formulation and implementation. However, there are problems of unclear mandates and duplication of efforts both at the policy and implementation levels. At the policy level, different institutions deal with different aspects of trade policy with no clear sign of coordination. In multilateral trade negotiations, for instance, different ministries take a lead in different trade negotiations and there is no proper coordination mechanism to ensure consistency and coherence in overall policy goals. The Ministry of Trade mainly deals with Economic Partnership Agreements with the European Union, while the Ministry of Finance and Economic Development handles regional trade negotiations, particularly the COMESA free trade agreement. The Trade Negotiations Department of the Ministry of Trade handles WTO negotiations, though the former planning commissioner serves as chief negotiator. It is not clear how consistency is ensured in these efforts. The same is true with bilateral trade negotiations. The Ministries of Trade, Foreign Affairs, or Finance and Economic Development coordinate bilateral trade negotiations. In the past, there were incidents of one institution furthering bilateral trade negotiations without the knowledge of other lead institutions, indicating a coordination failure. The fact that Ethiopia does not have a comprehensive trade policy framework that serves as a guidepost further exacerbates the coordination problem.

Coordination failures are also seen at the implementation level. For instance, while the Ministry of Agriculture provides the standard competence certificate for exporting/importing plant products, the Ministry of Trade is involved in a related task, which is the visual inspection of the quality of plant products being exported or imported. This is a waste of both public and private resources. The coffee-grading process is an additional example that illustrates this problem. Both the Coffee Liquoring Unit of the Ministry of Agriculture and the Ethiopian Commodity Exchange Market provide coffee-grading service to exporters. As these two institutions often use different parameters and give divergent grading results, this practice confuses the private sector and also results in unnecessary transaction costs (EIFTRI/AEMFI, 2014).

There are also examples of different government institutions working towards conflicting goals. A case in point is the challenge faced by exporters of roasted coffee. The Ministry of Industry encourages value addition to increase the share and value of export products. This would imply that exports of roasted and ground coffee are strongly encouraged. The reality, however, is that coffee roasting companies have difficulty getting quality coffee, as the Ministry of Trade does not allow top-quality coffees to be sold locally. Understandably, the Ministry of Trade is focused on getting top-quality coffee beans to the export market. As processed coffee fetches better export earnings, denying roasted coffee exporters access to quality coffee works against the very goal the Ministry of Industry is pursuing. This coordination problem indicates that there is a weak link between the “trade” and “industry” agenda and provides additional evidence that more work needs to be done on the trade mainstreaming agenda.

The irony is that this problem persists despite considerable efforts to improve coordination in recent years by putting in place a number of high-level institutional coordination mechanisms. Three such mechanisms that deal with issues of export trade and the productive sector are worth mentioning in this regard: the National Export Coordinating Committee (NECC), National Economic and Business Diplomacy Coordination Committee (NEBDCC), and National Productive Sector Competitiveness Support Council (NPSCSC). In particular, the NECC and the NPSCSC focus on solving bottlenecks related to infrastructure, tax, customs, logistics, and finance in order to create a policy environment conducive to the private sector by fostering the country's international market competitiveness (EIFTRI/ AEMFI, 2014). These mechanisms are led at the highest level of government. There are also efforts to coordinate at the level of line ministries in the form of several ad hoc committees.

Ethiopia has made progress in including local stakeholders in the trade policymaking process. In recent years, the government has been pushing sector-specific government agencies to engage the private sector in their planning processes. Institutions like the Leather Industry Development Institute and the Textile Industry Development Institute have actually taken further steps by working with each factory on annual production and export targets. Most government institutions also have "public wing" departments that facilitate platforms for regular interactions. These forums, however, rarely discuss strategic issues, as they tend to concentrate on administrative issues. Also, some in the private sector feel that these engagements are less effective because those involved fail to genuinely understand the challenges the private sector is facing. It is difficult to deny, however, that there is genuine interest on the part of the top leadership to engage with the private sector. One remarkable instance in this regard is the decision by the Council of Ministers in 2013 to reject a draft customs procedures law primarily due to concerns that there had not been enough consultation with the private sector (Mihretu and Tolina, 2015).

Depending on the strength of associations and the quality of their leadership, there are marked variations in the ability and willingness of the private sector to influence trade policy issues. Some associations, such as the Ethiopian Horticultural Growers and Exporters' Association, tend to have a strong interest and capacity to influence policy issues affecting their sectors. Others, such as the leather industry and spices associations, appear to have lesser involvement in policy issues affecting their respective sectors. There are also limitations arising from the fact that private sector associations, including the Chambers of Commerce, have a very low membership base that reflects negatively on their organizational capacity. Big and established businesses show little interest in the activities of the sectoral associations and the chambers. The government has made conscious efforts in recent years to address this issue. By establishing the Ethiopian Public-Private Consultative Forum, for instance, government policymakers hoped to create a more structured and institutionalized mechanism for policy deliberations. Some government institutions, notably the Ministry of Foreign Affairs and the President's Office, are also making targeted efforts to involve the private sector in all major economic interactions with other nations. The President's Office now has a more or less established practice of including the private sector through the national chamber in official business trips outside the country, or when hosting foreign delegations.

3.3.3 Kiribati

Kiribati is a small island developing state with 33 islands and a population of about 110,500 in 2014. Due to its topology and poor infrastructure, Kiribati has high transaction costs, which have negative consequences for competitiveness and trade. It is heavily dependent on foreign aid and has high and persistent trade deficits (about 50 per cent of GDP), reflecting the fact that it relies heavily on food imports and there is limited production for exports. It has very low levels of manufacturing and industrial development, with manufacturing accounting for 5.3 per cent and industry for 9.6 per cent of output in 2013. The private sector is actively engaged in imports of goods, but very few firms engage in the export sector. Given Kiribati's limited natural resource endowment (apart from fisheries), the export sector is dominated by marine products, agricultural products (basically coconut), and tourism. The sector is also characterized by high labour mobility. Remoteness from markets and poor infrastructure, especially with respect to airports, seaports, roads, and information and communication technology, are impediments to the effective and efficient exchange of goods and services domestically and internationally.

Apart from the general challenges affecting all sectors discussed above, Kiribati also faces specific challenges that have an impact on trade in the fisheries, agriculture, and tourism sectors, as well as on labour mobility. In the fisheries sector, for instance, Kiribati Fish Limited (KFL), a joint venture between the government and other stakeholders, has issues relating to the limited supply of fish as raw materials for the processing plant. Because of the limited supply of fish, KFL concentrates on producing fresh chilled fish and frozen fish for export. The disadvantages associated with such an export strategy include limited diversity of products to meet differing market demands, and KFL being subject to volatile market prices for fresh chilled fish and frozen fish. In the agriculture sector, the key challenges include low copra production, as well as limited diversity of products. The Kiribati Copra Mill Company Limited gets its copra for processing from copra cutters living in the outer islands. In most cases, company cannot process copra to the maximum plant capacity due to low production. This has resulted in limiting the diversity of copra products to crude oil and copra cake/meal. The need to address the supply response capacity of Kiribati farms, firms, and service providers is clearly seen in shortages of inputs and raw materials available to producers/processors. Empowering and effectively linking the subsistence farmers scattered over the 21 inhabited islands is paramount in the process of making trade work for the poor.

These challenges facing Kiribati have had a negative impact on the country's growth performance. Over the period 2008–2012 the average growth rate of real output was 1.5 per cent, which is far below the 7 per cent rate deemed necessary for LDCs to make significant progress in poverty reduction. In 2012 the government approved its ninth development plan, the Kiribati Development Plan (KDP) covering the period 2012 to 2015. The theme of the plan was "Enhancing Economic Growth for Sustainable Development: A Vibrant Economy for the People of Kiribati." It covered six key policy areas: human resource development, economic growth and poverty reduction, health, environment, governance, and infrastructure. Under infrastructure, the main objective of the plan was to "facilitate economic growth, trade, industrialisation and wellbeing for technological and social transformation through the development of new/upgrade of physical infrastructure such as sea passages, airports and roads by the year 2015."

Although the importance of trade was recognized in the plan, there is no comprehensive strategic framework on how to address the trade challenges facing the country. The KDP, under the key policy area of economic growth and poverty reduction, focused mainly on private sector development and less on the crucial issues of value addition and improved supply capacity. One of the reasons trade has not been effectively mainstreamed into the KDP is the misconception of trade as referring only to the import and export of goods and neglecting the issues relating to domestic trade. There is also the general notion that the country does not have much to trade because of low productive capacity.

Given Kiribati's small size and the structure of its economy, which is dominated by services and fisheries, a regional approach to trade is imperative. To derive more benefits from trade, it should be of paramount interest to Kiribati to develop a strategy focused on improving trade infrastructure and increasing market size through regional integration. Kiribati is a member of some regional arrangements, including the South Pacific Regional Trade and Economic Cooperation Agreement, the Pacific Island Countries Trade Agreement, and the Pacific Agreement on Closer Economic Relation Plus. Negotiations on the latter agreement started in August 2009 with the ultimate goal of creating a free trade area among 16 countries at different levels of development and with diverse characteristics. Kiribati is neither a member of the WTO nor an observer and it is not in the process of WTO accession.

Trade policymaking process and institutions in Kiribati

The trade policymaking process in Kiribati involves consultation with various stakeholder groups. Apart from the private sector, which is often represented by the Kiribati Chamber of Commerce and Industry, other groups that are consulted include civil society. Prominent among them is the Kiribati Association of NGOs. The Ministry of Commerce, Industry and Cooperatives (MCIC) is responsible for trade policy and trade-related issues and undertakes consultations with key ministries, including the Ministry of Finance and Economic Development (MFED), Ministry of Fisheries and Marine Resource Development (MFMRD), Ministry of Environment, Lands and Agriculture Development (MELAD), Ministry of Labour and Human Resource Development (MLHRD), Ministry of Education (MOE), and Ministry of Communication, Transport and Tourism Development (MCTTD). The MCIC also consults with representatives from the private sector[3] and civil society.[4] The outcomes of consultations are consolidated by the Trade Promotion Division within the MCIC for consideration by the National Trade Advisory Committee (NTAC)[5] and for making recommendations that require the Cabinet's consideration and approval.

The Diagnostic Trade Integration Study (DTIS) for Kiribati conducted in 2010 identified key areas to enable the country to achieve the competitiveness and diversification needed to exploit trade opportunities under bilateral, regional, and multilateral trade agreements. These components, which are core pillars in the national trade policy framework that the country is preparing, include fisheries, labour mobility, coconuts and agriculture, creative industry (handicrafts, performing arts, etc.), tourism, and manufacturing. Developing these areas will enable the government to integrate and link them with trade to address supply capacity constraints, create employment opportunities, and reduce poverty. A key challenge, however, is that the identified areas are under the portfolios of different government ministries that also administer relevant laws and regulations, some of which overlap.

Therefore, there is a need for government departments to strengthen coordination to reduce duplication of activities and enhance policy coherence.

While there is consultation with local stakeholders in the trade policymaking process, the effectiveness of the consultation is often affected by various factors. First, an overarching challenge is the lack of an integrated trade policy framework, which has led to ad hoc trade policymaking. Second, the MCIC has limited human, technical, and financial capacity to coordinate trade policy and respond to evolving trade and development issues. Some of the ministries, departments, and agencies that are consulted often lack capacity and knowledge related to trade policy issues, so their contributions to policymaking and implementation are in most cases below expectations. In addition, there is a lack of timely response and feedback from other line ministries when asked to provide comments on trade policy issues.

There are also challenges affecting the effective participation of the private sector in the trade policymaking process. First, the private sector also has limited capacity to regularly follow, analyse, and engage with the government on trade policy issues. Second, the private sector is not homogeneous. It has various groups with different interests, and this introduces complications in articulating the private sector's views on trade policy. For instance, there is a division of interests among the manufacturing subgroups. That is, the interests of import-substituting producers are different from those of export-oriented firms. With regard to civil society, the effectiveness of its participation in the trade policymaking process is hindered by the lack of analytical skills and competency on trade issues and the fact that there are no civil society organizations that focus primarily and exclusively on trade issues.

3.3.4 Lao PDR

Lao People's Democratic Republic is a landlocked economy that had an average annual GDP growth rate of 7 per cent between 2001 and 2014. The poverty headcount ratio fell from 46 per cent in 1992 to 23 per cent in 2012. Despite this impressive performance, the pace of poverty reduction has been less than the pace of economic growth. In fact, for every 1 per cent increase in GDP, poverty has fallen by about 0.47 per cent. This relatively low poverty response to growth has to do with rising inequality. The Gini coefficient (a measure of inequality) rose from 30.5 per cent in 1992 to an average of 36 per cent from 2005–2013.

The economy depends heavily on natural resources, particularly mining and hydroelectricity. Mining and electric power exports accounted for about 65 to 70 per cent of total exports during 2010–2014, a share which is expected to rise further in the coming years. Natural-resource-based sectors grew very rapidly at an annual average of 20.7 per cent from 2003–2010. As a result, the share of these sectors in GDP almost tripled between 1998 and 2010, increasing to about 16.1 per cent by 2010 from 5.9 per cent in 1998. The share of non-tradables in GDP grew more moderately, driven by increases in tourism as well as expansion in infrastructure construction. Similarly, manufacturing (garments, wood and wood products, construction materials, light manufacturing, handicrafts, and, increasingly, food, beverages, and related processing) has also expanded as a share of GDP, but at relatively slower rates. Non-resource sectors remain critical to creating more job opportunities and moving people out of poverty, but growth in these sectors has been modest relative to potential.

Lao PDR's major trading partners are its neighbors, especially Thailand, China, and Viet Nam. About 70 per cent of exports from Lao PDR go to China and Thailand, and 80 per cent of imports come from Thailand, China, and Viet Nam. Trade liberalization is one of the priorities of Lao PDR. It joined the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) in 1998 and is progressively complying with requirements to reduce tariffs under the AFTA Common Effective Preferential Tariff. Lao PDR was required to reduce tariffs to zero on all-inclusive list products imported from ASEAN countries by 2015 as part of implementation of the ASEAN Trade in Goods Agreement.

The government's programme for poverty reduction was laid out in the National Socio-Economic Development Plan (2011–2015). The core ambition was to decrease the percentage of the population living below the poverty line to less than 19 per cent by the end of the planned period. The main thrusts of this programme were rural development and growth in agriculture. In rural development, key objectives included extending electricity to 80 per cent of the rural population, allocating more land to farmers, expanding disbursements of poverty development funds, stimulating more private sector investment in agriculture, and linking agricultural production with processing and service enterprises. In agricultural growth, the key objectives included expanding food production; increasing forest cover from 40 to 65 per cent; improving yields, productivity and quality; modernizing agriculture and forestry with better technologies through 500 extension centers; increasing irrigated land to 300,000 hectares in the dry season and 500,000 in the wet season; focusing on commercial production; and, using tax incentives, trade facilitation, and the upgrading of physical markets and logistics to increase the access of agricultural produce to markets.

The agriculture sector plays a crucial role in Lao PDR, including for food security and rural livelihoods. The sector is also a source of inputs for the fledging manufacturing sector, including garment manufacturing and wood processing. The need to develop the supply (value) chain with forward and backward linkages should be of paramount interest to policymakers and other stakeholder groups if significant poverty reduction is to be achieved. Efforts should be made to integrate the agricultural sector into the modern economy. Given that the sector employs over 70 per cent of the workforce, its integration into the modern economy is an important step for poverty reduction. The challenges constraining the competitiveness of the agricultural sector, including low value addition, poor safety and quality standards, high transport and logistics costs, and lack of technical expertise should be addressed.

Trade was accorded an important role in the National Socio-Economic Development Plan for 2011–2015. In fact, one of the goals of the plan was to increase the share of exports with high value added and increase the benefits the country derives from trade. In order to achieve the national development goal of graduating from LDC status by 2020, the Ministry of Industry and Commerce (MOIC) is tasked with leading the government's efforts to promote economic diversification by enhancing the competitiveness of non-resource sectors. To this end, the MOIC is developing its next five-year sector development plan. It consists of concrete policy actions and support measures that fall under three key pillars: deepening economic integration, continuously improving the business-enabling environment, and enhancing enterprise productivity and competitiveness.

Trade policymaking process and institutions in Lao PDR

The MOIC coordinates the trade policymaking process in Lao PDR. Various ministries, departments, and agencies consulted and involved in the formulation and implementation of trade policies include the Central Bank, Ministry of Finance, Ministry of Agriculture and Forestry, and Ministry of Planning and Investment. Table 3 summarizes key institutions related to trade policy formulation and implementation. The private sector's participation in trade policy formulation is mainly through the Lao National Chamber of Commerce and Industry, industry associations, and provincial chambers of commerce. In Lao PDR today there are

18 associations, eight smaller groups that are not yet associations, 13 registered Provincial Chambers of Commerce (with four more in the process), and one Lao National Chamber of Commerce and industry with about 1,075 members that acts as an umbrella organization for all business membership organizations. The National Chamber of Commerce co-organizes an annual business forum to discuss policy and regulatory issues affecting competitiveness of the private sector. Representatives of more developed business membership organizations also actively take part in policy formulation and implementation by participating in various ad hoc task forces and committees leading the development of trade and private sector development policies and legislation. However, to enhance the efficiency of the private sector's role in policy formulation and implementation, more targeted capacity-building is required in issue identification, issue research and position development, and results measurement.

The existence of multiple high-level committees in the country poses significant challenges for coordination at both the policy and technical levels. In order to further enhance the efficiency and effectiveness of existing inter-ministerial structures, and taking into account the limited human and financial resources available to support effective operations of all described inter-ministerial structures, it is recommended that key roles and responsibilities of these committees be reviewed and that opportunities for further streamlining be explored, such as through the possible merger of closely related functions into smaller numbers of committees. For example, policy guidance on international, regional, and bilateral trade negotiations could be provided by the National Steering Committee for Economic Integration; policy direction on attracting foreign investment could be provided by the National Investment Promotion Committee; and SME export promotion efforts could potentially be consolidated under one single structure.

Lao PDR has an elaborate inter-ministerial coordination system and a robust mechanism for public-private dialogue for trade and trade-related issues. However, private sector engagement in trade policy formulation and implementation requires further capacity-building. The MOIC should also be strengthened in order to effectively deliver on its mandates, especially coordination of trade policy formulation, trade policy monitoring, and the servicing of the numerous trade-related secretariats and working groups. For the purpose of poverty alleviation and sustainable development, other private sector groups, including farmers' associations and SMEs, should be included in the process.

Notwithstanding the various efforts to further trade and economic development in Lao PDR, there is a need to do much more to promote the efficiency and effectiveness of trade and trade policy as instruments to promote pro-poor growth and sustainable development. The economic performance of Lao PDR indicates that trade and trade policy have played significant roles in the economy, but that trade and output growth do not automatically have a positive impact on the poor. The growth drivers — which are the mining and hydroelectricity sectors — have had a relatively small impact on poor households. Diversification of the economy and development of the agricultural sector are important dimensions to mainstreaming trade into the national development strategy with a view to promoting pro-poor growth and sustainable development.

Lao PDR has a liberal trade and investment regime, reflecting its engagement in regional and bilateral agreements and WTO accession. The country became the 158th member of the WTO. Its engagement in bilateral, regional, and multilateral trade and investment initiatives appears underutilized in terms of market access due to high logistics costs and low customs and infrastructure quality. The country has embarked on various reforms but needs to leverage economic integration to improve business and investment, given its economic size and landlocked status.

3.3.5 Lesotho

Lesotho is a small, landlocked country surrounded by the Republic of South Africa. In 2014, Lesotho had an estimated GDP of $2.18 billion and a population of about 2.11 million. Over the period 2005–2014, the country had an annual average growth rate of 5 per cent, which is below the average 7 per cent growth rate deemed necessary for LDCs to make significant progress in reducing poverty and meeting international development goals. It is therefore not surprising that the recent growth has not had any significant impact on poverty. The poverty rate has remained at about 57 per cent over the past decade and inequality is also high: the Gini coefficient was about 54 per cent in the period 2005–2013. At 24 per cent, Lesotho’s unemployment rate is also very high. Textiles, water, and diamond exports have been the key drivers of growth in Lesotho over the past decade. In fact, exports of textiles and diamonds account for more than 80 per cent of the country’s external trade. The United States is the main market for its textile exports, while most of its diamond exports go to the European Union. These facts indicate that one of the challenges facing Lesotho is how to reduce export market

Table 3. Lao PDR: levels, institutions, and roles in trade mainstreaming

Level	Institutions	Role in trade mainstreaming
Macro-level Institutions	National Assembly (economics, budget, and finance committee)	Policy guidance, review of new laws and legal instruments (WTO accession and trade and investment agreements), large investment projects related to natural resources and land concessions
	Ministry of Planning and Investment	Lead formulation and monitor implementation of National Socio-Economic Development Plan in close collaboration with all sectoral ministries and provinces Lead development of annual and medium-term macro- economic development frameworks
Macro-level committees	National Steering Committee for Economic Integration (NSCEI) – WTO Secretariat, Trade Facilitation Secretariat, IF Secretariat	The NSCEI provides policy guidance to WTO accession negotiations, trade facilitation measures, and ASEAN Free Trade Area coordination
	Trade and Private Sector Development Working Group Round Table Process	Enhance synergies between the two inter-related areas of trade and private sector/small and medium-size enterprise development to promote more collaborative linkages across line ministries and agencies and between the government, development partners, and private sector representatives
	Lao Business Forum	The Lao Business Forum is a public-private partnership initiative (Ministry of Planning and Investment and the National Chamber of Commerce and Industry) designed to improve the business-enabling environment by providing a platform for effective dialogue between the business community and the government

Table 3 (contd.)

Level	Institutions	Role in trade mainstreaming
Meso level	Ministry of Industry and Commerce	The lead government agency in Lao PDR for trade and private sector development policy formulation, trade integration into the NSEDP, support for inter-ministerial coordination on trade-private sector development, and ASEAN Free Trade Area coordination
	Lao PDR National Chamber of Commerce and Industry (LNCCI)	The LNCCI is an independent body that represents the business community in Lao PDR. As the nexus between the state and private enterprises, LNCCI's responsibility is to identify problems and concerns of its members and make sure that they are presented to the government (from the LNCCI website at www.laocci.com)
Micro level	National Implementation Unit (NIU) within the Ministry of Industry and Commerce's Official Development Assistance Division)	The NIU is the government division in charge of the coordination, management and monitoring of ASEAN Free Trade Area resources in Lao PDR. It is located in the Ministry of Industry and Commerce and was recently transferred to the newly established Department of Planning and Cooperation from the Foreign Trade Policy Department and is supported by development partners. It acts as a secretariat for different trade-related forums and task forces (NIFGS) and executing agencies for several trade-related technical assistance projects.
	Implementing agencies	Implementing agencies are units within departments of the Ministry of Industry and Commerce and line ministries that are responsible for the implementation of trade-related technical assistance projects coordinated by the Official Development Assistance Division (Trade Development Facility, EIF, German International Cooperation - GIZ, Swiss Secretariat for Economic Affairs - SECO). There are currently more than 10 implementing agencies. It is recommended that their status be converted to implementing entities more aligned with government structures. This will enable the ASEAN Free Trade Area to flow more readily through national mechanisms, reducing duplication and incorporating a wider range of stakeholders.

Source: Chanthapaseuth (2015).

concentration and also diversify its exports to include manufacturing other than textiles and apparel. Other challenges include how to make growth more inclusive, strengthening linkages between FDI and domestic firms in order to increase local participation in manufacturing, building productive capacity, and reducing the high wage bill of the public sector (TLR, 2015).

Lesotho is an active member of regional groupings and trade initiatives, including the Southern African Customs Union (SACU), the Southern African Development Community (SADC), the Common Monetary Area (CMA), and the Common Market for Eastern and Southern Africa (COMESA). Lesotho has also been a member of the WTO since 1995 and a participant in the U.S. African Growth and Opportunity Act (AGOA) and the European Union's Economic Partnership Agreement. The geographical location of Lesotho makes a special relationship with the Republic of South Africa an imperative: a large portion of imports into Lesotho come from South Africa; its currency (the loti) is pegged to the South African rand; and labour and capital move relatively freely between the two countries. Lesotho also relies heavily on receipts from SACU as a source of government revenue, and so relationships with SACU members have a strong influence on its trade policy orientation.

Gender plays an important role in trade and trade policy in Lesotho (Box 3). A large portion of manufacturing sector jobs is in textiles and clothing, and they employ mostly women. Women also hold important positions in business and finance, civil service, academia, and other facets of Lesotho's economic landscape (including politics). Female-headed households were estimated at 35 per cent of total households in 2009. Against this backdrop, trade has a significant role to play in ensuring that women and other vulnerable groups participate in the trade and growth process. Some efforts have been made to mainstream gender into development in Lesotho, including through:

- The Gender and Development Policy of 2003, aimed at mainstreaming gender concerns into different sectors;
- Ratification of the UN Convention on the Elimination of All Forms of Discrimination against Women in 1995;
- Signing of the African Union Solemn Declaration on Gender Equality in Africa in 2004; and
- Signing of the SADC Protocols on Gender and Development in 2008.

Box 3. Trade and gender in Lesotho

Lesotho ranked ninth best out of 135 countries on the World Economic Forum's (WEF) Global Gender Gap Index in 2011. The number of women engaged in the labour market increased significantly in absolute terms, and in 2011 women constituted the majority of the high-skilled workforce. According to the WEF, women's estimated earned income was about 74 per cent that of men. For comparable work, men would earn about one-fourth more than women.

Trade preferences played a catalytic role in fostering structural change and productive transformation in the economy, bolstering women's empowerment. Most significantly, trade expansion (given the high proportion of female employment in the apparel sector) created a large number of new jobs for underprivileged, relatively unskilled women who would otherwise have little chance of being formally employed. Being able to work and earn income is a strong force behind women's empowerment and decision-making, both within and outside the household. Women working in apparel factories have access to innovative workplace health programmes that provide free-of-charge HIV care and treatment. In a context where about 40 per cent of workers in the textiles/apparel sector are HIV positive, this industry-wide initiative is critically important.

On the downside, there are low wages, limited skill development, and new patterns of vulnerability to external shocks. Working conditions are hard, though there are no reports of child labour, forced labour, or "sweatshops." Female job segregation in the unskilled/labour-intensive nodes and the segregated nature of tasks within each node has significantly limited skill development; very few workers are able to manufacture an entire garment. It is widely recognized that if the apparel factories were to shut down, it would be very difficult for the female workers to relocate, given the limited effect of textile and apparel foreign direct investment on fostering skill development and the low wage levels. It should be noted that the removal of the U.S. Africa Growth and Opportunity Act (AGOA) preferences could threaten the viability of Lesotho's clothing industry. These changes in trade would be likely to disproportionally affect women, given the high proportion of female employment in the sector. Lesotho may want to establish itself as a responsible sourcing destination and explore ways to leverage efforts to tackle HIV/AIDS in the workplace. The significant potential socioeconomic impact of large-scale infrastructure projects in water, for instance, should not be overlooked.

Source: AECOM International Development (2012).

Perhaps the most significant initiative that incorporated regional, continental, and global initiatives and gave legal effect to most of their provisions is Lesotho's Legal Capacity of Married Persons Act of 2006. This act repealed many discriminatory provisions in the formal legal system. Its implementation promised women unfettered access to credit and access to land. Under this act, women also are able to freely invest their money, engage in entrepreneurial activities, and be the sole guardians of their children.

One trade-related issue that Lesotho has to address is the lack of a comprehensive trade policy strategy and framework. The government has recognized this limitation and is in the process of developing a comprehensive national trade policy that will be integrated into its national development plans. The current plan, the National Strategic Development Plan covers the period 2012/2013 to 2016/2017 and incorporates trade and trade-related issues. It has the following goals: promoting high and inclusive growth; developing infrastructure; enhancing skills, technology, and innovation; improving health, combating HIV and AIDs, and reducing vulnerability; reversing environmental degradation and adapting to climate change; promoting peace and governance; and building effective institutions (TLR, 2015).

Trade policymaking process and institutions in Lesotho

The overall responsibility for design, formulation, and implementation of trade policy in Lesotho rests with the Ministry of Trade and Industry (MTI). The MTI was created in February 2015 when the then Ministry of Trade and Industry, Cooperatives and Marketing was split into two ministries, namely the MTI and the Ministry of Small Business Development, Cooperatives and Marketing (MSDBCM). In discharging its functions, the MTI is expected to consult and involve the Central Bank, Ministry of Finance, Ministry of Agriculture, MSBDCM, and the Lesotho Revenue Authority.

Although Lesotho is in the process of developing its comprehensive trade policy strategy, it has made several efforts in the past to address some of the binding constraints it faces in the area of trade. For instance, it is an active participant in the EIF and has been the subject of two DTIS: one in 2003 and an update in 2012. Issues arising from these and other related studies that are useful for the mainstreaming trade agenda include:

- The need for more effective coordination between the MTI and other ministries, departments, and agencies. In addition, there is the need for a structured mechanism for consultation between the MTI and other local stakeholders, in particular the private sector and civil society groups like the Lesotho Chamber of Commerce and Industry, the Private Sector Foundation of Lesotho, and the Lesotho Council for Non-Governmental Organisations. Effective coordination and consultations among these groups are geared towards promoting ownership of policies and their effective implementation.
- Developing agro-allied industries in order to integrate farmers located in remote areas into the agricultural value chain and, thus, alleviate their

poverty. Lesotho's potential in horticulture, commercial agriculture, and related agribusiness is currently underutilized and could be a pro-poor strategy.

- Similarly, Lesotho's potential in tourism should be developed and better exploited.

There are two interesting issues emanating from an examination of the process and institutions of trade policymaking in Lesotho. Both have implications for policy coherence and effectiveness. The first is that the Ministry of Development Planning is not one of the government agencies actively involved in the formulation, development, and implementation of trade policy in Lesotho (WTO, 2015). The second is that although the MTI deals with Industry and trade Issues, national policies are developed for each cluster as if they were independent and unrelated issues. For instance, a national industrial policy was developed in 2010, and the MTI is in the process of developing a national trade policy. In developing the new trade policy, the MTI needs to take into account the linkages between trade and industrial policy, because weaknesses in trade in LDCs are often linked to weaknesses in industry. In this context, there is a need for Lesotho to link its trade and industrial policies in order to achieve better development outcomes from trade than in the past.

3.3.6 Senegal

Senegal differs from the other LDCs included in this study in the sense that it is neither landlocked nor a small island developing state. It has a population of about 14 million and has high population growth (about 2.5 per cent). Over the past decade, it experienced relatively low economic growth, with an average annual growth rate of 3.2 per cent in the period 2005–2014. Poverty and inequality are high. The poverty rate was 46.7 per cent in 2010 and inequality, measured by the Gini coefficient, was 40 per cent in the period 2005–2013. The weak growth performance is attributed to poor infrastructure, low productivity, lack of good access to finance, vulnerability to shocks, and problems associated with access to land. The services sector is the most dominant of the economy, accounting for 60 per cent of output in 2013. But there are significant manufacturing activities as well, as evidenced by the fact that manufacturing accounted for 14 per cent of output in 2013.

One of the issues that the government is grappling with is how to diversify the economy in the manufacturing, mining, horticulture, and telecommunications sectors. UNCTAD, in collaboration with the EIF Secretariat and the government of Senegal, carried out a DTIS update for Senegal in October 2013. The need for diversification was one of the issues identified in the study (UNCTAD, 2013a). The DTIS called for the adoption of a broader vision of trade as an instrument of development rather than as a mere transboundary movement of goods and services. In addition, it underscored the importance of effectively integrating trade into national development strategies.

The aspiration of the government is for Senegal to be an emerging economy by 2035. But it recognizes that to achieve this goal it has to address its development challenges in the trade and growth process, one of which is to transform the structure of its economy and enhance export competitiveness. To this end, the government adopted the Emerging Senegal Plan (Plan Senegal Emergent) as a development vision and model for the country. The new framework has three strategic pillars: structural transformation of the economy and growth; human capital, social protection, and sustainable development; and governance, institutions, peace, and security. Trade is expected to play a crucial role in realizing the goals of the Emerging Senegal Plan, and the government is strengthening efforts to create a favourable environment for private sector development and to enhance Senegal's participation in bilateral, regional, and multilateral trade arrangements. The government has also enacted a new industrial policy to restore industrial competitiveness in international markets, promote export-oriented activities, and restructure inefficient firms.

The Emerging Senegal Plan is not the only national document that has explicitly recognized and incorporated the role of trade into development strategies. The National Strategy for Economic and Social Development (NSESD) covering the period 2013–2017 also has a section on trade, as well as sections on industry and the development of productive sectors in general.

Gender issues have also been incorporated into national documents in Senegal. For instance, the NSESD acknowledges the problem of gender disparities as a major source of inequality. It also underscores the need for inclusive development by addressing the needs of women, children, and other vulnerable groups in the development process.

Trade policymaking process and institutions in Senegal

The Ministry of Trade (MOT) has overall responsibility for the formulation, development, and implementation of trade policies in Senegal. It performs this function in collaboration with the Ministry of Economy and Finance, but also consults other ministries, departments, and agencies. The MOT is also responsible for international trade negotiations, again in collaboration with the Ministry of Economy and Finance. In addition, the MOT represents the state in international meetings dealing with trade issues. The private sector also plays a role in trade policy formulation and implementation in Senegal, mostly through consultations between the government and the Chamber of Commerce, Industry and Agriculture.

The MOT supervises the activities of the Senegalese Export Promotion Agency (ASEPEX), which was created in 2005 and is in charge of implementation of the national export policy. Its main mission is to support Senegalese enterprises in their quest to improve access to external markets. ASEPEX provides an integrated platform of services dedicated to SMEs and offers a package of services including information, economic intelligence, facilitation of procedures related to external trade (such as administration and customs), and technical assistance to ensure the conformity of products to required quality and sanitary standards, and to adapt products to targeted markets (certification, labelling, trade-mark registration). ASEPEX also participates in trade fairs and exhibitions (UNCTAD, 2013a).

With regard to its activities related to international trade negotiations, the MOT is supported by the National Committee for Multilateral Trade Negotiations (CNNCI), an advisory body established in 2001 to formulate a strategic vision for the country's trade policy, harmonize a national position in relation to multilateral, regional, and bilateral trade negotiations, and supervise the implementation of trade agreements and periodically evaluate their application and impact. The Director of Foreign Trade serves as the Permanent Secretariat of the CNNCI.

The CNNCI brings together the representatives of the ministries in charge of the issues raised in trade negotiations as well as representatives from the private sector and civil society. It is composed of seven subcommittees: (a) merchandise trade; (b) trade in services; (c) trade in agricultural products; (d) trade and environment; (e) trade, investment, and development; (f) the Agreement on Trade-Related Aspects of Intellectual Property Rights; and (g) trade facilitation. These subcommittees are in charge of the organization of a number of activities defined in an annual programme. However, this programme is often not implemented, mainly due to the lack of the necessary financial resources and of mobility of the subcommittees' members. Despite its limited resources, the CNNCI's contribution facilitated some progress in terms of understanding what is at stake in multilateral and bilateral trade negotiations. In addition, the CNNCI plays an important role in defining Senegal's position in the Economic Partnership Agreements negotiations with the European Union, although this role is shared with other authorities such as the Mandate Committee of the Ministry of Economy and Finance and the National Committee on the West African Monetary and Economic Union (Union Economique et Monétaire Ouest Africaine).

CHAPTER 4

MAINSTREAMING TRADE IN LDCS: LESSONS FROM THE CASE STUDIES

The analysis of the trade policymaking and trade mainstreaming experiences of the six LDC case studies indicates that policymakers in these countries recognise the potential role of trade in addressing the development challenges they face and are increasingly taking measures to include trade and trade priorities in the design, formulation, and implementation of development strategies. Nevertheless, the analysis also indicates that they have not effectively mainstreamed trade into their national development plans and that this has contributed to their weak trade performance. Against this backdrop, this section attempts to draw lessons from the trade policymaking and trade mainstreaming experiences of the six selected countries for other LDCs. The key lessons identified are highlighted and discussed below.

4.1 National ownership of development policies is important

For LDCs to effectively mainstream trade into their national development strategies, they must have local ownership of their development policies and outcomes. For this to happen, there has to be genuine efforts by the government to involve local stakeholders in the trade policymaking and implementation process. National stakeholders on trade issues are many, and their interests are as diverse as the number of groups. There is the government, the private sector, and civil society, and within the private sector there are also producers and consumers. The interests of producers are quite different from those of consumers. In addition, producers tend to be more organized than consumers and are usually represented in the trade policy process by chambers of commerce and industry. In contrast, consumers are hardly consulted in the process. Similarly, within the private sector, manufacturers are by no means monolithic: the interests of export-oriented firms are substantially different from those of import-competing firms. These differences in interests and capacity underscore the need for an inclusive trade policymaking process to ensure local ownership of the trade mainstreaming process and outcome.

The case studies suggest that governments in general tend to consult the private sector in the trade policymaking process. But there is less evidence on the involvement of civil society groups in the process, reflecting the fact that producer associations tend to be the focus of consultations with the private sector in most countries. Interestingly, although most of the countries have a mechanism for consultation with the private sector, there are concerns that policymakers often do not incorporate those private sector views in trade policy formulation and implementation. This concern was raised, for instance, in the national workshop for Bhutan where there was a view that the private sector did not have as much influence on trade policy as it would like, and that this creates doubts on the part of the private sector about the usefulness of its participation in the process. These concerns underscore the need for trust and harmony between the government and the private sector to ensure that the trade policymaking process is inclusive.

4.2 Policy coherence is an imperative in mainstreaming trade

Policy coherence is critical to effectively mainstream trade into national development strategies, and this requires better coordination of policies across ministries, departments, and agencies. Efforts to achieve policy coherence should start with policy formulation and design and continue to the policy implementation stage. In order words, it should be done during all stages of the policy cycle. Duplication of efforts by ministries, departments, and agencies should be minimised, and efforts should be made by the different ministries that deal with trade and trade-related issues to avoid promoting conflicting goals. Ethiopia provides a telling example of a situation where lack of proper coordination has prompted the Ministry of Trade and the Ministry of Industry to promote conflicting goals. The Ministry of Industry is promoting exports of roasted and ground coffee while the Ministry of Trade is promoting exports of top-quality coffee. Thus, the Ministry of Trade is preventing high-grade coffee from being sold domestically and, consequently, firms do not get coffee to process.

The case studies show that most countries have established mechanisms for inter-ministerial coordination on trade issues. Ministries of Trade tend to be the lead and coordinating ministry. In some cases, a formal national committee is established and serves as the platform for coordination among the ministries, departments, and agencies working on trade and trade-related issues. Lao PDR has an elaborate and relatively comprehensive mechanism for inter-ministerial consultation. But as its experience demonstrates, having a formal mechanism for inter-ministerial coordination is a necessary but unto itself not sufficient condition to achieve policy coherence. There has to be willingness on the part of the policymakers in the various ministries to work together to attain key national development objectives. In this context, there is a need to reduce inter-ministerial competition and ensure that trade policy formulation be carefully carried out in a manner that avoids internal inconsistences that may jeopardize the achievement of national development goals. In addition, the short-, medium-, and long-term effects of a particular trade policy should be identified, and necessary complementary policies put in place to reduce any potential negative impact. In sum, there is the need to create synergies across government departments to ensure that policies are mutually reinforcing and achieve national development goals.

4.3 A mechanism for communication with the public is needed

Regular communication with the public plays a vital role in advancing the agenda to mainstream trade and achieving results. It is important in two respects. The first is to raise awareness and communicate trade policies to the public; the second is to disseminate trade information to entrepreneurs so that they can exploit available market opportunities. On the first point, producers and consumers in LDCs are often unaware of trade policies due largely to the lack of effective mechanisms to disseminate information on government policies to the public. This often leads to public apathy and makes it difficult to have local ownership of government policies. Only through effective communication of trade policies can the government hope to have the full cooperation and understanding of the public, thereby enhancing local ownership of policies. Regarding the second point, dissemination of information on prices and market conditions, particularly to farmers and small-scale firms, is important because they usually have weak access to sources of trade information. They also lack access to information and communications technology and depend on relatives, family friends, and other informal means to obtain information. In this context, making trade information on such topics as standards, sources of finance, and packaging and handling accessible to the public can facilitate trade and help entrepreneurs — especially farmers and small-scale firms — organize themselves and access export markets (Box 4).

4.4 Trade policy should be linked to industrial policy

Weak trade performance in LDCs is generally linked to weak industrial performance, and this implies that trade policy has to go hand-in-hand with industrial policies. Experience from the LDCs shows that they often develop trade policies independently from industrial policy and there is a very weak link between both sets of policies. Ideally, given the linkages between trade and industry, in formulating trade policies (such as setting tariffs on imports) the relevant ministry should take into account the country's industrial development priorities. The experience of Lesotho shows that even when trade and industry are under one ministry, policy coherence issues can arise. Although a national industrial policy was developed by

Box 4. Trade information and facilitation in Lao PDR

Over the past decade, Lao PDR has strengthened efforts to better exploit the potential of trade for development. A Diagnostic Trade Integration Study update carried out in 2012 identified the key constraints to trade and offered recommendations on how to overcome them. The Ministry of Industry and Commerce also developed a Trade Facilitation Strategic Plan for the period 2011–2015. One of the activities implemented under the plan was the development of the Lao PDR Trade Portal, which provides online information about import and export rules and procedures. These regulatory requirements involve a number of government agencies, and the portal gives information about what is required by each agency in relation to specific business or trade sectors. The portal, launched in 2012, helped the country meet transparency and accessibility commitments necessary for accession to the World Trade Organization. Public information for exporters, importers, and the public has been recognized as one of the pillars for trade development and for effective trade mainstreaming in national development strategies.

Based on the experience of Lao PDR, Lesotho also developed a trade portal through a bilateral agreement between the Kingdom of Lesotho and the government of Lao PDR. The portal is a single, online source for trade-related laws, regulations, and procedures for exporting and importing. The Lesotho portal was officially launched in 2014, and is an interesting example of South-South cooperation between LDCs. It shows that LDCs can learn from each other's development experience.

*Sources:*http://www.lesothotradeportal.org.ls/;http://www.laotradeportal.gov.la/index.php?r=site/ index; and UNCTAD (2013b).

Lesotho in 2010, it was only recently that the Ministry of Trade and Industry started to develop a comprehensive trade strategy. There is a need for LDCs to consider exploiting synergies between trade and industrial policies because weaknesses in trade performance are often due to weaknesses in industrial performance.

4.5 Inclusion of trade in national documents does not guarantee effective mainstreaming of trade

In the discourse on mainstreaming trade in LDCs, there is often emphasis on the inclusion of trade in national documents. However, it is important to stress that including trade issues in either PRSPs or other national development documents is not the same as effectively mainstreaming trade into national development strategies. The LDCs used as case studies for this handbook did include trade and trade-related issues in their national plans, albeit to varying degrees, yet they have not been able to fully exploit the potential of trade for development. This indicates that they have not effectively mainstreamed trade into their development strategies.

In this context, it should be noted that effective mainstreaming of trade requires that LDCs have a comprehensive and strategic trade policy framework. It also means that LDCs should have a holistic notion of trade policy and not focus trade policy disproportionately on exports at the expense of imports. This point is important because LDCs need imports of intermediate goods for their domestic industries and so should have policies that enable them to facilitate access to essential capital goods, which requires balanced treatment of imports and exports. Neither should trade policy focus predominantly on trade liberalisation. It should also focus on developing productive capacity, transforming the structure of exports, and lifting binding constraints to trade development such as lack of infrastructure, poor access to finance, and human resource development. Trade liberalization is useful to the extent that a country has the capacity to exploit available trade opportunities, and this is possible only when productive capacity has been developed.

4.6. Capacity-building is an important component of the mainstreaming trade agenda

Lack of adequate capacity can have a negative impact on the ability of a country to effectively mainstream trade into national development strategies. Capacity-building is required for various stakeholders: government officials, the private sector, and civil society. With regard to government officials, capacity-building is required to design, develop, and implement trade policies. It is also needed to build trade infrastructure and institutions, keep up with changing international trade policies, strengthen negotiation skills, and meet international obligations (e.g. WTO commitments). In strengthening the capacity of government officials, it is important to include officials from ministries other than trade because all ministries dealing with trade-related issues should have a good understanding of the linkages between trade and poverty so that they can contribute effectively to the mainstreaming trade agenda. Capacity-building is also required for the private sector and civil society groups. One of the important points emanating from the review of the experiences of the six LDCs is that the private sector and civil society lack enough understanding of trade and trade-related issues, and that this limits their ability to contribute effectively to discussions with policymakers on trade issues. In Kiribati, for instance, it was noted that non-state stakeholders are not active participants in the trade policymaking process because they lack the capacity to analyse trade policies and the means to keep up with fast-changing international trade policies.

Thus there is a need to develop capacity-building programmes for both state and non-state actors to facilitate the trade policymaking and mainstreaming process.

4.7 Gender issues should be a core component of the mainstreaming trade agenda

Mainstreaming trade into national development strategies and plans will be effective to the extent that trade policies are socially inclusive. A large portion of the poor in most LDCs are women, so policies that affect women have implications for efforts to combat poverty. This underscores the need for policymakers to take into account the poverty impact of trade and trade-related policies on vulnerable groups, particularly women and children. It also calls for inclusion of social programmes in the development of trade strategies and frameworks. Ethiopia's Productive Safety Net Programme is a good example of a social programme that LDCs could put in place to help vulnerable groups participate in the trade and development process. Kiribati also has a programme involving working with women groups to facilitate exports to New Zealand.

A key lesson from the case studies is that the type of exports a country specializes in matters for social inclusion. In particular, to enhance the likelihood of achieving significant poverty reduction through trade, LDCs should prioritize export sectors where the labour force participation rate for vulnerable groups is likely to be high. Lesotho's experience in this area is interesting. Trade policy coupled with preferential trade opportunities arising from the U.S. African Growth and Opportunity Act led to a rapid expansion of the textiles and apparel industry, created employment for women in the sector, and had a significant positive effect on their social and economic status. But it also brought to light the fact that when the jobs created require mostly unskilled labour, there is a need for the government to invest in education and training programmes for women to enable them to access jobs in higher segments of the value chain (UNCTAD, 2012).

Other policy options to enhance women's participation in labour markets and trade include increasing women's mobility and security; providing information on available employment resources; encouraging flexible work arrangements; and improving women's access to productive resources by facilitating access to credit, land, inputs, and infrastructure.

4.8 Mainstreaming trade is not a costless exercise

Mainstreaming trade into national development strategies requires financial resources. Success in this endeavour will depend in part on the extent to which LDCs have sufficient financial resources to implement development policies and programmes. In this regard, LDCs should strengthen domestic resource mobilization in order to relax their financing constraints, give them more policy space, and enhance their ability to finance their development goals. It is also important that trade priorities be taken into account in the budget and planning processes to ensure that policies can be implemented as planned. For this to happen there has to be coordination of policies and regular interaction between the trade ministries and the finance and planning ministries.

4.9 Mainstreaming trade has regional and global dimensions

Mainstreaming trade is not only a national issue — it has regional and global dimensions as well. At the regional level, many LDCs are members of regional trade groups and have signed regional trade and investment agreements with implications for trade policy formulation and the choice of policy instruments at the national level. Effective mainstreaming requires that these agreements be transcribed into national laws and taken into account in the process of mainstreaming trade into national development plans. For the African LDCs, the prevalence of overlapping memberships of regional trade agreements presents a challenge for mainstreaming trade because the various regional trade groups have different degrees of ambition with regard to liberalization and often have conflicting interests that are not easy to reconcile.

There are also issues at the global level that have implications for mainstreaming trade into national development strategies. For instance, LDCs tend to rely on donor assistance to fund some of their programmes. It is important that LDCs take this into account and work with donors to ensure that aid goes to priority sectors identified by the LDC governments. Another pertinent international issue is that LDCs are parties to several global development initiatives (Sustainable Development Goals, Istanbul Programme of Action, etc.) that should be taken into account in trade policy formulation and implementation. In this context, there is a need for LDC governments to consider mainstreaming trade not just as a national issue, but also take into account regional and global initiatives that might impinge on their ability to implement their trade mainstreaming agendas.

4.10 The need for emphasis on policy implementation

One of the challenges facing LDCs is how to implement policies and programmes in national development strategies and plans. The countries often have very good ideas in their development plans that are not fully implemented, resulting in policies that do not have expected outcomes. This is due largely to the fact that the LDCs often devote a lot of time to policy design and formulation and less to implementation. It is also a consequence of the fact that they do not have effective mechanisms for monitoring and evaluation of trade policies. In this context, LDCs need to place as much emphasis on policy implementation as on policy design and formulation. Monitoring and evaluation is important in mainstreaming trade because it is a dynamic process with changing circumstances that have to be adjusted to ensure that the ultimate goal is realized. Investments in data collection and statistics will improve statistical capacity, make monitoring and evaluation much easier, and enhance implementation of the mainstreaming agenda.

CHAPTER 5

DESIGNING AND IMPLEMENTING AN EFFECTIVE TRADE STRATEGY

5.1 Elements of a trade strategy

A trade strategy should inform and guide the design of the country's trade policy and related investment and action programmes for a three- to five-year period. It should identify priority areas for the government, in the process helping both the private sector and other stakeholders to plan. It should clearly lay out concrete goals and identify how those goals will be pursued, including what policy actions will be taken; how the needed coordination within and across government will be assured; and how input from the business community and other stakeholders will be facilitated. The strategy should provide a framework for monitoring and evaluation of results so that policy can be adjusted and revisited if goals are not being achieved.

The strategy should be developed through extensive consultations with stakeholders, including business groups, farmer organizations, communities, worker associations, civil society groups, research institutes, and academia, as well as trading partners (other governments) and the international investor community. These consultations should focus not only on understanding what stakeholders are looking for or think would be desirable as regards trade policy looking forward, but also seek inputs and views on the effects of prevailing policies and the constraints that affect traders and potential investors.

In a handbook such as this, it is not possible to list what the specific elements of a trade strategy should be for any given country — that is something which should be done by the government, informed by the results of consultations and the available research on sources of trade impediments at home and in export markets. However, based on UNCTAD's research on trade issues and the outcome of a series of consultations by the World Bank in a number of developing countries to support development of its 2011 trade strategy, this handbook identifies five priority areas of focus that should be in a national trade strategy in LDCs: enhancing competitiveness of domestic enterprises; reducing trade transaction costs; improving access to foreign markets; strengthening productive capacity; and reducing the burden of adjusting to trade reforms on vulnerable groups.

The extent to which actions taken in support of these goals are successful is measurable. Quantitative performance metrics should be defined in a results-based framework as part of the strategy that specifies numerical targets for key indicators and specific outcomes that the strategy aims to achieve. Such targets may include elements that are preconditions for enhancing the trade performance of the country

— such as improving productive capacity, attracting investment, and facilitating the transfer of technology.

The strategy process should go beyond laying out goals and include an assessment of whether the prevailing organizational and institutional structure is "fit for purpose" in delivering the priority objectives. In practice, stronger and more effective internal coordination and cooperation across different parts of government may be needed to enhance the likelihood that the strategic objectives can be achieved. The trade agenda extends far beyond the border policies that are traditionally understood to comprise trade policy. A result is that trade may not be considered in the design of projects and programmes that have an important bearing on the ability of firms and farms to benefit from trade opportunities, be they in transport, agriculture, the financial sector, and so forth. Given that trade is inherently a cross-cutting issue that involves many government departments and units — ranging from agriculture to water, transport, finance, information and communication technologies, the business environment, the investment climate, tax issues, macroeconomic policies, and so forth — it is easy to miss opportunities for synergies and complementarities, and for coordination efforts to fall short. One reason why trade policy priorities may receive inadequate attention from governments is because trade/commerce/industry ministries may not have the mandate or the capacity to provide the needed coordination services to bring together line ministries and agencies that are responsible for policies that affect trade costs and incentives.

Ensuring regular monitoring and evaluation of results is a vital dimension of any effective trade strategy. Absent quantified and measurable targets and objectives, it is not possible to assess whether the strategy is effective in attaining the goals that have been set. Explicitly defining the results that should be pursued is therefore important. Possible metrics that could be used are discussed below.

What follows uses the above five-fold categorization as an organizing device for discussing the elements of a national trade strategy.

5.1.1 Enhancing trade competitiveness

A fundamental objective of the trade strategy should be to increase trade competitiveness by strengthening the ability of national firms to confront international competition, both at home and in export markets. Trade policy is just one, albeit important, element of the national development policy in all countries that have chosen a trade-oriented development strategy. Competitiveness will be affected by many policies and other considerations, and what the different arms of government do in pursuit of their mandates may negatively affect competitiveness. From a national welfare perspective, strategies may be appropriate if the instruments they use to achieve the objectives set out by the government employ specific policies (raising revenue, ensuring health and safety, etc.) that are effective. But it is important that the trade competitiveness impact of domestic policies be discussed and considered explicitly.

In a comprehensive empirical analysis and survey of the extensive literature on the subject of competitiveness, Delgado et al. (2012) highlight three interrelated drivers of national competitiveness: (a) social infrastructure and political institutions, (b) macroeconomic policies (which will be a determinant of the real exchange rate), and (c) the microeconomic environment. The latter includes the business climate broadly defined to encompass factor markets, product market contestability, trade openness, and physical infrastructure, as well as the policies that affect the availability, cost, and quality of services inputs that companies rely on to produce and distribute their output. All three drivers are significant determinants of competitiveness, but the last is argued to be most important in that it has the greatest impact on firm-level productivity. The first two broad drivers are economy-wide in their impact — affecting all firms or broad groups of firms similarly. The business/microeconomic environment, in contrast, may have very differentiated effects because it influences the ability of entrepreneurs to start new activities and the ease with which they can expand and contract economic operations. Moreover, the relevant variables can be influenced by numerous actors, including municipal or regional governments, as opposed to primarily being determined by the central government, as is the case for macroeconomic and monetary policy.

The approach by Delgado et al. (2012) is very broad, spanning a large number of the relevant variables that affect competitiveness. Efforts to determine what matters from a narrower trade perspective tend to take the institutional and macroeconomic framework conditions as given and focus on policy areas that can be changed in the short run. The World Bank, for example, has developed a trade competitiveness policy toolkit that centers on three broad areas: economic policies that affect overall incentives; factors affecting operating costs; and policies that may be used to address specific market failures. In operationalizing this toolkit the focus is on:

- *The incentive framework for trade*, including anti-export biases created by trade and tax policy; the regulatory environment and investment climate faced by firms; and external market access conditions.
- *Factor inputs and trade costs*, including labor markets, skills, and the sophistication of management; accessibility and cost of production inputs, capital equipment, utilities, finance, and business services; and trade logistics and transport services.
- *Proactive trade promotion policies,* including the capacity, incentives, and institutions that affect innovation processes, standards and certification systems, and export and investment promotion mechanisms, including special customs regimes and economic zones, clusters, and sector-specific support (industrial policy) (Farole and Reis, 2012).

Such a narrower focus on the determinants of trade competitiveness still spans a large number of policy areas, illustrating the need to consider a broad range of policies in the design and implementation of the trade strategy.

Competitiveness at the firm and industry level will depend on the capabilities of managers and workers, as well as on the access that companies have to relevant technologies and knowledge. These are all dimensions that determine the productive capacity of a country at any point in time. Of particular importance for the ability of firms to participate in world trade is access to telecommunications, transportation, financial services, and other business services such as accounting and legal services. High-cost or low-quality services act as a tax on exporters and ultimately on growth and poverty reduction. If companies do not have access to reliable and competitively priced service inputs, they will be forced to offer their own goods or services at a higher price and as a result may find they cannot penetrate export markets or confront competition from imports.

Both macroeconomic policies and the microeconomic environment are important determinants of competitiveness. Macroeconomic policies affect incentives for all firms located in a country, while sectoral and microeconomic policies will have differential effects on firms depending on variables such as a firm's capabilities, size, and sector of activity. Both types of policies can have major effects on the export performance and economic growth of low-income countries. Neither is sufficient by itself to ensure that firms in a country can compete with firms based in other nations. A bad macroeconomic policy mix can be very detrimental for competitiveness, but so is a bad microeconomic policy environment. Most countries have greatly improved macroeconomic management in the last two decades. Given macroeconomic stability, the microeconomic incentive framework becomes critical from an overall productivity growth perspective and in terms of better taking advantage of the opportunities offered by the global trading system.

Determinants of macroeconomic competitiveness

To sustain export growth over time, it is critical to ensure that the real exchange rate — the relative price of a basket of goods in two countries or relative unit labor costs — is not overvalued . A policy of pursuing real exchange rate undervaluation has often been used by developing countries to boost their exports. A depreciation of the exchange rate can be equivalent to a combination of raising import tariffs for all traded goods and providing local firms with an across-the-board export subsidy.

A rationale for pursuing real undervaluation is that the policy and operating environment in developing countries often increases costs of production relative to firms located in countries with better institutions and governance. Undervaluation may then help to offset such higher costs for exporters, leading to greater export production and associated increases in investment and employment. The extent to which undervaluation will work in expanding net exports will depend on many factors, including:

- The behavior of nominal wages: if these increase, the competitive impact will be undone;
- The ability of the monetary authorities to control inflationary effects, which can generate macroeconomic instability, with associated costs that far outweigh the temporary advantages given to exports;
- The extent to which firms rely on imported inputs: in an increasingly supply-chain-driven world, a tax on imports is a direct tax on exports that embody the imported inputs, so the competiveness effects of a depreciation will be offset the higher is the degree of integration into global value chains and/or the import dependence of firms;
- The degree to which exporters hedge against foreign exchange risk; and
- The currency in which exporters invoice their products.

While avoiding overvaluation is important for the competitiveness of firms in the export sector, it is just as important that the exchange rate be predictable and stable.

Tariffs and non-tariff measures as determinants of competitiveness

From a more narrow trade policy perspective, an important determinant of competitiveness is the level and structure of tariffs. Tariffs and related policies that raise the cost of sourcing products from foreign suppliers will reduce the competitiveness of firms by increasing the costs of machinery and other inputs into production. The average applied most favoured nation tariff in many LDCs is often in the 10–15 per cent range, and tariff peaks that are designed to protect specific industries may be a multiple of the average rate. High levels of tariffs are an impediment to enhancing trade competitiveness. Careful consideration should be given to assessing the effects of the prevailing tariff structure — including the impact on the ability of firms in the country to connect to and participate in international value chains — and to using the trade strategy as an instrument to guide implementation of a programme of tariff reform and liberalization.

For many enterprises in developing countries, transportation costs (domestic and international), transaction costs, and administrative requirements related to non-tariff policies are higher than the applicable tariff on imports of inputs or the tariffs that apply in export markets. Elevated transport costs reduce export prices and increase prices of delivered imports. Hence, exporting industries with higher transport costs must pay lower wages or accept lower returns on capital. Freight rates for sub-Saharan African countries often are considerably higher than on similar goods originating in other countries and have contributed to the region's poor trade performance and poverty in recent decades. Burdensome transportation costs are attributable to numerous causes, including deficient infrastructure and counterproductive policies. For example, if policy results in less competition on a market and limits choice, the result will be to potentially raise costs for shippers significantly and, perhaps more important, create capacity constraints that impede the expansion of production for which there is export demand.

The success that has been achieved by a number of countries in expanding exports of fresh fruit, flowers, and vegetables illustrates the enormous possibilities when transport and related services are efficient. A number of countries in Latin America and Africa have seen exports of these products to the United States and Europe expand substantially as a result of investments in the supply chain that ensure fresh produce can be harvested, packaged, and shipped by air to major markets overnight. The necessary ingredients for such export successes may be known to investors and companies but not be realized because one or more links in a supply chain is not in place.

Participating in and benefitting from agri-business value chains requires not only quality produce but efficient domestic logistics services (packaging, distribution, transport, and cold storage where needed) and competitively priced, reliable, and regular transport services. Governments and businesses need to work together to identify where specific links of a value chain are missing and to determine how they can be provided.

Although competition is generally an effective instrument to lower average costs and increase the quality and variety of services to which firms in all sectors need access to be competitive, there is a critical role for governments in addressing specific market failures and supplying public services. This is particularly important for small firms that by definition do not have the capacity to provide missing services in-house the way a large company might.

Market failures versus policy drivers of competitiveness

Most LDCs, as well as other developing countries in Africa, the Middle East, and Latin America, continue to rely on a highly concentrated export bundle comprised mainly of natural resources and agricultural products and exported to just a handful of markets. Indeed, the share of minerals and fuels in total LDC exports stands at some 67 per cent, up from 43 per cent in 2000. Many developing countries have a very narrow export base, whether measured in terms of the number of products that account for most revenue earned, the number of markets exported to, or the number of companies that export (Cadot, Carrère, and Strauss-Kahn 2011). New products often account for just a very small share of total exports.

A key challenge for LDCs and many developing countries is both to diversify their trade along the so-called extensive margin — exporting products to new markets or beginning to export new products — and to expand the total value of trade with a given partner country once a trade link has been established (the so-called intensive margin of trade). A conclusion that emerges from a rapidly expanding body of empirical research that uses firm-level data on bilateral trade flows is that the survival rate of new export relationships is very low in many developing countries. While firms in these countries are often just as entrepreneurial as companies in richer countries when it comes to exploring potential new markets, the problem is that they are less successful in sustaining new trade relationships.

Besedes and Prusa (2011) note that the problem is not that firms have disincentives to engage in a process of "discovering" potential opportunities for diversification, but rather one of reducing failure and exit rates. They conclude that for low-income developing countries, 7 of every 10 new export relationships fail within two years, as compared to more successful exporters that fail at only half that rate. Africa stands out as the region where survival rates are among the lowest. Cadot et al. (2013) find that less than 20 per cent of new export relationships established by companies in Malawi, Mali, Senegal, and Tanzania survive longer than one year.

Exporter survival rates are a good proxy for trade competitiveness. They vary tremendously across developing countries, but in general are low. Most companies that start to export in a given year are no longer exporters the following year. In a sample of 17 LDCs for which there is detailed data, the export failure rate averages 41 per cent, with a high of 67 per cent in the Gambia and a low of 29 per cent in Bangladesh (Nicita, Shirotori, and Klok, 2013). Such high failure rates are costly, as resources incurred in entering an export market are lost when the exports are not sustained. Low firm survival also increases volatility in the incomes of the workers employed in firms that fail to sustain export production.

Low survival rates are one reason why in practice most companies do not export and why most of a country's exports are generally accounted for by a very small number of (large) firms. Low survival rates matter for achieving and sustaining growth in the total volume of exports because they imply that new relationships do not deepen and expand over time, which in practice is the primary channel through which export growth and diversification occurs. The question that matters for policy is why survival rates are so low — a question that should be asked and answered as part of the implementation of the national trade strategy.

Research to date suggests that learning-by-doing and overcoming market information problems matter for export survival: experience with exporting the same product to other markets increases survival rates, as does the presence of other firms in the exporting country that sell the same product to the same destination (pointing towards the existence of possible cross-firm synergies that are driven by firms learning from each other). There is also some evidence that export diversification success (survival) depends on the ability of firms to learn over time. That is, a specific failure in a given market is not necessarily the end of the story — firms can learn from a failed effort to penetrate a market. There is also research that points to the importance of entry by multinational companies as a channel for knowledge transfer and learning.

These considerations have implications for trade promotion efforts. Research assessing the effectiveness of trade promotion agencies generally finds that export support activities are associated with an increase in exports, but that the effect is primarily to increase the number of firms trying out new markets as opposed to significantly increasing the volume of exports by helping firms realize economies of scale and improve their productivity. The trade research literature demonstrating the very low survival rates of new trade relationships suggests that the focus should also be on increasing the probability of survival.

On average, the top 5 per cent of exporters in developing countries account for some 80 per cent of total exports of non-oil products (Freund and Pierola, 2012). This suggests that trade promotion activities include a focus on companies that are already doing well and that have the potential to grow significantly given further improvements in their productivity. The type of export assistance and trade support that is often offered may do little to help larger, high-growth-potential firms. These firms have already demonstrated their ability to overcome the fixed costs that are associated with entering foreign markets. They have the managerial capacity and other capabilities to compete in these markets. The focus instead should be on identifying the constraints that impede their growth. This may lie in the sphere of cost-raising regulatory policies, a need to have access to lower-cost services inputs, addressing specific infrastructure weaknesses or bottlenecks that constrain capacity expansion, and other factors (ITC, 2014).

Measuring trade competitiveness: quantitative indicators

Setting targets and identifying indicators to measure progress in achieving them are important elements of a trade strategy. The government should clearly define what it wants to achieve and how it will measure whether the goals are being achieved. A number of medium-term targets should be defined and monitored using an agreed-upon set of indicators. Targets can span a mix of aggregate measures such as export growth, the aggregate value of gross exports, or the domestic value-added share of total exports, as well as more narrowly defined goals such as survival rates of new trade relationships, the number of firms that sustain exports over a period of years, the use of e-commerce, or the intensity of participation in international production networks and value chains. Other measures may target the performance of trade support initiatives and institutions such as trade and investment promotion agencies and the availability of and access to trade credit and related guarantees.

It is important that attention include a focus on key macroeconomic indicators of competitiveness such as the level of the real exchange rate, changes in the real exchange rate over time, and changes in market (export) shares for a country. All of these are very useful indicators of trends in competitiveness. Many factors can affect relative unit labor costs and the evolution of market share. What ultimately matters is the rate of increase in overall productivity, which in the aggregate determines economic growth rates in the longer run — in other words, the ability to generate greater output from any given supply of inputs. From such a longer-run perspective, trade competitiveness will be a function of the ability of firms to allocate and deploy resources to the most productive, highest-valued activities. This in turn will depend on the feasibility and cost of reallocating and redeploying resources, with more productive firms expanding and others contracting or closing down. This suggests that measures of entry, exit, survival, and growth of firms that operate internationally should also be included as indicators to monitor and assess the effectiveness of the country's trade development strategy.

Candidate targets and indicators could include the following factors (with the possible source of the requisite data noted in parentheses):

- Current account balance as a share of GDP (Central Bank)
- Level and change in the real effective exchange rate (Central Bank; International Monetary Fund)
- Magnitude of FDI inflows and sectoral distribution of inward FDI (Central Bank; investment promotion agency)
- Growth rate of gross exports and imports of merchandise and services (Central Bank; Ministry of Finance/Customs)
- Share of remittances to GDP (Central Bank)
- Share of exports of goods and services to GDP (Central Bank)
- An export diversification index (Customs)
- Share of foreign inputs in gross exports — a supply chain participation index (Customs)
- Value-added content of exports (Customs)
- Survival rates of new export relationships at the firm level (Customs)

- Export growth performance of large exporters (Customs)
- Share of trade that makes use of e-commerce platforms (surveys)
- The level of effective protection (average tariff, dispersion/escalation, and trade restrictive indices for goods [the Overall Trade Restrictiveness Index] and services [the Services Trade Restrictiveness Index]) (Ministry of Finance)

For every indicator selected it will be necessary to establish a baseline against which the target will be defined and ensure that it will be possible to monitor performance (changes in the indicators) over time. For some of the indicators a methodology will need to be chosen, selecting one or more of the approaches that have already been developed by academics and international organizations. For example, the World Bank has defined several possible diversification and trade restrictiveness indices (Borchert, Gootiiz, and Mattoo, 2014; Farole and Reis, 2012; Kee, Nicita, and Olarreaga, 2009), and the Organisation for Economic Co-operation and Development (OECD) has developed methodologies to measure supply-chain participation and trade in value added.

5.1.2 Reducing trade transaction costs

Trade facilitation and logistics performance

Lowering trade transaction costs is critical from a competitiveness perspective. High trade costs are a key factor explaining why some countries have done so much better than others in recent decades. A theme of this handbook is that a major objective of trade policy today should center on a concerted effort to lower trade costs both at home and in potential export markets. Making consistent progress in lowering trade costs requires dedicated processes and institutional mechanisms that are fit for purpose. These differ from those that are traditionally associated with the pursuit of trade policy. Indeed, a major challenge and necessary condition for any country seeking to use trade as part of an economic growth and development strategy must be to re-focus existing trade policy institutions and to put in place national processes that identify and guide an action agenda that is aimed at reducing trade costs for enterprises, including SMEs.

Policies affecting trade and investment in services are an important dimension of any agenda to facilitate trade and of any effective national growth and development strategy. Facilitating greater trade and investment in services may involve domestic reforms in the services markets, but also improving opportunities for domestic firms to sell services in foreign markets and identifying measures that will enhance the productivity and competitiveness of domestic firms. Services policies should be an integral part of a nation's trade strategy because the availability, cost, and quality of services — both privately provided services and public goods such as transport infrastructure, health care, and education — are major determinants of an economy's productive capacity.

There is no nodal ministry or government department whose primary focus is trade facilitation. Neither is there a central ministry that takes the lead in terms of logistics issues. Areas of concern related to trade facilitation are the administrative responsibility of several ministries and departments, such as the Ministry of Commerce and Industry, Finance (Customs and Excise), Shipping and Ports, Road Transport, Railways, and Civil Aviation. Allied agencies at the border that govern regulations related to technical standards include the Ministries of Agriculture, Food, Consumer Affairs, Health, Environment, and Textiles.

This means that genuine industry efforts to lobby for reforms sometimes get diluted, given the multiplicity of agencies toward which these lobbying efforts are directed. This also results in poor coordination and lack of administrative urgency in implementing any reforms. Since reforms often involve disempowering departmental fiefdoms, they invariably lead to bureaucratic resistance to change. The multiplicity of departments involved ensures that these challenges get compounded. Essentially, then, industry bodies and other interested stakeholders end up with a sense of fatigue when they push for even small changes in the system. This is the problem faced by the private sector in most developing countries, and hence the governments are not aware of the reality on the ground in terms of problems with trade transaction costs.

The efficiency of border management and the quality of transport and logistics services is one element of overall trade costs confronting companies. Even if tariffs are zero, if firms confront high and uncertain border costs and are forced to rely on inefficient and unpredictable logistics service providers, they will not be able to compete with firms in other countries that benefit from operating in a more efficient economic environment. SMEs may suffer disproportionately from supply-chain barriers to trade because of the magnitude of the fixed costs that are independent of volumes shipped. For example, small firms often cannot spend the staff time needed to understand a given country's idiosyncratic policies and procedures, much less those of many countries. Case studies using eBay data show that merchants who use the eBay platform to sell goods internationally stick to countries where regulations are easiest to navigate (Olarreaga et al., 2012). A pilot project implemented by eBay shows that helping SMEs navigate the regulatory regimes of importing countries could expand their volume of international sales by 60 to 80 per cent (WEF, 2013). Given that SMEs account for a large share of total economic activity, this type of targeted trade facilitation could have significant positive spillover effects on employment.

As with trade competitiveness, governments should define clear trade facilitation and logistics performance objectives and identify the indicators that will be used to determine the baseline and assess progress.

Trade facilitation and logistics performance indicators

Given that international organizations and researchers have developed a number of indicators that are directly relevant to measuring trade facilitation and logistics performance, the first step should be to agree on which of these indicators to use as a target. The World Bank's international Logistics Performance Index (LPI) has six components: (a) the efficiency of customs and border clearance; (b) the quality of trade and transport infrastructure; (c) the ease of arranging competitively priced shipments; (d) the competence and quality of logistics services (trucking, forwarding, and customs brokerage); (e) the ability to track and trace consignments; and (f) the frequency with which shipments reach consignees within scheduled or expected delivery times. Data are based on surveys of companies that are involved in trade, including freight forwarders and brokers. The LPI also includes information on the time and costs of exporting goods using different modes of transport/ports/airports; the number of forms/documents that are needed to clear goods; the number of agencies involved in clearing the border; clearance times; and the share of consignments that are subject to physical inspection.

Other sources of information include national and regional initiatives that are designed to measure the performance of corridors. For example, donor agencies and development banks are supporting trade observatories that measure such issues as the time it takes for trucks to travel along corridors, and the number of times trucks are forced to stop (controls, inspections).

As is the case with measuring improvement in trade competitiveness, the focus of measurement and monitoring should extend to relevant policies. Many of these policies will be covered by the WTO Agreement on Trade Facilitation, as in the case of policies on the use and availability of pre-arrival processing; electronic payment; separation of release from final determination of payment liability; use of risk management tools; post-clearance audit; publication of average release times; special regimes for authorized economic operators; and treatment of expedited shipments.

Other specific targets and indicators in this area could include cargo dwell time at ports and airports; the number of express consignments that are held (i.e. stuck) after all formalities have been completed (data on this are compiled by the industry); and truck waiting times at land borders/corridors (drawing on observatories and surveys)

5.1.3 Improving access to foreign markets

While national economic policies will be the main determinant of national trade performance, performance will also be affected significantly by actions taken by foreign governments. Some of these actions reflect regulatory objectives and measures that apply equally to foreign and domestic products, but which nonetheless constitute a barrier for exporters to overcome. In general, companies must be able to navigate increasingly complex regulatory regimes in foreign markets. This requires investments in training and staffing, but also pro-active approaches by governments to working with businesses to address the trade-impeding effects of non-tariff policies and regulatory measures that apply to goods and services (Cadot, Malouche, and Sáez, 2012; Hoekman and Mattoo, 2013). In addition to the costs associated with regulatory policies, foreign governments may have in place trade policies that are designed to discriminate against foreign goods and services. These policies may involve tariffs, trade remedy actions, tariff rate quotas, and other measures.

The market access agenda — that is, efforts to lower the costs for national firms to get their goods and services into foreign markets — is an important dimension of the trade strategy. Many LDCs have duty-free, quota-free access to high-income country markets for most of their exports. But this is not the case for most of the high-growth markets in the rest of the world. In addition to tariffs, non-tariff measures and regulatory requirements can constitute prohibitive trade barriers. Indeed, ancillary policies such as rules of origin may substantially reduce the benefits of preferential market access.

Foreign trade barriers call for the pursuit of trade agreements, both multilaterally (in the WTO) and with specific trading partners that are of most interest and relevance for the country, such as neighbouring markets and the dynamic, large (re-)emerging economies in Asia, most notably China and India. The latter are increasingly sources of FDI, which creates opportunities to use trade agreements with these countries as an instrument to both attract more FDI and know-how from them and to improve export access to high-growth regions of the world. For both OECD and emerging economy markets, an important part of the trade agenda is to deal with non-tariff measures. This will generally involve domestic upgrading and strengthening of regulatory mechanisms and institutions, for which Aid for Trade may be available as part of the trade integration initiatives that the government decides are priorities.

Targets and quantitative indicators for market access can include the number of new agreements negotiated with priority trading partners; the coverage of what have been determined to be key priority areas; measures of the extent to which the provisions of agreements are implemented (with indicators determined by the content of the agreements); and the number of dispute settlement cases brought (one measure of the effectiveness of agreements).

5.1.4 Strengthening productive capacity

The three suggested pillars of a trade strategy discussed so far are all focused on improving opportunities for firms to better exploit existing trade opportunities and on creating new opportunities to do so. However, the ability of a country to benefit from trade opportunities does not only depend on market access barriers and the trade and operating costs that firms confront locally and in foreign markets. It also depends on the capacity of the country's firms and farmers. If economic operators cannot produce goods and services of the quality or scale demanded by foreign buyers, the opportunities may not translate into trade growth. Supply capacity is often a serious constraint on the aggregate trade performance of LDCs.

One element of addressing productive capacity weaknesses is to attract FDI. Foreign investors bring not just capital but also, and much more importantly, knowledge and know-how. They will demand a variety of ancillary goods and services that can best (i.e. most cheaply) be supplied locally. Insofar as a foreign company has a strong interest in sourcing locally, it will likely provide local suppliers with technical assistance, access to key inputs (seeds, fertilizer), trade credit, etc. in order to improve the supplier's product quality and capacity to deliver.

However, FDI is only a part of the answer to productive capacity constraints. Other elements to address supply weaknesses will involve actions by governments to correct infrastructure weaknesses (e.g. rural roads that connect to corridors, information technology connectivity, and the reliability and cost of access to electricity). In addition to these well-known and understood determinants of supply capacity, specific market and government policy failures may impede scaling up of particular economic activities for which there is demand in the rest of the world. What this implies for trade strategy is that mechanisms need to be supported to help identify what those market and policy failures are and trigger action to address them.

In many cases the resources needed to deal with such issues can be mobilized or are already in place as a result of the Aid for Trade initiative. The challenge is to identify the issues and ensure that they are prioritized by the government in its interactions with development agencies and bilateral donors. The consultative and deliberative mechanisms discussed in the next section can play an important role in doing so, complementing and strengthening existing modalities for such identification and prioritization that already exist in most LDCs — most notably the Diagnostic Trade Integration Study and the national focal point under the Enhanced Integrated Framework.

5.1.5 Reducing the burden on vulnerable groups of adjusting to trade reforms

Trade reforms have long-run benefits, but in the short run they impose costs on economies. They expose domestic firms to international competition, often leading to job losses and restructuring of industries. The required adjustments are costly and have effects that differ across groups, creating winners and losers. In general, trade reforms tend to benefit owners of mobile factors of production such as capital and skilled labour. Owners of unskilled labour tend to bear most of the negative impact of trade reforms in an economy because they have less means and ability to cope with or adjust to these reforms. Furthermore, the costs of adjustment to trade reforms tend to be high for women, due in part to the fact that they tend to have less education and access to finance and opportunities that could help cushion the negative effects of these reforms. Against this backdrop, it is important for LDCs to design and implement trade policies and strategies that take into account the differential effects of policies on women and other vulnerable groups. There is also a need to adopt complementary policies (such as social inclusion programmes) to assist vulnerable groups in dealing with the adjustment costs of trade reforms.

5.2 Implementing the strategy

The previous section discussed possible elements of a national trade strategy, leaving open how priorities can be defined and what is needed to implement the strategy once it has been agreed upon. A first step is to delegate the institutional responsibility for the development of a national trade strategy and its implementation. Given the cross-cutting nature of the trade agenda, it is necessary that many stakeholders and parts of government be involved in both design and implementation. For the same reason, leadership should not rest with any one existing agency or ministry. What is needed is an "apex entity" that has a clear mandate from the country's leadership to consult with stakeholders and manage the process of developing the strategy. This entity cannot be solely responsible for implementation, as that will by necessity involve many players in and outside of government. Instead its role in the implementation phase is to act as a coordinator and convener, and to have the responsibility (a mandate) to monitor and assess implementation by the relevant agencies within the government.

All the stakeholders must have "ownership" of the trade strategy and related policies. They must perceive that what is being pursued will help the country compete in the international market place and support better jobs and economic growth. However, in practice specific policy actions that are needed for strategy implementation may negatively affect some groups, both in and outside of government. Moreover, prevailing policies in a given area may be inconsistent with the realization of the trade strategy. To address such political economy realities it is necessary that the apex entity report directly to the head of government and have the mandate to point out where specific policies are not consistent with the strategy. Conversely, it is important that those that are affected by trade policy actions have a voice — including those that are negatively affected. This also calls for a cross-cutting institutional arrangement to ensure both accountability and transparency.

There are many models that have been adopted by countries that have as objectives to inform policy formulation and act as coordination mechanisms. Effective models have a number of common characteristics: (a) high-level political support — that is, reporting to the President or Prime Minister; (b) an institutional mandate to undertake high-level coordination of responsible public agencies (e.g. Trade Team Canada is comprised of 21 federal government departments, the U.S. Export Cabinet is comprised of 14 public agency heads, and the U.S. Trade Promotion Coordinating Committee is comprised of 20 agencies); and (c) a formal private sector consultative structure to ensure both transparency and provide a mechanism for business and other stakeholders to provide input and feedback to government.

In what follows, the cross-cutting apex entity will be called the National Trade Council (NTC). A key function of the NTC is to coordinate and ensure that all agencies that pursue activities affecting prospects of achieving the goals of the trade strategy — line ministries, regulatory bodies, and regional or provincial governments — know what the goals are, are fully informed and aware of the priorities defined by the strategy, and use that strategy as a framework to guide their activities.

The NTC provides executive sponsorship and oversight, vision, and strategic direction. It leads the process of trade strategy design and facilitates stakeholder-wide communication. It oversees the country's overall trade performance and updates the strategy when required based on feedback and impact assessments. The NTC engages with stakeholders and agencies as needed to ensure organizational alignment on the strategy; resolves conflicts and disputes between agencies, including issues related to ensuring that required funding is allocated for implementation; and regularly reviews progress in implementation of the trade strategy.

The NTC should be chaired by an official with ministerial rank who reports directly to the head of state. The council should include senior representatives of all relevant ministries and regulatory agencies. It should have the mandate and authority to create technical committees if and when deemed necessary that bring together sectoral or issue-specific experts to provide input on the design or implementation of specific dimensions of the trade strategy, such as sectoral strategies and methodologies to collect required data, among others.

The NTC should be supported by a small secretariat that can be tasked with organizing meetings and managing consultative and deliberative bodies (see below); interacting with the business/investor community; and monitoring and evaluating the impact of implementation of the national trade strategy. Specific activities of the NTC secretariat could include assistance in the development of key performance indicators and milestones; assistance in the development of work plans; review and monitoring of progress against work plans; support for line agencies with analysis and benchmarking studies; ensuring information-sharing among stakeholders; undertaking analysis of outcomes and impacts; and pursuit of outreach activities, including regular public reports on progress made and results achieved.

Reporting should focus in part on the indicators that are used in the trade strategy. Regular publication and dissemination of data on key trade indicators in the media will both ensure transparency and increase accountability and continued focus in government on attaining the strategic objectives. There should be no compunction about pointing out what in the NTC's opinion are the underlying reasons behind any deterioration in specific indicators, separating out the exogenous factors, and the effect of domestic policies — or absence of needed policies. The NTC should host a quarterly meeting with representatives of the private sector and chambers of commerce and industry. Ideally, the Prime Minister should chair these meetings and an action plan should be prepared at the conclusion of the meeting with responsibilities assigned to the respective line ministries. In turn, the work on those tasks should be monitored and progress reported at the next meeting.

5.2.1 Why a National Trade Council?

The current institutional arrangement in countries generally delegates strategic decisions to the Ministries of Trade and Industry, Finance, and External Affairs, often with the support of an ad hoc inter-ministerial coordination arrangement that lacks the necessary depth.

The institutional arrangement for trade policy and negotiation in most countries suffers from three specific types of problems. First and foremost is the institutional deficit. Trade policymaking in today's supply chain and networked world requires knowledge and expertise in many domains, ranging from intellectual property rights and technical standards to customs processes and services-sector regulation. The institutional arrangement, as represented by the Ministry of Trade and Industry in most countries, draws on available expertise on an ad hoc basis and does not have the necessary depth needed to address today's challenges. Generalist administrators, however talented, intelligent, and hard-working, can never substitute for actual domain knowledge of specific issues. Nor should such generalists be expected to optimally deal with complex policy issues that require such domain knowledge.

The second problem is the lack of strong and institutionalized cross-ministry coordination on trade policy issues. Again, ad hoc inter-ministerial consultation on a particular issue cannot substitute for sustained engagement on trade strategy. The result of the current situation is often that trade policymaking becomes reactive and defensive.

The third problem is the lack of an institutionalized mechanism for serious private-public consultation. The Ministry of Trade and Industry in most countries may have periodic consultations with the private sector. A problem with such consultations is that they tend to be ad hoc, and are perceived by industry as such — creating negative incentive effects in terms of a lack of willingness to invest the resources needed to engage seriously with government and other stakeholders. The lack of a sustained, longer-term engagement on strategic trade issues between government and industry has meant that the culture of joint strategic private-public strategizing is completely lacking in most low-income developing countries.

The ad hoc approach also results in such consultations becoming a platform for lobbying for short-term interests by industry. As in all lobbying activities, a few influential segments that have short-term interests often show the most interest in such consultations and emerge as the loudest voice, unfortunately mistaken as the industry consensus. In practice these voices are often likely to represent firms that compete against imports, as opposed to industries that are export-oriented or those that will benefit from more FDI and access to imported goods, services, and knowledge.

Possible organizational framework for the National Trade Council

What follows presents some organizational policy recommendations aimed at meeting the institutional challenges outlined above. Central to such recommendations is an institutional design that separates the strategic aspect of managing global economic engagement from the more administrative and policy-implementation-related functions.

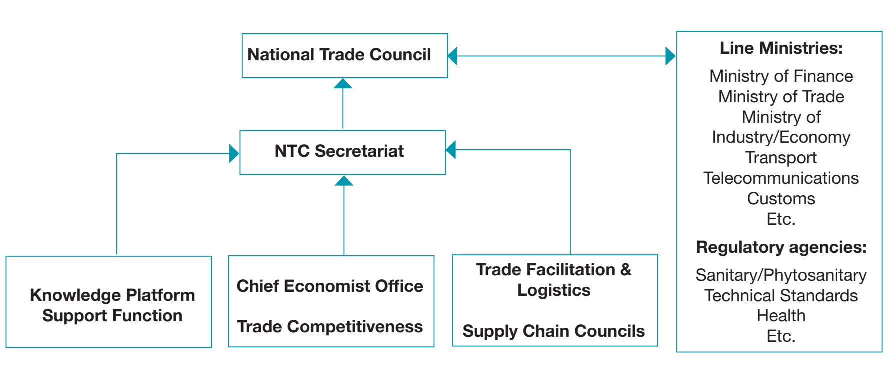
In order to separate the strategic decision-making process related to trade and industrial policy from day-to-day operational issues, the NTC could be housed administratively within the ambit of the Prime Minister's or President's Office. To be effective it should have a minister heading it, reporting directly to the Prime Minister/President. As noted above, the role of the NTC would be to provide for high-level coordination and monitoring of strategy implementation.

The NTC should provide a framework for (a) policies related to domestic regulatory reform in various sectors to reduce the costs of doing business in the country, and to provide strategic policymaking more generally to improve the country's competitiveness; (b) policies related to trade facilitation and improving the country's logistical capacity and connectivity with the rest of the world; (c) market access policies and strategy spanning unilateral, multilateral, bilateral, and regional trade policy initiatives, including policy related to FDI; (d) the integration of private sector input into policy and strategy formulation; (e) more effective interaction between donors and development agencies to identify priority areas for action and allocation of Aid for Trade; and (f) holding all stakeholders accountable for implementation of the trade strategy.

Figure 2 provides a schematic of the proposed NTC. As mentioned, the NTC would be led by an official with ministerial rank and be serviced by a secretariat. The goal of the NTC and its subsidiary bodies is not to replicate the administrative functions of line ministries that deal with sectoral policy, but to develop specific trade and investment initiatives for different sectors in conjunction with private players, and to ensure the implementation of such policies across ministries. The NTC, supported by the secretariat, would include the Chairman/Director General of Customs, senior officials from line ministries (Transport, Interior, Justice, Finance, etc.) and representatives of other departments and regulatory agencies that have a role to play in the movement of goods and services in and out of the country. The NTC should have a mandate to meet at least on a quarterly basis to monitor trade performance across various parameters, informed by reports from the Chief Economist's Office.

In our proposal, the NTC secretariat would have three functional tasks: servicing knowledge platforms that bring together stakeholders and government departments and regulatory agencies; providing support for supply-chain councils that have a mandate to identify and assess specific constraints that impede investments or

Figure 2. Organizational structure of the National Trade Council



Source: UNCTAD.

the efficient operation of value chains; and monitoring, assessing, and reporting on trends in trade competitiveness and attainment of the various indicators that underpin the trade strategy.

Implementation of the strategy and the various policies and actions needed to carry it out is the responsibility of the relevant line ministries and regulatory agencies; the role of the NTC is to act as a coordination, support, and accountability mechanism. The proposed knowledge platforms and supply-chain councils are two instruments that are intended to support both the process of designing the trade strategy and that of assisting line ministries and regulatory agencies in implementing it. A key role both instruments play is to bring in the business community and other stakeholders — e.g. worker associations and consumer organizations — to identify priority areas for actions and suggest options for addressing them, including through the allocation of Aid for Trade resources.

5.2.2 Knowledge platform: a forum for consultations, deliberation, and learning

As mentioned numerous times in this study, much of the trade agenda today involves regulatory policies — non-tariff measures of various types that affect trade costs and opportunities. In defining the specifics of the trade strategy and assessing what could be done to best implement it, mechanisms are needed to generate information on the substance of prevailing regulations and their effects on trade. To identify what might be done differently or better to achieve regulatory objectives while reducing their effect on trade costs, it is helpful to have information on what is done in other countries, and to know more about what works and what does not, and why. Eliciting this information requires bringing together sectoral regulatory specialists with trade officials and business representatives. Regulators often do not think about trade and the trade implications of what they do, but they are the "owners" of many of the policies that affect trade opportunities.

Learning is critical when it comes to the substance of policy rules — officials and stakeholders need to understand what the implications are of a given policy or proposed rule change and how it will affect the economy. Matters are already complex when the issue concerns the effects of traditional trade policies such as tariffs and quotas. But they are an order of magnitude more complicated when it comes to services and regulatory policies.

Establishment of a knowledge platform — a forum aimed at fostering a substantive, evidence/analysis-based discussion of the effects of sector-specific regulatory policies — could help build a common understanding of where there are large potential gains from opening markets to greater competition, the preconditions for realizing such gains, and options to address possible negative distributional consequences of policy reforms. Generating information on the impact of and experience with reform programmes pursued in other countries could help governments assess prevailing policies and institutions in their own nations, and identify policy reform options.

More specifically, a knowledge platform forum could:

- Serve as a mechanism through which information is generated on current trade performance and prevailing regulatory policies. Better information on the applicable non-tariff measures and service sector policies, and how these affect operating costs and the ability to engage in trade, would facilitate broad-based discussion on what priority sectors/issues are and where the key regulatory problems lie.
- Enhance knowledge of regulatory experiences and impacts in other countries, in the process identifying alternative options and best practices through the collection and sharing of information on the factors underlying successful efforts to expand trade in services and the complementary policies that can be used to address market failures and distributional concerns. Information and experiences from a range of countries can help ensure that the regulations and standards that are adopted reflect local conditions and capacity for effective implementation.
- Serve as a mechanism to bring in expertise from the rest of the world to discuss and learn about alternative approaches that have been pursued to improve regulatory policies while reducing barriers against foreign providers of goods and services.

Many organizations have expertise and experience that could contribute to a process of “learning to learn” from country experiences. For example, the World Bank Group has substantial sectoral expertise in a number of services (e.g. transport, telecommunications, finance, health and education) and has regular country-level policy dialogue on regulatory issues with line ministries and agencies through its wide network of country offices and field-based staff. The OECD has a broad range of expertise in services sectors and regulatory areas. The same is true of many specialized international organizations, many of which have Aid for Trade programmes.

To be effective and relevant for the implementation of the trade strategy, knowledge platforms must be action-oriented. A first step could be to develop pilots to test the concept, focusing on priority sectors identified in the DTIS, including regulatory audits and impact assessments.

5.2.3 Supply chain councils: public-private partnerships to support upgrading

Supply-chain trade offers opportunities for firms to specialize and become part of regional and global production networks. Participating in value chains requires more than facilitating trade and reducing domestic trade costs, although those are likely to be critical elements. In practice, a broad range of potential policies that are implemented by different government agencies will affect the operational efficiency of a value chain. Taken together, the result may be that the resulting trade costs are so high as to preclude investment by firms in what potentially is a profitable venture.

The challenge for governments, then, is to determine whether altering a set of policies or taking action to address certain specific bottlenecks that adversely affect supply-chain trade could result in significantly changing the calculation of the large firms that manage international production networks. The policy agenda here will include policies ranging from regulation of transport-related infrastructure services — for example, ensuring there is competition in road, rail, maritime, and air transportation markets — to the processes that are used to ensure conformity with product standards.

Governments are generally not aware of the effects of prevailing policies on investment incentives and operations. There are generally no mechanisms designed to help governments put in place a policy environment that will support specialization by firms in specific parts of a value chain. Hoekman (2014) suggests creating supply-chain councils that would take a "whole of the supply chain" approach to assessing and addressing the effects of prevailing policies on trade costs. The basic idea is to work with relevant business groups and stakeholders (workers, communities) to focus on all the policies that may affect supply-chain trade and investment, including the cost-raising effects of differences in regulations between the home country and export markets.

Implementing this concept would entail the following:

- Identifying and selecting a number of value chains that are (potentially) important for the country. Business needs to be an integral part of this process in a way that goes beyond "consultations" and "dialogue," as the government generally will only have a very incomplete understanding of how supply chains operate and are designed. It will be impossible to consider all of the relevant supply chains for the country, so a first challenge for the NTC secretariat will be to select a representative sample in consultation with business. Given that international supply chains are often dominated by very large companies and industries, it will be important to control for possible biases that can result from simply focusing on existing trade and investment flows.
- Equally important is to consider activities that have significant potential for expansion — for example, by considering how regulatory policies affect the ability of SMEs to sell more internationally.[6] SMEs generally will be suppliers to lead firms, contract manufacturers, and multinational retailers, but increasingly they will be able to use the Internet and e-commerce platforms to sell their products internationally. This suggests a focus on identifying whether there are major cost hurdles imposed by security or privacy-motivated regulations that may be much easier for a large firm to overcome than an SME.
- Identifying whether there are clusters of policies that greatly reduce investment. Once a set of supply chains/production networks has been selected, the various supply-chain councils would seek to identify the most binding regulatory policy constraints that negatively affect the operation of the chains by generating costs that are in excess of what is required to satisfy the norms that apply. Here again the active involvement and participation of business is critical, as such costs may not be evident. They will often be reflected in delays and other sources of uncertainty that give rise to a need to hold excess inventory and engage in other forms of self-insurance that increase costs. As in the first step — selecting what supply chains or production networks to focus on — this process of "mapping" supply-chain trade costs and inefficiencies to regulatory policies will require inputs from other (non-business) knowledge providers. Supply-chain managers within firms may not understand or be interested in determining the contributions of various sources of costs and uncertainty, and which specific policies have

the greatest effects, implying a need for collaboration with researchers and analysts.

- Agreeing on an action plan. A key task for supply-chain councils is to propose and agree on an action plan to address those regulatory policies that most detrimentally affect the operation of international production networks. Here again the public-private partnership nature of the councils is important. The participation and representation of the relevant government agencies is necessary to be able to decide what can be done to reduce compliance costs without detrimentally affecting realization of the underlying policy objectives. Active engagement by the business community can facilitate identification of approaches that do so. In practice it is likely that action agendas will require financial investments as well as policy reforms, both of which may be covered in part through development assistance (Aid for Trade).

- Establishing performance indicators. Another task of the councils should be measuring and quantifying the performance of the supply-chain networks that are the subject of deliberations in ways that can be monitored over time. The aim should go beyond identifying the most binding constraints (sources of trade costs) and include agreeing on specific targets for improvement. Establishing the key performance indicators will depend in part on the type of activities or products involved. Establishing numerical baselines will clarify the need to pursue reforms and serve as a critical ingredient for determining whether progress is being made over time to reduce trade costs. One reason why metrics are critical is because of the scope for policies to substitute for each other — removing one source of redundant or duplicative regulatory cost may not have an effect if other policies continue to impose excess costs.

- Monitoring, learning about, and being accountable for results. A final element of the “terms of reference” of supply-chain councils would be to contribute actively to monitoring and reporting on progress and results. This should be public (and published) both to ensure transparency and to increase the incentives of those who are tasked with carrying out that monitoring and reporting to do so. This is a function that will depend importantly on having established a quantitative baseline and on collecting the data that are required to determine if performance on the chosen metrics is being made. While the analysis of progress made (or not made) and reporting should be done by independent entities in order to avoid conflicts of interest, business again has a critical role to play, as often it will have the best access to the requisite data. If, for example, the performance indicators are centered on the time it takes for consignments to satisfy all border management processes, the share of transactions that are physically inspected, or the variance in the average time that is required for regulatory approval to be obtained, then data on the outcomes that are realized on these metrics will need to come from the business community.

- Addressing Institutional design questions. A number of challenges will arise in getting the supply-chain councils up and running, some of which may also be relevant for the knowledge platforms. Firms may have a vested interest in providing biased data; may not want to provide relevant data even if they have them because of competitive concerns or worries about potential liability; and in general will be disinclined to incur additional costs associated with a need to collect data that they do not already compile as part of managing their supply chains. The more the performance indicators can be measured using data that are either readily available or already being compiled by firms for their own purposes, the easier it should be for the councils to monitor outcomes over time. Thus, one of the tasks for the councils is to determine what data already exist that can be used to establish a baseline and monitor long-term performance. A potential problem in this regard is that governments may not trust the data provided, and firms may not trust the governments with data or be worried about providing information that can be used by competitors. This calls for aggregating and anonymizing data so that individual businesses need not be concerned about "retaliation" by regulatory agencies or the release of commercially sensitive information. There are good practice models — such as those that have been developed for firm- and household-level survey data — that can be used to address such concerns. A necessary element is that the data be compiled and processed by an entity that is technically competent and independent. This task could be performed by an established policy research institute or by an international organization.

5.2.4 Accountability and performance measurement

An important function of the Chief Economist's Office is to work with knowledge platforms, supply-chain councils, and the providers of the data needed to establish baselines performance for the various indicators chosen to assess progress in achieving the goals of the trade strategy. These data may come from official sources — such as the Customs administration (the source of the very detailed transaction-level trade data needed to assess survival rates and diversification), the Central Bank and Ministry of Finance, or the private sector (based on surveys undertaken either by line ministries, the NTC secretariat, or international organizations such as UNCTAD, the ITC, other UN agencies, or the relevant development banks).

The overarching goal of the activities of the Chief Economist's Office is to monitor performance and results. This is a task that goes beyond collection and compilation of requisite data. Equally important is analysis of what underpins changes in indicators — for example, the effects of exogenous shocks as opposed to deliberate actions (or lack thereof) to implement the strategy — and what the effects are of the changes in policies and investments pursued in the course of strategy implementation.

The results of the monitoring of indicators and analysis of results should be made public. Ensuring open access to the data and information on trade and investment developments will ensure transparency and accountability. Putting in place a central trade policy website/portal and establishing enquiry points both at the NTC secretariat and in relevant line ministries will help stakeholders raise issues and be informed about the activities of the knowledge platforms and supply-chain councils.

This should also apply to Aid for Trade and the extent to which this is being used to implement the strategy — including, importantly, in addressing priorities for actions and investments that are identified through the knowledge platforms and specific sectoral supply-chain councils. Another task of the Chief Economist's Office should be to assess the consistency between what has been identified in diagnostic exercises such as the DTIS at a given point in time and what comes out of the process of implementing the trade strategy, which by its nature will be much more dynamic than the infrequent DTIS that is supposed to feed the EIF/Aid for Trade process.

Major innovative features of the process envisaged here as part of implementation of the trade strategy are the mechanisms to ensure transparency and support participation; generate feedback on results; and allow for adjustment in policy. Putting in place and providing support for public-private partnerships such as the knowledge platforms and supply-chain councils is aimed not just at improving ownership by and engagement of business and other stakeholders. It is also a way to regularly revisit priorities and take advantage of new opportunities that may arise.

Consideration should also be given to the creation of challenge and complaint mechanisms to allow stakeholders to contest actions (or lack thereof) by government that imply that the trade strategy priorities are not being pursued. Possibilities include access by private parties to the NTC (via the NTC secretariat) or the establishment of an ombudsman function to consider complaints and issues brought forward by stakeholders.

The Chief Economist's Office should also be tasked with engagement of the public. This could include activities such as an annual high-level event with the business community to assess progress in implementing the trade strategy and attaining its goals; and periodic meetings of the NTC, chaired by the head of state, that include stakeholder representatives.

5.2.5 What role for the Ministry of Trade?

While the NTC would focus on the strategy design and on overseeing and supporting implementation, the relevant ministries would implement specific policies. What would be the role of the Ministry of Trade in this connection? One possibility is to delegate to the ministry the secretariat function to support the NTC. However, most trade ministries in LDCs do not have the capacity to play an effective secretariat role. While staffing could be strengthened, we believe a new stand-alone NTC secretariat would be a better approach, in large part because it sends the signal that the NTC is a cross-cutting body that sits outside the existing line ministries. The secretariat could be staffed by a mix of secondees from line ministries and new hires with professional qualifications.

In the proposed model, the Ministry of Trade essentially would have responsibility for trade policy narrowly defined, including trade promotion, taking the lead in negotiation and implementation of trade agreements, administering trade disputes, participating in the collection of information on non-tariff measures and strategic commercial intelligence in key markets, and working with key sectoral line ministries to improve the regulatory and business environment in different sectors of the economy.

By separating the strategic and administrative tracks of international economic relationships, the government would be able to do a better job of strategic economic outreach as well as detail-oriented policy implementation. In many countries much more focus needs to be put on areas related to effective gathering of commercial intelligence, helping industry improve access to key markets, and developing industry consortiums that can work together to tap key sectors of the global economy. The enduring truth behind the international success of manufacturing sectors of Japan, Korea, Germany, and Sweden has been strong government support for their respective private sectors on these counts. However, providing such support requires a focused bureaucracy with a mandate to implement policy in conjunction with the country's private sector.

CHAPTER 6
CONCLUSIONS

This handbook has sought to identify elements of a trade strategy and policy framework that are fit for purpose in a global economy characterized by ever-greater opportunities for firms to specialize in specific tasks and activities by participating in international value chains and exploiting new technologies such as e-commerce and information technology to connect directly with potential buyers and partners located anywhere in the world.

The specific priorities for action will differ from country to country. The consultative, deliberative, and analytical processes that are needed to define the concrete elements of a national trade strategy will determine what the goals should be and what indicators will be best suited to monitor the results of implementing the strategy. Thus the material and ideas that have been presented here are limited to providing a conceptual framework for the development of a trade strategy and some thoughts on the institutional features that could be put in place to help implement a strategy effectively.

Trade can be a powerful tool to reduce poverty rates and help achieve economic development objectives. To increase the potential for trade to support those efforts in the context of LDC environments, it is important to recognize that the policy agenda extends far beyond trade policy narrowly (traditionally) defined. It must encompass a focus on identifying and dealing with market failures and policy failures that have the effect of inhibiting growth in participation in regional and global value chains and preventing small firms and smallholders from selling their products to foreign buyers, increasing their productivity and product quality, and achieving economies of scale.

The conceptual framework that has been sketched out in this handbook may help governments and stakeholders work together better to harness existing trade opportunities and develop new ones. At the end of the day there is no magic bullet. Technocratic policy prescriptions will not do the trick. What is needed is a labor-time-intensive process of joint discovery and accountability for results. The constraints that impede exploiting trade opportunities are many and will vary by sector and product. The public-private deliberative mechanisms that this handbook has advocated are not a panacea. Their effectiveness and usefulness will depend on the seriousness with which they are pursued. Commitment and sustained engagement at the highest political level is an absolute precondition for making progress.

NOTES AND REFERENCES

Notes

1 LDCs that do not have a PRSP include Angola, Equatorial Guinea, Eritrea, Kiribati, Myanmar, Solomon Islands, Somalia, Tuvalu, and Vanuatu.

2 One estimate puts the number of formally licensed businesses at 48,000.

3 Representatives from the private sector include operating businesses, importers, exporters, producers, and service providers, both locally or foreign owned.

4 Representatives from civil society include nongovernmental organizations such as women's groups, church groups, and youth groups.

5 As per its current terms of reference, the NTAC is chaired by the MCIC and its membership includes representatives from the Office of Attorney General, MFED, MCTTD, MFMRD, MELAD, Ministry of Foreign Affairs and Immigration, MLHRD and representatives of producers, the private sector/Kiribati Chamber of Commerce and Industry, non-governmental organizations, trade unions, and the National Women's Federation. The NTAC can also invite other relevant stakeholders, subject to the issues under discussion.

6 SMEs tend to face proportionally greater barriers to engaging in international trade, as the fixed costs of understanding and satisfying regulatory requirements in different markets weigh much more heavily on a unit cost basis than for large firms with much larger turnover and capacity to cover the costs of dedicating personnel to dealing with the different agencies concerned in multiple foreign markets.

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