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**Aid for Trade and Development:
Global and Regional Perspectives**



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Preface

The present publication, which was compiled by UNCTAD highlights the outlook of several United Nations organizations regarding the role of Aid for Trade in trade and development. It includes contributions from global UN agencies, including the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP), as well as from regional UN commissions, including the United Nations Economic Commission for Africa (ECA), the United Nations Economic Commission for Europe (ECE), the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Economic Commission for Asia and the Pacific (ESCAP). All the agencies mentioned are members of the Working Group on Trade of the Economic Committee of the Economic and Social Commission of the United Nations.

Global perspectives on Aid for Trade are provided by UNCTAD, UNDP and UNEP: UNCTAD, in its contribution entitled “UNCTAD’s contribution on aid for trade and development”, identifies UNCTAD’s contribution to advancing the implementation of the Aid for Trade initiative for the benefit of developing countries and countries with economies in transition; the contribution on “UNDP Perspectives on Aid for Trade”, provides UNDP’s perspective and the main elements of its support for operationalizing Aid for Trade and outlines some related concerns; and UNEP’s contribution, entitled “Aid for Trade for Sustainable Development” places Aid for Trade within the context of sustainable development. Regional perspectives are provided by three of the above-mentioned regional commissions: the relevance and role of Aid For Trade in addressing their respective regions’ trade and development challenges are highlighted in ECLAC’s contribution, entitled “Strengthening Latin America and the Caribbean International Linkages and Regional Cooperation”; ECA’s contribution, entitled “Building Africa’s Supply Capacities and Competitiveness through Aid for Trade”; and ESCAP’s contribution entitled “Aid for Trade and Public-Private Partnerships”. The ECE’s contribution focuses on aid specifically geared towards standards, as one key component of the Aid for Trade envelope.

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UNCTAD'S CONTRIBUTION ON AID FOR TRADE AND DEVELOPMENT

United Nations Conference on Trade and Development (UNCTAD)

I. Introduction

For several decades 'trade, not aid' was a prevalent dictum. In the mid-1960s, when the founding father and first Secretary-General of UNCTAD, Raul Prebisch¹ coined the 'trade gap' concept, it became apparent that official development assistance (ODA) would be insufficient to provide the necessary foreign exchange resources that developing countries would need to import the capital goods that are so crucial for enhancing productive capacity, trading and moving up the development ladder into more value-added and higher-paying economic activities. The 'trade, not aid' philosophy was also justified by a number of imperfections of aid and aid policies.

Over the last few years, the difficulties that the vast majority of developing countries have faced in benefiting from economic and trade reforms and promoting development have revealed that the 'trade, not aid' and even 'trade as aid' prescriptions also have their limits. Today, the logic has evolved from 'trade, not aid' and 'trade and aid' to including 'aid for trade'. This conceptual progression is important in that it marks a significant step forward by the international community in accepting that trade-specific development assistance must accompany any trade reform effort for such efforts to be meaningful and lasting in terms of their development impact. Understanding the logic between aid, trade and development has posed enduring challenges to development economists. The aid literature is very voluminous and multifaceted.²

By its very nature and mandates, the United Nations system plays an important role in aid for trade, including through the provision of trade-related technical assistance, as an integral aspect of its efforts to promote development and help achieve poverty reduction. This includes mobilizing global partnerships for development to meeting internationally agreed development goals, including those set out in the Millennium Declaration³ and the 2005 World Summit Outcome.⁴

As the focal point of the United Nations system on the integrated treatment of trade and development, UNCTAD has contributed to the conceptualization of the aid for trade initiative. As part of the development component of the United Nations system, UNCTAD has since its creation in 1964 provided trade-related and capacity-building support - i.e. aid for trade - to developing countries and countries with economies in transition to effectively integrate into and realize development benefits from the international trading system. This paper identifies UNCTAD's contribution to aid for trade and its role in support of the WTO in advancing the implementation of the aid for trade initiative for the benefit of developing countries and countries with economies in transition.

II. Aid and trade

More development assistance has become a clarion call of today's development dialogue. Once again, there are calls for an increase in ODA, in line with various internationally agreed targets,⁵ coupled with forms of other international development support such as favourable market access.

This turnaround in the international consensus on the trade, development and financial nexus follows from earlier dissatisfaction with the focus on development assistance owing to a number of imperfections with aid and aid policies. The overall record of aid for development policies shows results that are disappointing or mixed and often complicated by institutional

factors.⁶ Some earlier analyses were concerned primarily with the importance of ‘tied aid’ effects on increased imports of services or goods from the donor.⁷ Other studies concluded that the causality is not unidirectional and both aid and trade flows and policies can have a mutual influence. Aid for trade may increase trade flows through the general economic effects it induces in the recipient country. Aid for trade flows may also increase exports directly when its effects are tailored to export promotion.⁸ Others argue that aid flows may have a distinct import-augmenting effect in the recipient country, especially when such flows are tied to goods and services procured from donor countries (Kemp and Kojima, 1985).⁹

Sceptical opinions about aid were common among experts and academics as well as among some donor countries and beneficiary developing countries. Aid per se or the mechanisms through which it is disbursed can lead to detrimental developmental effects or unintended disincentives in beneficiary countries. Some critics pointed to the danger of the ‘aid curse’, where the potential negative effects would prevail and make matters worse rather than better for development, similar to the ‘resource curse’ or ‘Dutch disease’ effect.¹⁰ Page (2006), for instance, identified several potential conflicts between aid and trade: high levels of aid can lead to ‘Dutch disease’ and result in undermining trade, thus defeating the very purpose of aid for trade.¹¹ This is especially true when the absorptive capacity of the beneficiary country is weak and when aid flows are considerable relative to GDP, overall foreign exchange reserves or Government spending. Consequently, aid alone is a necessary but not a sustainable solution to escaping the poverty trap and meeting other development challenges.

Conversely, several success stories are also available to show that under the right conditions, aid may provide a strong impetus to a thriving development strategy. The early examples that are usually given by aid proponents are Japan, Republic of Korea and Taiwan Province of China, between 1950 and 1970s. More recently, a few other developing countries (particularly Asian nations) have showed that external development aid can play a positive role as part of a well-articulated and sustained development strategy.

Over the last few years, the difficulties which the vast majority of developing countries have experienced in harnessing trade liberalization to integrate more effectively and beneficially into international trade flows and promote development have revealed that the ‘trade, not aid’ and even ‘trade as aid’ prescriptions also have their limits (Hoekman and Prowse, 2005). This insight comes at an occasion even after very ambitious trade opening schemes were put in place in favour of developing countries and especially the least developed countries (LDCs). These include such schemes as the EU’s Everything But Arms initiative (EBA), the United States’ African Growth Opportunity Act (AGOA) and similar improvements in other OECD countries, including WTO’s Generalized System of Preferences (GSP). The difficulties which beneficiary countries of these schemes faced in utilizing the schemes highlighted factors hindering the effective implementation of such schemes, both endogenous (such as rules of origin) and exogenous (such as supply capacities and competitiveness).

Moreover, the adoption of the WTO Agreements in 1995 with a very comprehensive trade liberalization agenda brought into sharp focus the weaknesses, among others, in many developing countries’ national implementation capacities. Many of the agreements were very difficult and costly to put in place, as they required complex administrative structures and major legal and regulatory changes. Such concerns led to the emphasis on, inter alia, ‘implementation-related issues and concerns’ in the Doha Round of multilateral trade negotiations.

Hence, there has emerged an international consensus that aid for trade must be provided in tandem with any trade reform agenda for the latter to be successful and meaningful in terms of its development impact. For example, the report of the United Nations Millennium Project¹² suggested among other things the creation of an incremental and temporary ‘aid

for trade fund' commensurate with the magnitude of the task of helping countries cope with adjustment costs associated with the implementation of the outcome of the Doha Round of multilateral trade negotiations. The Sixth WTO Ministerial Conference agreed that "Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade."¹³ The WTO process has come to be labelled as the 'Aid for Trade Initiative'.

While empirical literature on aid for trade does not provide robust results so far regarding the impact of aid and trade flows, it does reveal a positive correlation. For instance, Hoekman and Olarreaga¹⁴ conclude by pointing out the imperative need for complementary policies, including aid for trade, for trade reform to have a significant contribution to poverty reduction efforts. UNCTAD refers to such complementary policies as the 'enabling environment'. Without substantial aid for trade to help ensure that trade reforms are implemented and weaker economies are equipped to handle international competition so that the expected benefits accrue to developing countries in particular, the poverty impact of, for example, the Doha Round outcome is most likely to be marginal. This raises the question of the rationale of trade liberalization and the resulting trade agreements if, after many years of negotiations, poor people in poor countries living on less than one dollar a day would only gain a few more cents.¹⁵ In this connection, aid for trade should be used to ensure that no nation is made worse off by the conclusion of the Doha Round.¹⁶ Such an approach would call for an ambitious aid for trade initiative, ex ante to the expected liberalization. This assistance can serve as the transmission belt between trade liberalization, successful development and poverty alleviation for developing countries.

III. Aid for trade

Aid for trade in connection with adjustment support to trade liberalization has been an accepted practice at the national and regional level for many years, especially in developed countries, where governments have put in place financial compensatory and other schemes to help sectors and workers that are likely to be adversely affected by such reforms. The generalization of this concept at the international level, however, was lacking until the Aid for Trade Initiative was revived. There is now renewed interest and political commitment in favour of 'aid for trade' as a necessary complement to trade reform and thus a necessary complement to sustainable development. At the same time, there is also general recognition that aid for trade is not a substitute or precondition for trade liberalization, but rather a valuable complement thereto.

Following the Sixth WTO Ministerial Conference, international consideration of the Aid for Trade Initiative has been largely focused on defining the potential policy areas for such assistance; the modalities through which such an initiative can be implemented; and its regular review and monitoring. Pursuant to the mandate from the Sixth WTO Ministerial Conference, a WTO Task Force on Aid for Trade was set up to implement the ways in which aid for trade might most effectively contribute to the development dimension of the Doha Round. One of the main concerns in the early stages of the aid for trade discussions pertained to definitional aspects: what is aid for trade, what are the ongoing efforts and what else can be included in this definition?¹⁷ Another area of work was concerned with the institutional mechanisms of aid for trade delivery.¹⁸ Many of these conceptual issues were discussed and highlighted in an international conference on aid for trade convened by UNCTAD and the Commonwealth Secretariat in March 2006.¹⁹ Drawing on these assessments and other inputs, the WTO Aid for Trade Task Force, inter alia, identified six policy areas for aid for trade assistance:²⁰

- (1) Trade policy and regulations;
- (2) Trade development;
- (3) Trade-related infrastructure;
- (4) Building productive capacity;

- (5) Trade-related adjustment; and
- (6) Other trade-related needs.

This demarcation of aid for trade by the WTO Task Force shows that aid for trade is not an entirely new concept, especially when viewed from the traditional perspective of trade-related technical assistance and capacity-building. Table 1 shows the volume of aid for trade that is being provided. These aid for trade funds are disbursed through various projects and operational activities, all designed to tackle serious trade-related challenges faced by developing countries. From 2001 to 2005, \$53.7 billion was allocated by developed countries to developing countries under various trade-related assistance programmes covering three broad categories, namely trade policy-related capacity-building; trade infrastructure; and trade development.

Table 1
Aid for Trade, by region and type of aid (2001-2005) (\$million)

	Trade policy		Trade Infrastructure		Trade development		Total AfT \$ million
	\$ million	%	\$ million	%	\$ million	%	
sub-Saharan Africa	292	2	6 188	40	9 001	58	15 481
Asia	213	1	10 946	50	10 685	49	21 845
Latin America	176	3	1 295	19	5 418	79	6 889
North Africa and Middle East	809	20	1 343	33	1 976	48	4 128
Transition economies and other Europe	163	3	2 243	41	3 013	56	5 418
Total	1 652	3	22 014	41	30 094	56	53 760

Source: OECD Creditor Reporting System database and UNCTAD calculations

Note: The aid for trade considered in this analysis comprises only those flows disbursed, in contrast to the aid committed. As a result of this methodology the total aid for trade figures reported may be different from other estimates of aid for trade in the literature.

From a regional perspective, Asia accounts for more than 40 per cent of total aid for trade funds, followed by Africa (28.8 per cent) and Latin America (12.8 per cent). Among the broad categories of aid for trade, trade development represents more than half of total funds (56 per cent), trade infrastructure around 41 per cent and trade policy capacity-building represents a small proportion of current funds (3 per cent).

Table 1 also shows that the structure of aid for trade across regions varies considerably. For instance, almost 80 per cent of aid for trade to Latin America was dedicated to trade development and 19 per cent to trade infrastructure. In North Africa and Middle East, 20 per cent of aid for trade has been geared to trade policy capacity-building, compared to 1-3 per cent for such aid for trade categories across all other regions, a trend which points to the diversity in the utilization of aid for trade across developing regions. This diversity is even greater within regions in terms of aid for trade data at the country level. Further research is needed on whether or to what extent this diversity in aid for trade utilization is related to differences in the needs or requests of aid for trade recipients or rather reflects variances in donor priorities.

Thus, aid for trade and development includes assistance to build human, institutional and regulatory capacities in developing countries to formulate and implement locally owned trade policies; participate in and shape the outcome of trade negotiations; implement trade agreements; build supply-side capacities (including trade-related infrastructure) to take advantage of new trading opportunities; and provide compensatory assistance to offset adjustment costs in sectors adversely affected. It also includes assistance to help developing countries deal with rising anti-competitive practices which emerge as trade liberalization progress and promote fair trade; and improve the competitiveness of traditional commodity sectors. These would constitute possible specific areas of trade policy in any aid for trade initiative for development.

Trade policy support is important in terms of enabling many developing countries, particularly those with limited administrative and financial capacities, to participate effectively and project their commercial and development interests in trade negotiations and norm-setting processes at multilateral and/or regional levels. Many developing countries, especially LDCs, lack well-trained trade officials and negotiating apparatuses that could reflect the needs of their private sector and specific economic sectors in clear negotiating positions. Nor do they have the capacity to leverage existing multilateral trade rules into trading opportunities for their exporters. Such constraints can be addressed by aid for trade.

Assistance on trade-related adjustment, including support to developing countries in putting in place accompanying measures that assist them to benefit from liberalized trade, is another priority area. There is the important and more immediate need for developing countries to cope with trade shocks and costs associated with liberalization and the difficult transition to a more liberalized global trading environment. Aid for trade can help ensure that, alongside trade liberalization, there is also adjustment towards growth sectors which can help obviate or minimize serious costs to especially poor people. This is particularly important in most developing countries, as they lack their own social safety nets. The costs of such adjustments, either in budgetary terms of setting up institutional structures to meet trade obligations or loss of jobs and possibly deindustrialization from closure of uncompetitive enterprises, can be overwhelming for developing countries. They can nullify the potential benefits of market openings and act as a deterrent to liberalization or to implementation of obligations. Adjustment support is particularly relevant for those countries that are dependent on trade preferences that are being gradually eroded with globalization. Laird (2007) makes a convincing case in favour of the need to include adjustment costs arising from multilateral trade negotiations as part of the aid for trade initiative.²¹

Trade facilitation, which plays a central role in determining the competitiveness or lack thereof of developing country exporters, is another major area for aid for trade support. It is intrinsically linked to transport costs which increase with deficient transport and trade facilitation infrastructure. In LDCs and landlocked countries, high transport costs and poor infrastructure matter significantly, not only for trade volumes but also for the probability that trade occurs at all. Trade costs estimates are often more significant than ad valorem tariffs. Francois and Manchin argue that transport infrastructure is even more important in explaining trade growth than tariff reductions.²² It has been suggested to extend some of the current aid for trade categories to other infrastructure and policy elements that have an impact on the export “value chain”.²³

In the medium to long term, the building-up of productive capacity is a sine qua non for the trade integration of developing countries, and must therefore be a central feature of aid for trade. This calls for using aid for trade as well as development assistance generally more effectively to support proactive measures in areas such as commodity sector development, industrial development, services sector development and trade, and the associated supportive infrastructure, including physical, national financial and debt management systems, investment promotion (domestic and foreign), entrepreneurship and enterprise development, and trade-related infrastructure and logistics.

UNCTAD’s Trade and Development Report 2007, for example, finds that regional trade liberalization among developing countries can help promote and advance integration into the global economy. However, trade liberalization is a necessary but insufficient condition for trade growth. Other factors, such as transport connectivity (which is rather deficient in most developing countries), may be equally or more important to trade growth and competitiveness. Thus, the various factors coming into play in the trade picture deserve to be prioritized and supported, including through aid for trade. In this connection, also with regard to LDCs, the creation of a \$1 billion Aid-for-Trade Fund, which would be in addition to aid for development, was suggested.²⁴ The facility would provide much-needed finance to meet adjustment costs arising from trade reform, deal with trade-related infrastructure constraints, and upgrade supply capacity and competitiveness in LDCs.

As analysed in aid and trade literature, the complementarity between aid and trade has to be considered as a complex interaction, going beyond a simple capital transfer between donor and recipient countries. Aid for trade may create various positive externalities that go beyond the specific areas of intervention (for example supply capacity-building, trade facilitation, trade policy and capacity-building). Aid for trade may also lead to technology transfers, create networks among key trade-related institutions, and disseminate best practices. The complexity of the issues involved indicates that more in-depth country-level and regional-level analysis of aid for trade contribution and impact is needed. UNCTAD, WTO and other agencies actively involved in the current aid for trade debate could play a useful role.

IV. UNCTAD's Contribution

A. UNCTAD's mandate

By its very nature and mandates, the United Nations system has an important role to play in aid for trade through existing and new established mechanisms. This is consistent with the UN's role in promoting development and helping achieve poverty reduction, in line with the commitments set out in the Millennium Declaration and the associated Millennium Development Goals, as well as the 2005 World Summit Outcome. As early as 2003, the United Nations Secretary-General, in his address delivered at the Fifth WTO Ministerial Conference, highlighted the need for aid for trade, in addition to aid for development, as a necessary complement of market access negotiations in the context of wider international development cooperation efforts to promote timely achievement of internationally agreed development goals.²⁵

UNCTAD's aid for trade strategy, as part of its trade-related technical assistance activities, is derived from its core functions as the United Nations focal point on the integrated treatment of trade and development, and from the development objectives set by member States at UNCTAD's quadrennial conferences, such as the Sao Paulo Consensus of UNCTAD XI. UNCTAD approaches aid for trade through its three pillars of work, namely intergovernmental policy dialogue and consensus-building, research and analysis, and technical cooperation and capacity-building. The emphasis is on a holistic approach to integrating developing countries into the international trading system, both quantitatively and qualitatively.

Immediately after the December 2005 WTO Ministerial Conference which launched the WTO Aid for Trade Initiative, UNCTAD, in collaboration with the Commonwealth Secretariat, convened an international conference on aid for trade. The event, held in March 2006, provided insights on key aspects regarding the possible operationalization of the aid for trade initiative. It also highlighted the private sector dimension as well as the regional dimension of aid for trade, in complementing national-level support as well as multilateral provision of global public goods.

Subsequently, UNCTAD has contributed to efforts by developing countries and their groups, as well as that of the WTO Task Force on Aid for Trade, to define aid for trade, its components and the modalities of its implementation. As part of the preparatory process for UNCTAD XII, UNCTAD coordinated with ESCAP an aid for trade event in January 2008 at which different United Nations agencies involved in aid for trade discussed their perspectives and how those different contributions could be coordinated for enhanced impact.²⁶

Such efforts have also informed UNCTAD's own vision and strategy regarding aid for trade. Significantly, following the mid-term review of the Sao Paulo Consensus of UNCTAD XI in 2006, UNCTAD's member States agreed that UNCTAD should emphasize "Aid for Trade, including aid for institutional, regulatory, infrastructural and human resources development in developing countries;" that UNCTAD's technical cooperation pillar should

be strengthened by “ensuring that UNCTAD is in a position to play an important role in the Aid for Trade Initiative, in accordance with UNCTAD’s mandates, expertise and development approach;” and that UNCTAD should “assume an important role in providing assistance to developing countries under the Aid for Trade Initiative, taking into account their national development strategies.”²⁷ UNCTAD XII is expected to consolidate further the framework of UNCTAD’s work on aid for trade.

B. UNCTAD’s activities

UNCTAD’s definition of aid for trade follows broadly the definition adopted by the WTO Task Force on Aid for Trade. It looks at aid for trade in terms of both the soft aspects of trade (trade and investment policies and negotiations, for example) and the hard aspects of trade infrastructure (for example, trade adjustment, building supply capacity and competitiveness, trade facilitation, transport connectivity). The key elements of UNCTAD’s aid for trade activities consist of building human, institutional, regulatory, analytical and trade infrastructure capacities. Such activities also promote building of supply capacity and competitiveness, trade-related infrastructure-building (including through trade facilitation and enterprise development), and building negotiating capacities and institutions to secure market access and ensure effective market penetration or entry.

Over the years, UNCTAD has been one of the main agencies engaged in trade-related technical assistance activities. It provides trade and trade-related assistance and capacity-building support at each stage of the trading process, from investment, enterprise development and financing, through customs operation and transport, to market access and market entry. UNCTAD lends its expertise to developing countries in areas such as the following:

- Participating effectively in trade and investment negotiations;
- Providing assistance on WTO accession;
- Diversifying commodity-dependent economies;
- Developing services sectors;
- Addressing non-tariff barriers and the interface between trade and environmental measures;
- Meeting product standards and regulations;
- Formulating national and regional trade and trade-related policies, and investment policies;
- Drafting and implementing competition law and policy;
- Assessing trade-related needs and impacts of trade agreements;
- Supporting adjustment to trade reform;
- Assisting with debt management; and
- Building trade facilitation infrastructure such as customs automation.

UNCTAD operates on the principle that aid for trade must be specific to trade capacity development, and thus additional to development assistance; benefit all developing countries that demand it; and meet national and regional needs as well as deliver global public goods that can be made available to all. Global public goods that can be provided multilaterally and benefit all developing countries include UNCTAD’s trade databases and analytical softwares, among others a new initiative on non-tariff barriers; development of trade negotiation capacities; provision of assistance on WTO accession; activities to meet emerging product standards and environmental norms affecting trade; customs automation systems; debt management; training of trainers, policymakers and trade negotiators, including through linkages with universities and academic institutions; investment policy tools; and promotion of the Enhanced Integrated Framework of Trade Related Technical Assistance for LDCs.

As a ‘think tank’ with a long history of intellectual contributions on trade and development, UNCTAD also assists with the conceptualization and design of country-specific and regional

aid for trade programmes, and supports their implementation. UNCTAD has contributed to the conceptualization of the Aid for Trade Initiative through studies and high-level multi-stakeholder meetings to clarify the concept and suggest appropriate ways and means to implement it.

UNCTAD's aid for trade activities are demand-driven and respond to the needs and priorities formulated by the beneficiary countries in their requests for technical cooperation. One important objective is the improvement of institutional and human capacity constraining the ability of many developing countries to undertake in-country trade policy formulation and prioritization, and development of trade infrastructure.

UNCTAD has also addressed the lack of institutional and process linkages between trade policies and national development strategies, such as trade facilitation activities on transport connectivity. Whenever relevant, UNCTAD supports appropriate national needs assessment involving consultations with all relevant stakeholders. For example, under the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme for African Countries (JITAP), UNCTAD mobilized the three agencies' expertise to build and strengthen in 16 African countries their inter-institutional coordination among all key stakeholders (Government, private sector and civil society) in a participatory approach to WTO trade negotiations and adjustment to and implementation of trade agreements. Such an inclusive approach is a prerequisite for successful aid for trade, as needs and priorities, by virtue of country ownership, would have to be ascertained by beneficiary countries themselves.

The scale and scope of UNCTAD's aid for trade activities enables it to provide customized trade-related assistance to developing countries and countries with economies in transition. Its accumulated experience and outreach enables it to have a multiplier effect across countries, thematic areas, and sectors. UNCTAD's comparative advantage in this area is its ability to provide beneficiary countries with an integrated perspective on trade and development strategies and policies, and to promote coherence in this regard at national, regional and international levels.

Aid for trade activities, as part of UNCTAD's overall technical cooperation and capacity-building activities, also draw on and benefit from intergovernmental policy dialogue and consensus-building, as well as sound research and policy analysis. This three-pronged approach is unique, and ensures that aid for trade activities are fully integrated into UNCTAD's development work.

Addressing development priorities at the regional level is one of the main priorities of UNCTAD's work. It has been providing a wide portfolio of aid for trade activities at regional level, such as promoting regional institutional development; building regional coordination mechanisms; assisting developing countries in regional harmonization of technical regulations and standards; helping with trade negotiations in regional contexts (both South-South and North-South); enhancing transport and trade logistics; linking national/regional systems to global transport operators and networks; or providing assistance for trade facilitation. Such a regional strategy includes tailored support to a particular region, for example, Africa, Latin America or Asia; support to a particular subregion, for example, Central America; or a thematic focus linked to a particular region, such as helping institutions meet SPS standards or environmental norms or regional services negotiations (for example for SADC), or assisting institutions with the implementation of competition policies.

Mainstreaming trade into national development strategy is a major concern of UNCTAD particularly because, so far, only a minority of country-level plans include trade-related policies and assistance among their priorities. UNCTAD's advisory services emphasize the need for better integration of trade into development strategies that promote poverty reduction in developing countries, in particular in LDCs.

Although UNCTAD is a non-resident agency and has no established network for in-country presence, it is closely involved in the One UN pilot countries to promote joint United Nations support to a country and aims to integrate aid for trade into the consolidated United Nations country development programmes. UN-wide activities will also benefit from enhanced coherence and mutual support between the expertise of various United Nations agencies and their aid for trade activities and the trade-related components of national development plans. UNCTAD also participates in the United Nations Cluster on Trade and Productive Capacity, recently established by the Chief Executives Board for Coordination. In addition, it participates in the Trade Cluster of the United Nations Executive Committee on Economic and Social Affairs, under which aid for trade activities are coordinated among UNCTAD, UNEP, UNDP and United Nations regional commissions. All these efforts will ensure greater coherence among United Nations agencies on aid for trade and other development-oriented efforts, as well as bring about greater synergy between policy level and operational activities of these agencies, and further inform intergovernmental deliberations.

Such coordination is important as United Nations' aid for trade work is delivered through a variety of mechanisms (bilateral, multi-donor funded programmes, individual international organizations and agencies' programmes, multilateral agencies, regional organizations and regional financial institutions), with a multiplicity of programmes. Frequent fragmentation and lack of coordination among the different players remain major concerns, for both the agencies concerned and the beneficiaries.

For instance, UNCTAD, jointly with United Nations regional commissions, UNDP and UNEP as well as the United Nations University (Comparative Regional Integration Studies), is preparing a report on global and regional perspectives on aid for trade. Further, the Trade and Development Board, at its forty-first executive session in April 2007, agreed that UNCTAD's technical cooperation activities should be adapted and consolidated into a few overarching thematic themes so as to maximize impact on development and increase efficiency and coherence. Thus, the elements of the consolidated thematic approach are being developed in line with this recommendation. UNCTAD XII is expected to provide new directions and guiding principles on UNCTAD's operational pillar, including with regard to aid for trade.

Data relating to UNCTAD's allocation of the aid for trade share in individual projects and programmes and its commitments by aid for trade category for the period 2002-2005 and in particular 2005 are provided in the tables in the Annex. In 2006, there was a decrease in UNCTAD's interregional expenditure, despite a 16 per cent increase in overall technical assistance delivery. Interregional projects from which all developing regions benefited accounted for almost 50 per cent of total expenditure, down from over 52 per cent in 2005. At the same time, the share of regional projects increased from 9.6 per cent in 2005 to 11 per cent in 2006. The share of country programmes remained constant at around 40 per cent during this period.

UNCTAD is not a donor agency and is therefore not in a position to make aid for trade pledges. Rather, it is an implementing agency depending to a large extent (over 90 per

Box. The three main sources of financing for UNCTAD technical cooperation, 2006

Trust funds	UNDP	United Nations programme budget
91.4%	3.9%	4.7%
\$32.2 million (an increase of 19.7% over 2005)	\$1.4 million (a decrease of 26.3% over 2005)	\$1.7 million (a decrease of 2.4% over 2005)

cent) on voluntary contribution from donors for its aid for trade and trade-related technical assistance activities. The three main sources of financing for UNCTAD's technical cooperation in 2006 are indicated in the Box above.

C. Some lessons from UNCTAD's experience

As one of the main agencies in the United Nations system involved in providing trade-related technical assistance in furtherance of development, UNCTAD plays an important role in the realization of the Aid for Trade Initiative. Implementing the Initiative more fully will be a key element of global solidarity for development in coming years. UNCTAD stands ready to support this process, as it is already doing so, and help, in cooperation with WTO and other United Nations agencies, with the ongoing Aid for Trade Initiative. In the light of UNCTAD's experience in aid for trade and trade-related technical assistance, some lessons learnt are highlighted below on how to ensure that aid for trade maximizes gains from trade and trade liberalization for developing countries.

The principles guiding the Aid for Trade Initiative (namely 'secure', 'additional', 'predictable' and 'non-debt creating funding') and the Paris Declaration principles should be mutually reinforcing. Secure and predictable funding should, to the extent possible, be accompanied by the provision of adequate levels of resources commensurate with the needs of developing countries. The overall level of aid for trade resources that will be made available must reflect the growing demands of developing countries, in particular LDCs, and their genuine trade-related needs. Such assistance needs to be trade-specific and should not be subsumed into wider adjustment programmes.

In addition, the principle of country ownership will be critical for the success of the Aid for Trade Initiative and in particular for aid effectiveness. Ownership would include assessment and articulation of country needs, inter alia priority-setting, and their integration into development plans and poverty reduction strategies and effective participation in the governance structure for the management of the Aid for Trade Initiative. Accessibility, user-friendliness and non-debt-creating aspects are vital to ensure the successful impact of the Aid for Trade Initiative.

Over the years, it has become evident that trade-related technical assistance requires collaboration and pooling of synergies of implementing partners and relevant international organizations, each in line with each one's comparative advantage, and the drawing of lessons from existing delivery instruments or frameworks. Such cooperation is required to avoid competition for limited donor funds and to minimize duplication of efforts and wastage of resources.

Building local institutional capacities is important as such institutions in most developing countries are weak, a fact that undermines their ability to effectively formulate and implement trade policy, develop trade negotiations strategies, and absorb trade related technical assistance. For this reason, training activities remain essential to empower trade-related institutions in developing countries. Thus, UNCTAD places a high priority on human resources development in trade issues.

Increased efforts need to be devoted to the improvement of trade-related 'global public goods' that enhance the ability of developing countries to take advantage of the opportunities offered by the international trading system. The provision of such 'global public goods' requires considerable resources, inter-institutional cooperation and the establishment of a network of country-level focal points. Greater use of and partnering with local institutions and expertise in developing countries helps with building capacities, transferring knowledge and expertise; minimizes costs; and facilitates exchange of experience and networking between countries and their policymakers.

Country-specific needs assessment for aid for trade is crucial. These assessments must

be underpinned by empirical research and analytical capacities, as well as feedback and endorsement received through UNCTAD's intergovernmental deliberations and related mandates. Specific aid for trade activities will have to respond to both immediate needs, such as trade negotiations, and to medium to long-term needs of capacity-building, such as supply capacity and adjustment support. Customized trade-related assistance (sectoral, national, regional) is most appropriate, in keeping with the respective development and poverty reduction priorities of developing countries.

To achieve efficient results, the aid for trade initiative also needs to foster public—private partnerships. As the private sector in developing countries (particularly LDCs) is mainly composed of SMEs, it faces a variety of constraints in enhancing its export capacity and competitiveness, ranging from inadequate finance and technology, inadequate infrastructure, high intermediary costs and regulatory red tape. Thus, enterprise development should form a key component of aid for trade. Further, the involvement of the private sector in aspects of the Aid for Trade Initiative, especially as regards production and exports, as well as infrastructure and institution-building, would be essential. This is particularly relevant as far as the development of trade facilitation infrastructure is concerned. The private sector can be a beneficiary of aid for trade, as well as a contributor in public—private partnerships. The private sector needs to be involved in aid for trade not only in delivery but also in the designing and planning stages.

It has been widely expressed that the current level of aid for trade is noteworthy but insufficient. There are important gaps in meeting the trade-related needs of developing countries. Thus, adhering to the principle of additionality and adequacy in aid for trade is critical, as highlighted previously.

There is also an important gap in terms of a coherent approach to aid for trade delivery. This applies to beneficiary countries, donors and international agencies. At the country level, coherence is needed for beneficiary countries to ensure mainstreaming trade into development objectives. This would require intra-governmental coordination, particularly between trade and finance institutions, as well as multi-stakeholder consultations, involving the private sector and civil society. This is a prerequisite for successful aid for trade, as needs and priorities, by virtue of country ownership, would have to be ascertained by beneficiary countries themselves. At the donor level, multilateral, regional and bilateral donors need to coordinate their efforts among each other and with beneficiary countries, as well as with implementing agencies, so as to map out developing countries' needs according to their national development strategies and to address well-defined areas in full coordination with each other and beneficiary countries. Such coherence is essential. It is critical that assistance be provided within the framework of the national development strategy and plan, not outside of it. At the international agency level, coherence and harmonization of aid for trade deliverables remain crucial prerequisites for efficient results.

Like many other international development agencies, UNCTAD has experience in monitoring and evaluating technical assistance activities, based on a thorough needs assessment that identifies bottlenecks and crucial project-related variables. As part of its intergovernmental process, UNCTAD's technical assistance activities and specific projects are regularly monitored and evaluated by member States as well as by donors and beneficiaries. However, to engage in joint monitoring and evaluation of aid for trade projects, all parties involved (donors, beneficiaries, implementing agencies) must agree on the appropriate benchmarks that should be used to assess and monitor the performance of projects and their development impact.

Within the United Nations system, a growing number of programme-level evaluations rely on results-based frameworks. In the case of aid for trade, a results-oriented approach should be adopted from the outset, with evaluations conducted by external evaluators at various intervals of the Aid for Trade Initiative. Realistic targets and indicators of achievement

should, to the extent possible, be identified with appropriate country-level management strategies and measurement tools to ensure country-level results.

Monitoring and evaluation will be required to ensure that aid for trade delivers the expected results. This could be implemented at two levels: (i) overall aid for trade disbursement and utilization of resources and delivery of programmes; and (ii) specific aid for trade projects. A mechanism for annual reporting to a WTO body like the Committee on Trade and Development on overall implementation, in keeping with pledges made, might serve a useful role in this regard. OECD is assisting in monitoring such aid for trade flows. The first WTO Global Aid for Trade Review, drawing on regional reviews in different regions, was a positive exercise in monitoring and evaluation that deserves to be continued. In the context of its dialogue and consensus-building functions, UNCTAD could also provide input with regard to the overall monitoring and evaluation of aid for trade funding and implementation. It has contributed to the first WTO Global Aid for Trade Review and is a member of the WTO Advisory Board on Aid for Trade.

UNCTAD technical cooperation

Statistical Annex

Table 2
UNCTAD trust fund contributions, 2003–2006^a (in thousands of dollars)

	2003	2004	2005	2006
Developed countries' contributions ^b	17 107	17 137	15 881	16 262
Developing and transition countries ^c	5 973	4 785	10 449	9 199
European Commission	2 173	691	2 888	2 343
United Nations system and other international organizations ^d	946	3 978	5 158	1 017
Private and public sectors	185	281	447	330
Total	26 384	26 873	34 823	29 151

^a Excluding third-party cost-sharing contributions through UNDP.

^b The figure for 2003 excludes \$616,463 for associate experts; for 2004 it excludes \$619,665 for associate experts; for 2005 it excludes \$759,436 for associate experts; and for 2006 it excludes \$809,055 for associate experts.

^c The majority of these contributions are self-financing, for activities in the donor's own country, and are financed from proceeds of loans or grants from international financial institutions.

^d For details see table 8 of the statistical annex (TD/B/WP/195/Add.2).

Table 3
Total expenditure by UNCTAD on technical cooperation, and source of funds, 2003–2006 (in millions of dollars)

	2003	2004	2005	2006
UNDP	4.9	2.6	1.9	1.4
Trust funds	19.9	26.3	26.8	32.2
Regular budget and development account	3.0	1.7	1.7	1.7
Total	27.8	30.6	30.5	35.2

Table 4
Distribution of expenditures by interregional, regional and country activities, 2006. (In thousands of dollars and percentages)

	UNDP ^a		Trust funds ^b		UN regular programme of technical cooperation and development account ^c		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Africa								
Country	199	0.6	4 858	13.8	-	-	5 057	14.4
Regional	97	0.3	1 831	5.2	-	-	1 928	5.5
<i>Subtotal</i>	<i>296</i>	<i>0.8</i>	<i>6 689</i>	<i>19.0</i>	<i>-</i>	<i>-</i>	<i>6 985</i>	<i>19.8</i>
Asia and Pacific								
Country	219	0.6	5 463	15.5	-	-	5 683	16.1
Regional	-	-	1 158	3.3	-	-	1 158	3.3
<i>Subtotal</i>	<i>219</i>	<i>0.6</i>	<i>6 621</i>	<i>18.8</i>	<i>-</i>	<i>-</i>	<i>6 841</i>	<i>19.4</i>
Latin America and the Caribbean								
Country	726	2.1	1 366	3.9	-	-	2 092	5.9
Regional	-	-	795	2.3	-	-	795	2.3
<i>Subtotal</i>	<i>726</i>	<i>2.1</i>	<i>2 161</i>	<i>6.1</i>	<i>-</i>	<i>-</i>	<i>2 887</i>	<i>8.2</i>
Europe								
Country	95	0.3	1 147	3.3	-	-	1 241	3.5
Regional	-	-	-	-	-	-	-	-
<i>Subtotal</i>	<i>95</i>	<i>0.3</i>	<i>1 147</i>	<i>3.3</i>	<i>-</i>	<i>-</i>	<i>1 241</i>	<i>3.5</i>
Interregional								
Interregional	29	0.1	15 578	44.2	1 662	4.7	17 269	49.0
Subtotal								
Interregional	29	0.1	15 578	44.2	1 662	4.7	17 269	49.0
Country	1 239	3.5	12 834	36.4	-	-	14 073	40.0
Regional	97	0.3	3 784	10.7	-	-	3 881	11.0
Total	1 365	3.9	32 196	91.4	1 662	4.7	35 223	100.0

^a UNDP-financed projects.

^b Voluntary contributions by member States and multilateral organizations.

^c Sections 22 and 34 of the United Nations regular budget.

Table 5
Evolution of UNCTAD's technical cooperation, by source of funds, 2003–2006 (Actual project expenditures in thousands of dollars)

Year	UNDP ^a		Trust funds ^b		UN regular programme of technical cooperation and development account ^c		Total
	Amount	%	Amount	%	Amount	%	amount
2003	4 887	17.6	19 919	71.7	2 982	10.7	27 788
2004	2 565	8.5	26 289	85.2	1 739	6.3	30 594
2005	1 943	6.4	26 816	88.0	1 726	5.6	30 485
2006	1 365	3.9	32 196	91.4	1 662	4.7	35 223

^a UNDP-financed projects.

^b Voluntary contributions by member States and multilateral organizations.

^c Sections 22 and 34 of the United Nations regular budget.

Notes

- ¹ Prebisch, R (1964) "Towards a New Trade Policy for Development" New York and Geneva (UNCTAD).
- ² Good summaries of the main arguments advanced in the aid literature can be found in Morrissey (2006).
- ³ A/RES/55/2.
- ⁴ A/RES/60/1.
- ⁵ Estimates for additional aid flows have been put forward in the context of meeting Millennium Development Goals, the Financing for Development Conference outcome, the recommendations of the Africa Commission, and pledges made at the Davos or G-8 meetings.
- ⁶ See for instance Burnside and Dollar (2004) on the critical role of institutions on the nature of aid-growth relationship.
- ⁷ For instance, Nilsson (1997) finds that \$1 of aid generates \$2.6 of exports from donor to recipient.
- ⁸ See Suwa-Eisenmann and Verdier (2007). These authors also identified a third channel through which aid flows may increase trade, namely by reinforcing bilateral economic and political links between recipient and donor countries.
- ⁹ The analysis of 'tied aid' is perhaps not very relevant for the current aid for trade process in the WTO context, as it is assumed that appropriate rules will be put in place to avoid such effects.
- ¹⁰ Rajan and Subramanian (2005) found that aid has adverse effects on beneficiaries' competitiveness, primarily due to the real exchange rate overvaluation. The term 'Dutch disease' refers the theory that an increase in revenues from natural resources will, by raising the exchange rate, make the manufacturing sector less competitive, leading to the deindustrialization of a country's economy.
- ¹¹ Page, S. (2006) *Trade and Aid: Partners or Rivals in Development Policy?*, Cameron May: London.
- ¹² UN Millennium Project. March 2005. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. (New York).
- ¹³ Ministerial Declaration of the Sixth WTO Ministerial Conference, 13-18 December 2005 (WT/MIN(05)/DEC, paragraph 57).
- ¹⁴ Hoekman, B. and Olarreaga, M (eds.) (2007), *Global Trade and Poor Nations* (Brookings Institution Press: Washington).
- ¹⁵ See Statement by Supachai Panitchpakdi, Secretary-General of UNCTAD, to the WTO Aid for Trade Global Review, 20 November 2007 (www.unctad.org).
- ¹⁶ Evenett, S. (2005) "Some Tough Love On 'Aid For Trade'", available online at <http://www.evenett.com/articles.htm>.
- ¹⁷ See, for example, OECD (2006), *The Development Dimension - Aid for Trade: Making It Effective* (Paris).
- ¹⁸ See for example Stiglitz, J. and Charlton, A. (2006) "Aid for Trade: A Report for the Commonwealth Secretariat" (London).
- ¹⁹ UNCTAD (2006) *Aid for Trade*, United Nations: New York and Geneva.
- ²⁰ WTO (2006) "Recommendations of the Task Force on Aid for Trade" (WT/AFT/1, Geneva).
- ²¹ Laird, S. (2007) "Aid for Trade: Cool Aid or Kool-Aid?", G-24 Discussion Paper No. 48, UNCTAD: Geneva.
- ²² Francois, J. and Manchin, M. (2007) "Institutions, Infrastructure, and Trade", Centro Studi Luca d'Agliano Development Studies Working Paper No. 224.
- ²³ See Wilska, K. and von Bonsdorff, M (2006), *Aid for Trade as a Vehicle for Enhancing Export Competitiveness* (Prepared for the Seminar on Aid for Trade: Adjusting capacity to maximize sustainability in a liberalizing global economy, 14-15 November 2006, Glion, Switzerland).
- ²⁴ Puri, L (2005), *Towards a New Trade "Marshall Plan" for Least Developed Countries: How to Deliver on the Doha Development Promise and Help Realize the UN Millennium Development Goals*, (UNCTAD Trade, Poverty and Cross-Cutting Development Issues Study Series No. 1, Geneva).
- ²⁵ WT/MIN(03)/12 (10 September 2003).
- ²⁶ See TD/429.
- ²⁷ TD/B(S-XXIII)/7(Vol. I).

UNDP PERSPECTIVES ON AID FOR TRADE

United Nations Development Programme (UNDP)

I. Introduction

Aid for Trade (AfT) did not feature in the WTO Doha Ministerial Declaration in 2001 that launched the Doha Development Agenda, now often referred to as the Doha Round. It therefore falls outside the negotiating mandate that was agreed at Doha. However, as the negotiations progressed, it became clear that a major effort was required to provide assistance not only to build trade capacity to help poor countries take advantage of improved market access from a more developmentally-oriented Doha Round agreement but also to address supply side constraints and adjustment costs. To this extent it was understood from the start that AfT is a complement and not a substitute for new, fairer, trade rules.

Against this background, AfT emerged as a significant part of the WTO Hong Kong Ministerial Declaration in 2005 amid commitments from G7 and G8 Ministers to provide additional aid to developing countries ‘to build the physical human and institutional capacity to trade’¹ and ‘to address adjustment related challenges and supply side constraints’.² The Declaration recommended the creation of a Task Force to examine how AfT could be operationalized and to consider how it could contribute to the development dimension of the Doha Round. The report of the Task Force was formally adopted by the WTO General Council in October 2006.

UNDP welcomed the AfT initiative as it was in line with its fundamental objective to promote human development as well as its mandate to support capacity development across a broad range of sectors, including trade. Indeed, UNDP’s trade-related policy and advisory work placed special emphasis on the dynamic relationship between trade, growth and human development, and collateral measures and reforms with higher or positive human development outcomes in building supply side capacity.

But it was also recognized at UNDP that many of the elements that constituted AfT were not new. There were also concerns over the prospects for additionality and the lack of structure in the process for accessing the funds that were being pledged. The main AfT elements were in effect a re-packaging of instruments that have been part of both national development expenditures and external development assistance during the post-World War II period, while bringing renewed emphasis to trade-related development infrastructure and supply side constraints. On the other hand, the inclusion in the initiative of ‘adjustment’ issues such as the fiscal, terms of trade, preference erosion and implementation costs associated with trade agreements had the effect of giving these issues more attention than they had previously received.

On the basis of this initial assessment, UNDP contributed its perspective on the questions under discussion to the AfT Task Force.³ UNDP is a member of the Aid for Trade Advisory Body made up of IMF, ITC, OECD, UNCTAD, UNIDO, World Bank and the regional development banks. The Advisory Body was established by the WTO Director General in fulfilment of a key Task Force recommendation for a coordination forum consisting of major development partners to monitor and share experience on the operationalization of the initiative.

UNDP is also a member of the OECD Technical Working Group on the Monitoring Framework on Aid for Trade, which includes key international organizations, regional development banks and selected developing country government representatives. And in its operations, UNDP maintains a substantive trade capacity development portfolio.

In the light of UNDP's association with the AfT initiative, this chapter has two main objectives. The first is to provide UNDP's perspective on the initiative and outline some concerns that may constrain the success of AfT as a vehicle for supporting a development-centred trade agenda in developing countries. And second, to identify the main elements of UNDP's support in the operationalization of AfT.

II. UNDP's assessment of the Aid for Trade initiative and early concerns

As previously noted, UNDP's initial assessment of the aid for trade initiative was that its main elements were not new. There were also concerns at UNDP over the ambiguity in regard to the additionality of resources as well as unclear procedures for developing countries to access these resources. UNDP's experience as a member of the OECD Technical Working Group on the Monitoring Framework on Aid for Trade also led to concerns over some aspects of the approach to monitoring that was developed during the spring of 2007. An elaboration follows.

A. Initial assessment ⁴

During the post-independence years, various programmes and initiatives emerged at bilateral, regional and multilateral levels designed to enable developing countries, particularly low income ones, not just LDCs, to actively and effectively use trade as an instrument of development policy. These programmes include assistance in enhancing competitiveness including through support for enterprise development, diversification of exports, establishment of standards, and to deal with various human, institutional, infrastructure and other constraints.

In addition, while not unknown but far less comprehensive has been support for adjustment difficulties (fiscal losses, terms of trade) and other short, medium or long-term preference erosion (e.g. textiles and clothing, sugar, and bananas) and implementation costs of trade agreements (e.g. trade facilitation, intellectual property, sanitary and phyto-sanitary standards, regulatory demands of services trade liberalization).

Following from this, UNDP's assessment was that there are two broad sets of issues that aid for trade should help address but they are quite different in many important respects - in terms of objectives, essential characteristics, timeframes and financial sources for generating the resource requirements entailed.

The first group of aid for trade objectives are essentially developmental, necessary and desirable independent of trade negotiations and agreements, continuous in terms of need, primarily long-term in nature and clearly in the province of traditional "aid" as the source for the requisite financial resources. The resource implications have been and will be very substantial (e.g. the 2005 Commission for Africa report estimated that improving infrastructure in Africa could cost \$20 billion).⁵ They should be met through an additionality of aid resources, as pledged in the 2005 G8 Gleneagles and UN Summits. They can be provided in the form of grants or as concessional loans, as has historically been the case. Overall, there is little which is conceptually new for this category of issues, even though a renewed emphasis on such issues can be useful and certain aspects (e.g. cross-border projects on infrastructure for landlocked countries, investments in projects addressing cross-country and regional impediments to trade development such as regional transport corridors, standards, disease or pest issues) have traditionally been neglected and need much higher priority than they have thus far been accorded. While all developing countries should be eligible for such support, prioritizing low income countries, as long as it is not exclusively restricted to them, can be viewed as justified.

It is the second set of aid for trade objectives and issues i.e. adequately and fairly addressing adjustment (fiscal loss of government revenue as a result of tariff reductions, changes in terms of trade for net food importers etc.), preference erosion and implementation costs of

trade agreements that can be regarded as conceptually new, at least in terms of the discussion on how they should be treated. There is now broad agreement that there are ‘winners’ and ‘losers’ from trade negotiations. Developing country ‘losers’ are not just LDCs and low income countries but can also include middle income countries. The argument that aid for trade should be used to meet the various costs of trade agreements - adjustment, preference erosion and implementation to name the three most important - is relatively new in the mainstream discourse on trade or aid. There is also a strong case to treat these costs as different from the first group of AfT issues on almost all grounds: the objectives they are seeking to address, essential characteristics, the timelines involved, their one-off or transitory as distinct from continuous nature and the financial amounts, (considerable but lower than the first group of AfT), sources and terms on which they should be financed.

The case for using traditional forms of ‘aid’ or ODA budgets to meet adjustment costs is not strong. Since the costs for some countries are associated with gains for other countries, especially developed countries from trade liberalization negotiated in trade agreements, aid criteria and existing aid budgets should not be used to compensate the ‘losers’ or pay for implementation costs of trade agreements. The need should also be met on a grant basis, not through concessional or other loans (because the costs borne by these countries result in benefit for other countries). Grants should also be provided to particular developing countries identified as ‘losers’, some of which may not be significant traditional beneficiaries of aid (e.g. Mauritius in view of its significant projected losses as a result of preference erosion).

B. Additionality

While the Task Force did not address details related to the funding aspects of AfT, recognizing the mandate given to the WTO Director General in the Hong Kong Ministerial Declaration to consult on ‘appropriate mechanisms to secure additional financial resources’, the report did underscore the importance of additionality and adequacy of funding to meet AfT needs.

A number of pledges were made in the lead up to, at and after the WTO Hong Kong Ministerial Conference in 2005, for increased aid towards trade related assistance by several donor countries, particularly the EU (Euro 2 billion per year by 2010 with half to be provided by the EC and the other half by EC Member States), US (USD2.7 billion per year for infrastructure and trade policy) and Japan (USD10 billion for over three years for trade, production and distribution related infrastructure). It remains unclear as to what extent the funds pledged are additional. The G8 commitment is for a total of \$4 billion (including for the Enhanced Integrated Framework) annually. However, analysis by commentators indicates hardly any additionality as the numbers show that there is ‘little or no increase in total Aid for Trade and its share of total aid may fall’⁶. The overall amount of ODA is also projected to fall once the recent spate of debt write-offs comes to an end. On the other hand, the OECD argues that the money is not the issue and that there is enough money, but that the real challenge is to focus on aid effectiveness.⁷

Additionality remains important for developing countries where there are concerns over resource diversion in the aid that they receive.

C. Accessing AfT

The Task Force recommended that AfT related projects and programmes should only be considered as such if they are identified as trade related development priorities in the recipient country’s national development strategy. It fell short of recommending a new fund or multilateral financial arrangement for AfT. But the Task Force did acknowledge that there were existing gaps in ODA allocated to trade including lack of predictability in donor responses, inadequate support to infrastructure, adjustment, the productive sectors, and regional needs⁸.

Developing countries and other proponents of AfT on the other hand advocated for the establishment of a separate multilateral multi-year financial facility mainly to provide grants (supplemented by concessional loans limited to specific interventions), to ensure predictability and non-debt creating commitments. But there was no appetite among donor countries for establishing a dedicated AfT fund. Donors accordingly resisted this approach.

The compromise that was reached by the Task Force was that the established bilateral and multilateral procedures for accessing ODA resources will also be utilized for AfT. Efforts will however be made to make bilateral and multilateral funding more effective through improved mechanisms for coordination at country, regional and global levels based on the Paris Declaration on Aid Effectiveness. Incentives to enhance effectiveness were to be provided through a global monitoring process which will work to highlight and address the gaps on both the demand and supply sides, thereby building a more responsive relationship between demand from developing countries and response from the donor community.

But the specific procedures for accessing AfT resources by developing countries have yet to be determined. For example, it is not clear whether these countries will be required to follow some diagnostic method for assessing, establishing and costing their needs and priorities. It is also not clear which donor or group of donors will respond to which country and how to ensure equity between countries in the allocation of funds. Further, it is not clear whether priority will be given to specific groups of countries such as LDCs and small vulnerable economies (SVEs) – two categories of developing countries recognized at the WTO - or whether allocation will be on first come first served basis.

D. Aid for Trade monitoring and evaluation framework

The ‘big idea’ of the Task Force was its recommendation for the establishment of a global AfT monitoring and evaluation (M & E) framework. This was primarily to encourage and build confidence in the AfT initiative as well as provide an incentive to developing and donor countries and the relevant international organizations to work together to ensure that AfT responds to the issues and challenges on the ground, with concrete and visible results. In the light of the studied ambiguity over the additionality of resources and the lack of clarity in the compromise adopted by the Task Force that existing bilateral and multilateral channels will be utilized for accessing AfT funding, it is not surprising that M & E became the centre-piece of its recommendation.

This required the Task Force to elaborate precisely what is to be monitored and evaluated. It defined AfT activities as those which have been identified as trade-related priorities in the recipient country’s national development strategies, such as the PRSP. Building upon the definitions used in the Joint WTO/OECD Database, it recognized that these activities fell into six major categories, namely (a) trade policy and regulations (b) trade development (c) trade-related infrastructure (d) building productive capacity (e) trade-related adjustment and (f) other trade-related needs.

The Task Force envisaged that M & E will not only focus on issues of effectiveness and efficiency at country and regional levels including progress and results in project and programme implementation but also donor commitments, agency support and strategies for meeting them.

Tip-toeing carefully around the acknowledged fact that the WTO is not a development agency, the Task Force however recommended that that the WTO should become the ‘clearing house’ for AfT M & E information and a forum for a global periodic review and assessment of what was being achieved under the initiative. In addition to the global review, the Task Force recommended expanding the role of the WTO Trade Policy Review Mechanism - which assesses the trade policies of member states on a periodic basis - to include assessment of the effectiveness of AfT support provided by donor member states and progress in developing trade capacity in AfT recipient member states.

Following the adoption of the Task Force Report in October 2006, the OECD was invited to take the lead in elaborating the M & E framework with the help of a **Technical Working Group (TWG)** on the Monitoring Framework on Aid for Trade. The TWG consisted of representatives of the main development agencies, regional development banks and selected developing countries. Guided by the recommendations of the Task Force, the TWG agreed on three main strategies for generating M & E information: (i) measuring global aid for trade flows using the OECD-DAC creditor reporting system (CRS), the main source for the Joint WTO/OECD Database which had been available since 2001; (ii) measuring global aid flows at the donor and agency level based on self assessments of current activities and fulfillment of pledges; and (iii) reporting by recipient countries of their specific AfT experience.

UNDP identified five main shortcomings with the approach adopted by the TWG and articulated them at the various meetings and consultations of the group that were held during the spring of 2007.

First, while the Joint WTO/OECD Database represents an indispensable source of information on AfT flows, it remains essentially an inventory of trade-related technical assistance and capacity building initiatives and falls far short of providing an assessment of AfT quality, effectiveness and on-the-ground impact and results.

Second, the limitation of the Database is compounded by the fact that there are no common benchmarks, criteria, or indicators to determine the adequacy or additionality of AfT flows. Indeed, the Task force had acknowledged that “clear and agreed benchmarks are necessary for reliable global monitoring ... to ensure accurate accounting and to assess additionality”⁹. No global benchmark has been established. On the contrary, the M & E framework adopted by the TWG only requires donors and agencies to undertake self-assessments. As each donor organization will provide its own year-on-year financial and other reporting, this is unlikely to shed much light on additionality let alone on impact and results. The reporting required is more likely to be process oriented.

Third, the TWG missed an opportunity to provide for independent assessments of the impact of AfT flows through in-depth country case studies of how effectively they contributed to a recipient country’s trade and development objectives and towards integration into the global trading system. This also requires assessing the performance and effectiveness of donors and the capacity of recipient countries, together with identifying what categories of AfT and modes of financing – concessional, non-concessional, and other combinations – were most effective. As experienced is gained with the M & E framework, it is clear that better tracking of performance will be required to provide the necessary incentives to the partners involved in the initiative to produce results.

Fourth, the TWG also missed an opportunity to provide for the regular analysis of specific thematic issues to enhance understanding of the complexity of trade capacity building on the ground. Examples of such issues are the institutional capacity of national trade ministries or impact of pro-poor trade policies.

Fifth, despite the inclusion of regional initiatives in AfT, the TWG did not adequately clarify how regional AfT will be measured and evaluated. It is also not clear how private sector support is to be monitored.

III. UNDP’s support portfolio

Notwithstanding UNDP’s concerns, the AfT initiative has been welcomed and embraced as its fundamental objectives are in line with UNDP’s corporate concerns to promote human development and support capacity development across the main economic and social sectors, including trade. It is also recognized that AfT is an evolving initiative that seeks

to strengthen both the demand for AfT from developing countries and the donor response within the framework of the Paris Declaration. It is anticipated that the initiative would be flexible enough to correct its shortcomings as experience is gained.

Fostering inclusive globalization has been adopted as a key results area in UNDP's Strategic Plan 2008-11. UNDP's strategy to support the AfT initiative including the Integrated Framework for Trade-related Technical Assistance (or IF) is guided by its corporate mandate and has the following specific objectives:

- Supporting trade mainstreaming in national development/poverty reduction plans;
- Building capacity to negotiate, interpret and implement trade agreements; and
- Enhancing competitiveness and overcoming supply side constraints.

While the main focus of UNDP's support is at the country level with national priorities and national ownership providing the context and framework, addressing cross-border issues is emerging as an important part of UNDP's regional trade programmes in Africa, Asia and the Pacific, Arab states and the countries in transition.

UNDP's trade capacity development support for the most part falls under the following AfT categories: (a) trade policy and regulations (b) trade development and building productive sector capacity.

A. Trade policy and regulations

Specific support activities carried out by UNDP under this category include trade diagnostics and research, policy analysis, trade mainstreaming in national development/poverty reduction strategies, training, and institutional development. Support through global, regional and country programmes is estimated at between US\$8-10 million a year for approximately 60 interventions in over 40 countries.

UNDP's regional bureaus and country offices collaborate with its Bureau for Development Policy which maintains a Trade and Human Development Unit in Geneva under the Inclusive Globalization Cluster of the Poverty Group to implement various trade policy capacity development interventions with country ownership as a guiding principle. Approximately 40 staff are actively engaged either full or part-time in supporting trade capacity issues with the support of UNDP's poverty reduction practice community which includes over 300 economic development/poverty reduction specialists and maintains an e-knowledge network to facilitate information exchange and capacity building.

As recognized by the Task Force, strengthening the 'demand side' of AfT requires donor and agency support for country ownership and country-driven approaches on the one hand, and, on the other, a commitment of governments to fully mainstream trade into their national development strategies. In some countries, the process for mainstreaming trade, formulating trade strategies, and proposing priority trade projects and programmes for donor financing needs to be strengthened through technical assistance and capacity building to help put in place effective and sustainable trade policy frameworks and processes. UNDP works alongside country stakeholders, donors and international agencies to provide and coordinate support for strengthening the 'demand side'. In particular, through the United Nations Resident Coordinator System, UNDP helps to facilitate greater donor and agency coordination and harmonization of procedures to ensure coherence at both the operational and policy levels. In addition, at country and global levels, UNDP has provided trust fund management services to facilitate pooled funding approaches. UNDP serves as the global trust fund manager for the IF.

B. Trade development and building productive sector capacity

Support for trade development and building productive sector capacity is provided mainly

under UNDP's private sector portfolio which seeks to foster inclusive markets and consists of two broad type of interventions: private sector development aimed at increasing the contribution of micro-, small and medium sized enterprises to economic growth and poverty reduction; and private sector engagement aimed at fostering partnerships with a range of companies from multinationals (northern and southern), to small and medium sized enterprises (SMEs), often with a broader range of development objectives in mind.

The private sector development portfolio accounts for approximately US\$80 million of programme spending annually on over 400 projects in 101 country offices. It comprises a wide range of predominantly 'single theme' private sector development interventions, including support for business development services, access to micro-credit, and entrepreneurship development. Single theme projects of this kind account for approximately 57 per cent of the portfolio in terms of simple project headcount. A further 25 per cent goes to sectoral and supply chain projects of various kinds, and approximately 11 per cent to policy related interventions, mainly in the area of improving the business environment.

Private sector engagement initiatives generate approximately US\$20 million per year in private sector funding contributions to UNDP through approximately 130 programmes in 75 country offices and regional centres. Cost sharing private sector partnerships are a relatively recent phenomenon in the development community at large but performance to date suggests that UNDP is extremely well positioned in this area with a strong and rapidly growing portfolio. Approximately 60 per cent of partnership projects are in the area of poverty reduction, followed by energy and environment and the social sectors. The majority is motivated by Corporate Social Responsibility (CSR) objectives and consequently includes a wide spectrum of interventions ranging from philanthropic donations to market-led investments.

UNDP's capacity development and democratic governance practice communities are also active on private sector support which is mainly carried out through the Bureau of Partnerships and the UNDP affiliate, the UN Capital Development Fund (UNCDF), in collaboration with regional bureaus and country offices.

IV. Conclusion

While globalization has been a key driver of economic growth benefiting hundreds of millions of people, these benefits have not been shared equitably either between or within countries. Well formulated domestic policies will not be as effective unless the globalization process is beneficial to all developing countries. To this extent, AfT could bring significant benefits to developing countries in providing assistance not only to meet adjustment costs but also to take advantage of market access opportunities from the international trading system. This can impact positively on sustainable economic growth and increasing levels of human development in the drive to achieve the MDGs.

It was recognized at UNDP that many of the elements that constituted AfT were not new. There were also concerns over the prospects for additionality of AfT resources, unstructured access to these resources, and gaps in the M & E framework that has been put in place. Yet this is also an evolving initiative that seeks to strengthen both the demand for AfT from developing countries and the donor response within the framework of the Paris Declaration. As a multilateral partnership, there are good grounds for optimism that the flaws would be addressed and resolved over time as experience of the initiative is gained. For its part, UNDP - as a member of the WTO Advisory Body and OECD Technical Working Group on the Monitoring Framework, and with its own substantive trade capacity support portfolio - is committed to ensuring the successful operationalization of AfT.

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- ¹ G7 Finance Ministers “Conclusions on Development”, London, 4-5 February 2005.
- ² The Gleneagles Communiqué, “Africa, Promoting Growth”, G8 Summit, Gleneagles, Scotland, 6-8 July, 2005.
- ³ WTO, “Summary of Contributions from Inter-governmental Organisations: Aid for Trade Task Force”, Geneva, WTO, WT/AFT/W/17, 2006. UNDP also participated in a number of Aid for Trade related conferences and meetings during 2006-7 organised by the OECD, UNCTAD, the Commonwealth Secretariat, AITC and the WTO. UNDP is an observer on the WTO Committee on Trade and Development (CTD) where aid for trade is a regular feature on the agenda and participates in the governing bodies of the Integrated Framework, a programme which has overlapping objectives with the aid for trade initiative.
- ⁴ This assessment is based on a paper by Kamal Malhotra, ‘Aid for Trade Concept Note’, UNDP, New York, February 2006.
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AID FOR TRADE FOR SUSTAINABLE DEVELOPMENT

United Nations Environment Programme (UNEP)

Introduction

This paper presents a constructively provocative set of ideas on how the concept of ‘Aid for Trade’ (AfT) can be understood within the larger context of sustainable development. It is suggested that not only can AfT contribute to the pursuit of sustainable development but that sustainable development, which is now the stated goal of international environmental and World Trade Organization (WTO) policies, should be in turn amongst the meta-goals around which AfT initiatives and investments are structured.

Instead of repeating the minutia of specific environmental concerns, the first section of the paper sets for itself the goal of laying out the broad conceptual argument for why AfT has to have a broader goal than just the facilitation of increased trade or enhanced trade liberalization. Although sustainable development is clearly a central policy goal for all of UNEP’s activities, the paper avoids making the parochial argument for sustainable development and, instead, highlights the fact that sustainable development is now the shared policy goal for all actors involved in AfT discussions. Hence, sustainable development is not just an environmental concern, but equally a development priority and now the stated policy goal of trade policy.¹

This is followed by the distillation of three key lessons that this paper proposes should guide the actual planning of AfT initiatives. It is proposed that any future discussions and any framework for AfT that emerge from those discussions should build upon these three lessons. In particular: (a) general lessons from international assistance experience should be examined for additionality, predictability and conditionality, and to create processes of access that are transparent, relevant and needs-based; (b) a key priority for AfT initiatives should be the cultivation of domestic capacities for integrated analysis and assessment; and (c) that AfT investments should particularly focus on capacity enhancements for policy processes and implementation, especially in the areas of international policymaking capacities, domestic implementation capacities, and stakeholder participation capacities.

The paper concludes with thoughts on the institutional strategies and collaborations between the United Nations Environment Programme (UNEP) and other agencies that could help realize the strategic approach laid out in this paper.

I. The logic of Aid for Trade for sustainable development

The genesis of the notion of ‘Aid for Trade’ – or AfT – lies largely in the realization that materializing the potential benefits of trade is not simply a matter of liberalizing regulations.² It also requires an enabling policy environment and building of the full spectrum of critical capacities – institutional, informational, infrastructural and implementational.³

This conceptual realization began to set in soon after the 2001 Doha Ministerial Conference of the WTO and by December 2005 had become a key item and recommendation in the WTO Hong Kong Ministerial Declaration.⁴ It is not surprising that the notion is now widely embraced by both industrialized and developing countries. Indeed, the idea was fully accepted not only for conceptual reasons but also for its political rationality. By the end of 2005, the Doha Development Agenda negotiation process initiated in Qatar in 2001 had already faltered, as the early fascination with trade liberalization for its own sake began to fade, particularly amongst many developing countries. Some gesture of North-South cooperation to ensure that the benefits of trade extended to everyone and across generations was dearly needed.⁵

A. The concept of AfT came along at the exact right time

It also came along at the exact right time to meet environmental, or more precisely, sustainable development concerns. The sustainable development justification for AfT arises from the synergy between the trade logic and the environmental logic for AfT. On the one hand, the logic for international trade policy flows from the recognition that increased investment is needed in developing countries to capture net development gains from greater global trade and liberalized world markets. Without the needed capacities and conducive internal policy conditions, developing countries and economies in transition are not able to harvest the benefits of increased market access and may even find themselves facing new trade disadvantages with liberalized trade competition. On the other hand, the environmental logic for AfT builds on an ongoing trade and environment debate that is now nearly 15 years old. This vigorous debate has arrived at a conclusion that trade and environment policies not only needed to coexist, they would actually need to cooperate for the achievement of the broader goal of sustainable development. Therefore, sustainable development is not only the meta-goal of environmental policy but also of trade policy (as outlined in the WTO Preamble and more recently in the Doha Declaration).⁶

The sustainable development logic for AfT draws together both trade logic and environmental logic, and then broadens that logic within the logic of development and poverty alleviation. It builds on the conceptual realization that compartmentalizing trade and environment policy and handling them separately is neither feasible nor desirable. Firstly, much of environmental policy has important trade implications, and a significant part of global environmental policy is trade policy in itself.⁷ For example, trade is a key component of the management of endangered species, and CITES is as much of a trade agreement as it is an environmental treaty. In the case of biodiversity, the Cartagena Protocol on biosafety is relevant but there are others. The links between trade and environment are deep and mutually influential. Biodiversity and biodiversity-related products are critical trade commodities while trade is a critical instrument in the management of global biodiversity. Secondly, it is evident that within an entire array of issues such as global waste trade, resource use efficiency, ecosystem management, sustainable production and consumption, organic agriculture, fisheries, etc., the concerns about the global environment are congruous with the concerns about global trade in numerous ways. Trade can both exacerbate environmental challenges and address them, and the purpose of policies, trade and environmental, must aim to create the conditions where the goals of trade and of the environment are met simultaneously. However, the case for sustainable development broadens the challenge because it demands that both trade and environment policy are sensitive to issues of development particularly for the poorest and most vulnerable populations. These are the populations that are most likely to bear the costs of both policy domains and, therefore, their concerns should be heard.⁸

The sustainable development logic for AfT recognizes that AfT can be an effective tool to induce greater policy coherence domestically as well as internationally, and also encourage policy synergies, especially those articulated in the Doha Mandate, for the achievement of sustainable development.⁹ The promise of sustainable development has always had the premise of bringing together developmental and environmental action and creating a combined rationality for the two.¹⁰ AfT provides a potential instrument for doing so in the case of trade and environment.¹¹

A point of emphasis is that neither trade liberalization nor increased trade volumes is a policy *goal* in itself. These policy goals become worthy in only so much as they lead, or promise to lead, to improvements in the quality of human well-being and the quality of the environment in which human well-being can be sustained, or sustainable development. In this sense trade has to be viewed as a policy *instrument* much more than a policy *goal*. The purpose of policy is not to increase trade, *per se*. The purpose of policy is to enhance trade so that something else – in this case, sustainable development – can be achieved. Aid, of course, is also a policy *instrument*. Even though ‘more aid’ is generally considered a good

thing, just as ‘more trade’ is generally perceived as a good thing, the fact of the matter is that ultimately the quantum of aid is an incomplete measure of the efficacy of aid. The effectiveness of aid can only be measured, in the ultimate sense, by the degree of change from the status quo that has been brought about as a result of that aid.¹²

The point to be made here is that in putting ‘aid’ and ‘trade’ together, AfT combines the two most potent ‘means’ or ‘instruments’ of policy. But for what purpose? Sustainable development, as the professed goal of the global developmental and environmental communities, is the ‘end’ or ‘goal’ that AfT seeks to achieve. In very practical ways, it is not enough to say, “Aid *for* Trade.” That only begs the question “Trade for what?” Sustainable development provides a possible answer to that question – “Aid *for* Trade *for* Sustainable Development” (AFTfSD). This paper suggests that aid should be used to instil the conditions for trade that will lead not just to more development, but to more sustainable development including a greater focus on environmental concerns and poverty alleviation. After all, it is the latter (sustainable development) that is now the stated goal of the global trading system, as articulated in the WTO agreement and elaboration in the Doha Declaration.¹³

II. Lessons for designing AfT initiatives

The practical implication of all of the above is that the ultimate purpose of AfT cannot simply be to invest in aid that will create the conditions for more trade and for more trade liberalization. The ultimate purpose should be to invest in aid that will create the conditions for trade that will lead to more sustainable development; with a special focus on environmental improvement and poverty alleviation. This implies that for AfT to yield concrete gains in sustainable development, it not only has to build on what is known about international assistance (aid), international trade, and environmental stewardship in a sustainable development context, but also combine it.¹⁴

At least three key priorities can be determined for those who are to design AfT initiatives in the context of sustainable development. These are necessarily broad-based and apply to all assistance and not just AfT. Without attention to these, agendas will tend to falter. Attention is also needed in the specifics of each context and the cases to which these ideas are applied. These are amongst the key lessons that are derived from the common area of understanding of international aid, international trade policy, and international environmental policy.

A. Doing aid right

The first set of lessons that both trade and environmental policymakers need to highlight relates to what is known about ‘aid’.¹⁵ There is a long track record of trying to achieve policy goals through international assistance. Much has been achieved when using this instrument; but the literature on the subject also suggests that it was probably not as much as one had hoped for.¹⁶ The literature also points out that the formula for effective aid is uncertain, although it is quite evident that there have been a few lessons learnt on the way about things that should and should not be done in designing any aid program. These lessons are not unique or specific to AfT and should ideally be applied to all international assistance. Here are three lessons in particular that any designer of AfT would be well advised to keep in mind.

1. *Additionality and predictability*

Developing countries have long worried that promises of assistance in one area will be fulfilled but only by cutting off assistance in other areas. This is an issue of *additionality*. Because aid is never an obligation on the donor and because generosity can tend to be fungible, it is all too easy for a donor to move assistance from one area into another. The literature on the subject suggests that from the recipient’s perspective such a mindset only complicates policy confusions, confounds efforts that may already be in place, and shifts aid towards a donor-driven agenda rather than a need-driven set of priorities.¹⁷ All

estimates suggest that considerable capacity enhancements are needed in AfT - institutional, infrastructural, informational and implementational – and they must come from additional sources and not compete with existing assistance expenditures in the environmental, trade or other related arenas.¹⁸ This, of course, is intimately connected to the issue of *predictability*. Aid fashions can be extremely fickle and issues that are supposedly ‘priorities’ today can fade tomorrow simply because the aid community and donors have found a new favourite cause.¹⁹ Meanwhile, recipient countries might already have set actions and processes in motion based on the assumption of continuing support. Many investments needed in the realm of AfT are institutional and infrastructural and require long-term commitments. These commitments are more likely to be made by developing countries if they know that the commitments for the required resources are going to be sustained. Moreover, the case for additionality also comes from the fact that trade rules can erode existing preferences enjoyed by developing countries and that shock can be significant to fragile economies. AfT can then become a mechanism to ease the transition and the shock from change.²⁰

2. Conditionality

Although also related to the issue of additionality, the lessons about conditionality need to be addressed separately because they are of special significance in the trade arena.²¹ Unlike many other areas of international policy, and certainly unlike much of international development policy, trade policy tends to be “rule-based”.²² It is regulatory in ethos and tends to be based on clear obligations as well as clear penalties for not meeting those obligations (i.e. dispute mechanisms). The tendency of the trade policy world, therefore, is always to push for “obligation or rule-based” systems, since these have generally served the trade regime well. The problem is that what is termed as “obligation” in a trade system can look very much like “conditionality” in a development assistance system.

Conditionality has not worked well in the development arena. There is a clear conceptual reason for this disconnect. “Obligations” or rules work when they are mutually created and equally implemented. “Conditionality,” however, tends not to work because recipient countries view it as an imposition and because it is not implemented equally. Indeed, aid relations cannot be “equal” in meaningful ways and therefore cannot be implemented equally. The temptation to cloak conditionality as “obligation” or “rules” must therefore be resisted in the architecture of any AfT obligation. Clear goals, targets, timelines, and monitoring systems can certainly be set up for both recipients and donors, but the suggestion of political or policy conditionality should be avoided.²³

3. Access based on transparency, relevance and need

The third related issue is about access to aid. Countries do realize that aid is never a right for recipient countries and that for donor countries, aid is not simply a development instrument; in some cases it is also one of the foreign policy instrument.²⁴ However, in designing an AfT regime, in terms of who can access AfT resources, and how and for what reasons, clarity on access criteria can be critical to the efficacy of such initiatives. At the most basic level, it is a question of *designing a transparent system* of access for AfT resources so that recipient countries have a clear and transparent understanding of what resources are available, for what purposes, and how they may be accessed.

In addition to transparency, the system of access must also demonstrate relevance. Access to AfT resources should feature a demonstrated relevance to trade goals, especially to trade goals within a sustainable development context. Finally, and most importantly, *access to AfT resources should be needs-based*. Different countries and the different sectors within these countries will have differing needs for AfT support; the level and nature of this need should be critical criteria for access to such resources. In practice, the least developed countries are likely to show the greatest need for financial and technical assistance. However, they are not the only countries that will have such needs, and the quantum and nature of needs will then again vary within each country and between the countries. Any criteria developed for

managing AfT resources should account for this needs diversity, and match their relevance carefully and transparently to the larger trade and sustainable development goals that are being furthered through any particular AfT investment.²⁵

B. Building integrated analytical and assessment capacities

A lack of domestic analytical capacities for trade policy assessment, and for the assessment of its links to environmental and social considerations, not only leads to less than desirable policy outcomes, it also contributes to a sense of distrust and unease with international agreements in general. A sound analytical infrastructure domestic-wise will, therefore, contribute not only to improved internal and international policy, but also contribute to a deeper buy-in and a sense of ownership for policy. The latter can trigger more vigorous and effective implementation directly.

The need to invest AfT resources into building domestic analytical and assessment capacities in developing countries is all the more needed when talking about sustainable development. Sustainable development is, after all by definition a cross-sectoral priority. Even those developing countries that may have reasonable domestic analytical capacities in some or all of the component areas of sustainable development often lack the capacity to conduct cross-sectoral assessments of trade policy impacts within the sustainable development framework. A critical need, therefore, is for integrated assessment of impacts, and for the development of domestic capacities to conduct such assessments and to feed it into national and international policy.²⁶

Sustainable development would require us to move beyond traditional sectoral approaches to development policy, and towards integrated assessments which bring together the economic, social and environmental dimensions and analyse the net development impact of trade policy across, and on the intersection of, these dimensions. For example, the development of policies that integrate environmental and social considerations into trade policy could enhance national capacities to access markets (e.g., through trade of environmentally friendly products such as organic agriculture, which are beneficial for the environment, effective in poverty alleviation and good for trade).²⁷ There is, for example, now a growing focus on how global trade and global climate change might affect each other. Exploring and exposing these links will require greater emphasis on integrated assessments.²⁸ Such analysis can also encourage policymakers to move towards investments in environmental technologies, by eliminating subsidies to polluting technologies or products and channelling these gains towards more sustainable investments.

The examples of policy effect can be numerous, but the core rationale is that AfT initiatives should prioritize investments that allow countries to develop the analytical and assessment capacities needed for the development of integrated policies. These policies are based on a full understanding of the economic, environmental and social linkages and interactions that lie at the core of sustainable development. Such assessments and analysis requires wide-ranging consultation amongst policy and practice stakeholders and those who have the requisite knowledge of the different dimensions. AfT investments are particularly well-suited to integrated assessment because the external resources are needed for national systems that are traditionally structured around sectors.²⁹

There is much discussion in the literature on trade policy, and also of development policy, of the importance of “mainstreaming” trade policy into development policy, or vice versa. This is, indeed, a desirable goal. However, there is also a need to mainstream environmental policy into trade policy, and vice versa. Indeed, the mainstreaming argument is valid for multiple sectors in multiple directions. Integrated assessments provide a practical and demonstrated way to integrate all the “mainstreams” into a combined framework that builds upon each domain. A particular manifestation of the type of integrated assessments that is being highlighting here would be a set of trade policy impact assessments as a tool

for assisting countries in their negotiating strategies as well as a tool for implementation design.³⁰

Although the critical importance of policy coherence, itself a stated goal of the global trade policy, will be discussed in the next section, an ancillary benefit of AfT investments in developing analytical and assessment capacities in developing countries, especially for integrated assessment, is that it will cultivate a broad human resource base within these countries and will encourage greater interaction and coherence between the relevant policy domains. Indeed, it could be argued that by its very structure integrated assessment is itself a motivator of enhanced policy coherence amongst different sectors.³¹

C. Investing in policy processes and implementation

As discussed above, the logic of AfT flows directly from the realization that key institutional capacities and epistemic communities need to exist within a society before the benefits of trade liberalization can begin to accrue. A key priority for AfT investments, therefore, has to be the development of such capacities.³² The need for analytical and assessment capacities that has already been discussed above is a key input into more direct policy capacities which will be discussed here. In the context of sustainable development, policy capacities need to be developed on three critical levels.

1. International policymaking capacities

The most obvious level of capacity-building, a level which already attracts some, but not enough, resources, is that of international policymaking. Most attention is usually paid to capacity-building related to the substance and process of international negotiation.³³ These are key aspects and will require more attention in the future. However, there is a need to broaden this understanding of the international policymaking capacities that need to be resourced by AfT initiatives. A key issue, for example, is the ability of developing countries and developing country experts to meaningfully participate in international standard-setting bodies. Discussions on standards are, for example, often the source of non-tariff barriers to trade and are of particular concern to developing countries when it comes to environmental goods and services. Such standards are often of great consequence to the developmental and environmental priorities of developing countries, including the prominent case of “eco-labels.”

For all effective purposes, standards are competitive tools and shape supply chains. An inability to participate in the development and deployment (or governance) of standards can only exacerbate existing dependencies. Yet, the level and quality of participation by developing countries in such deliberations leave much to be desired. Their ability to fully participate in international standard-setting is further restricted by the fact that much of this standard-setting is voluntary and emerges either from private sector initiatives or from domestic policy debates within industrialized countries. Standard-setting is one example, but not the only one, of why AfT investments need to broaden the development of capacities in developing countries.³⁴

2. Domestic implementation capacities

Equally important for developing countries are the issues related to domestic implementation capacities. These can be related to institutional as well as infrastructural constraints and will require AfT initiatives for an assessment of both types of investments. As more and more trade policy matters focus on environmental dimensions to its implementation and as more and more of environmental policy is now seen to have trade implications, there is a growing, but often unfulfilled, need for strong institutional linkages between environmental and commerce-related implementing agencies. For example, in the area of illegal trade of natural resources and endangered species, it is often the case that environmental and policing agencies are each under-resourced in their own rights and, moreover, have few if

any resources for coordinated action. The capacity deficits in such a case are institutional as well as infrastructural. A very important issue in terms of domestic implementation capacities in the context of AfT is that of Environmental Impact Assessments (EIAs) and Strategic Environmental Assessments (SEAs).³⁵ Because much of AfT is likely to be used for infrastructure projects, it will be important to ensure that relevant environmental and integrated assessments are used as tools to integrate environmental considerations in projects, policies and plans. This, in turn, would require that the capacities to conduct such integrated assessments are also resourced. Another example may be that of trade facilitation.³⁶ A comparatively new area in trade policy, trade facilitation can have significant implementation relevance for environment and sustainable development, for example through transport-related issues. Cross-border transport of goods is not merely a trading concern but also a development and environment concern, such as related issues like labour movements and transport-related pollution. Here, again, a focus on enhancing implementation capacities is needed both institutionally and infrastructurally.

3. Stakeholder participation capacities

The third element is related to both of the above and concerns the creation of policy space for meaningful participation by various stakeholders, including non-state actors.³⁷ As suggested above, a lack of public participation in policy usually leads to a lack of public buy-in and sometimes heightened public distrust towards the policy. However, the reason to invest in enhanced stakeholder participation is not simply to ‘buy’ buy-in’ and ownership, but also to facilitate a mechanism that can and does often lead to better and more implementable policies. Once again, the logic for handling environment-related trade issues in the context of sustainable development is particularly compelling. Environmental issues, particularly those that are most pressing from a sustainable development perspective and relate to the poorest and most marginalized of populations, tend to be extremely local, and often remote.

This, for example, would be particularly true in the case of intellectual property rights related to indigenous knowledge. Biosafety issues in such a context highlight the need for paying attention to broad stakeholder participation. Traditionally trained policymakers can often lack the expertise or relevant knowledge to fully understand the complications and challenges of implementation on such issues because the ‘key partner’ may not be commercial enterprises in this case but dispersed, small, poor farmers. Examples include fisheries, in some organic agriculture products, in some biological resources in many parts of the world.³⁸ Broadening this understanding of who the relevant stakeholder is and devising innovative mechanisms for ensuring stakeholder participation in trade policy implementation is likely to become an increasingly important challenge as the world moves ahead towards realization of more and more linkages between trade and environment concerns, especially at the implementation stage.³⁹

III. Final thoughts

The strategic approach that AfT laid out throughout this paper has highlighted the need for collaboration and integration across sectors. Implementing such a strategy would require similar collaborations and a similar integration of common goals amongst various agencies. It would also require a pooling of resources and a recognition of the comparative strengths of each partner.

Although prepared by UNEP, the paper has consciously rejected taking a narrow institutional perspective focused solely on the environment and has instead tried to craft a logic that encompasses the common goal of all involved agencies; i.e., sustainable development. There is an obvious institutional strength within UNEP on issues that relate to the environment and to the integrated analysis and assessment capacities that have been discussed above. These can be a central thrust for UNEP to facilitate a cross-institution strategy for implementation. However, realizing the ideas laid out here will require close

collaboration with other institutions, including, for example UNCTAD, on the issues that relate to the specifics of trade concerns, and development institutions such as UNDP, FAO and the Regional Economic Commissions on the many and deep linkages to the social and economic issues that are as much the backbone of the sustainable development construct as the environment. The exact structure of these collaborations and divisions of labour need to be further explored jointly, but what should be clear from the paper is that implementing the type of cross-sectoral and integrated approach to AfT that is being advocated here will require, by necessity, a cross-agency approach to its realization.

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STRENGTHENING LATIN AMERICA AND THE CARIBBEAN INTERNATIONAL LINKAGES AND REGIONAL COOPERATION

**Economic Commission For Latin America And The Caribbean
(UN-ECLAC)**

Abstract

The debate on Aid for Trade (AfT) has made special emphasis on efficiency, cooperation and coordination of trade related aid recognizing also the need for stable, sufficient and predictable financing. As a complement of Doha Round possible benefits on market access, AfT can support the internationalization process of Latin America and the Caribbean by addressing several key factors such as, supply side constraints, mainstreaming trade, public and private partnerships, and trade facilitation, and tackling institutional and social-equity concerns. These and other key factors are calling for more AfT at the national level, but also the need to enhance AfT for regional integration and cooperation. The pillar of ECLAC AfT proposals is based on establishing programmes and projects, communication and dialogue forums to sum efforts and resources so as to empower Aid efficiency on the basis of: (i) excellence of management; (ii) stable and sufficient financing; (iii) complementation and communication between organizations and programmes in charge of AfT; and iv) creation of adequate conditions and mechanisms for more efficient monitoring and evaluation.

I. Introduction

The “development dimension” of the Doha Round has meant a clear shift away from the view that trade liberalization on its own would provide significant benefits for all developing countries, best expressed in the slogan “trade not aid”, to a more development-minded approach that many countries need additional, complementary reforms and investments, which aid can finance (aid for trade), if they are to exploit trade opportunities, and that some types of liberalization may have significant short-term costs for some countries. While trade is considered crucial to their development, these countries continue to face serious challenges in infrastructure and supply-side constraints are preventing them from taking full advantage of trade liberalization.

The WTO Aid for Trade (AfT) initiative constitutes an explicit recognition by the international trading community that the global benefits of liberalization will only be fully reaped if and when developing countries manage to strengthen their productive supply capacity, their institutions and their trade-related infrastructure. In line with Hong-Kong declaration,¹ a central contribution of the Task Force created by the WTO in 2006 is not only its mandate to raise the level of aid but also to improve the management, supervision and control mechanism of AfT flows, by way of active participation of countries (beneficiaries and donors), international organizations and private-sector stakeholders.²

The importance of the AfT initiative for Latin America and the Caribbean derives from several interrelated aspects: i) it has helped position trade as a key component of national development strategies and highlight the need to mobilize and manage trade-related assistance more effectively; ii) AfT grants can provide crucial “seed” money for larger infrastructure programs and other supply-related interventions that often require non-concessional financing; iii) some countries, which are still eligible for concessional funds, have a significant stake in, and much to gain from, additional funding and more effective implementation of AfT initiatives; and iv) it has once again underscored the regional dimension of trade and the large gaps in coordinating and financing regional infrastructure and other regional public goods (RPBs) initiatives that are conducive to trade (IADB 2006, 2007a and 2007b).

Needless to say, the region comprises mostly middle-income countries, though some are also small and vulnerable economies and/or landlocked (and transit) countries. The income status excludes most countries of the region not only from concessional financing from international financial institutions, but also from recent trade-related cooperation initiatives targeted at LDCs.

Since the early 1990s, regional exports have maintained a marked upward trend, not only compared to developments in other parts of the world but also in relation to the region's own economic history. This strong export performance has not, in general, been reflected in the region's rate of GDP growth (ECLAC 2004). Recent regional experience shows that market opening alone is not sufficient for sustained exports and economic growth; strategies that take a narrow view of the key factors that enable trade to contribute to growth have not proven effective in addressing job creation and social equity and in preventing the erosion of competitiveness and stimulating export diversification.

In this respect, there is a general consensus in Latin America and the Caribbean that the instruments of trade policy should be complemented by other public policies and by appropriate institutional mechanisms between public and private actors in order to enable governments, private-sector agents and civil society to fully benefit from the opportunities stemming from international trade. In this regard, the direct and indirect effects of intergovernmental trade agreements - multilateral, bilateral, plurilateral and inter-regional - on the economy as a whole and on the export sector in particular, should be assessed. For exports to function as a cumulative process of learning and technology absorption both for local trade actors and for the country as a whole, governments can support the private sector by ensuring that international insertion becomes a public good.

For the countries of Latin America and the Caribbean to overcome these obstacles, there should be put in place specific programs aimed at and sufficient funds allocated for strengthening the countries' trade-related technical assistance and capacity building (TRTA/TCB) that encompasses the following areas: (i) formulation and implementation of a trade development strategy and creation of an enabling environment, including improvement of business environment, for increasing the volume and value-added of exports, diversifying export products and markets, overcoming of supply-side constraints and generating positive spillovers from trade to development; (ii) incorporation of knowledge and value-added activities in goods (including natural resources, maquila type operations), and services; (iii) strengthening and/or creation of appropriate human and institutional capacity necessary for technological advance and innovation in the export sector; and (iv) enhanced international insertion of the countries of the region in the world economy and greater participation in international value-chains and foreign investment abroad.

Trade capacity building (TCB) for Latin America and the Caribbean has a strong regional dimension: regional integration serves as a vehicle for the enhancement of international competitiveness, export diversification, by product and destination, and foreign direct investment (FDI) deepening, and technology upgrading. There is an urgent need to address the issues of how to: (i) stimulate regional trade flows; (ii) reform regional integration institutions to face the challenge of the multiplication of bilateral trade agreements with countries inside and outside the proper region; (iii) proceed on convergence of trade-related rules and regulations at sub-regional levels that is necessary for such trade reactivation; and (iv) improve the systemic competitiveness at individual country levels and the regional as a whole, by greater physical infrastructure (e.g., transport, ports and customs, telecommunications and energy) complementarities and interconnection. Trade-related capacity building measures also include investments and South-South trade expansion and technology transfer.

To address this challenge, UN Economic Commission for Latin America and the Caribbean (UN-ECLAC) is evaluating several options in the framework of its institutional mandate to contribute to strengthening the international participation and regional integration of

the countries in the region. Given the regional specificities and marked heterogeneity between the countries, this challenge must be addressed with creativity, but at the same time preserving the progress that has been made so far, complementing, not duplicating, existing programs and initiatives, and evaluating the region's specific needs to facilitate the ongoing initiatives and/or address others not already considered.

The pillar of ECLAC AfT proposals is based on establishing programmes and projects, communication and dialogue forums to sum efforts and resources so as to empower Aid efficiency on the basis of: (i) excellence of management; (ii) stable and sufficient financing; (iii) complementation and communication between organizations and programmes in charge of AfT; and iv) creation of adequate conditions and mechanisms for more efficient monitoring and evaluation.

As ECLAC has been pointing out for some years, the present commodity price boom and healthy current account positions of the region represent an opportunity for Latin America and the Caribbean to lay the foundations for sustained growth in the medium term. With greater public-sector resources and access to low-cost financial markets, the region's countries could enhance their integration into the international economy by increasing infrastructure and human capital investment, encouraging private-sector entrepreneurial efforts to add value, know-how and innovation to exports and pursuing key initiatives that can contribute to regional integration.

II. Current debate: more financial resources, more efficiency or both?

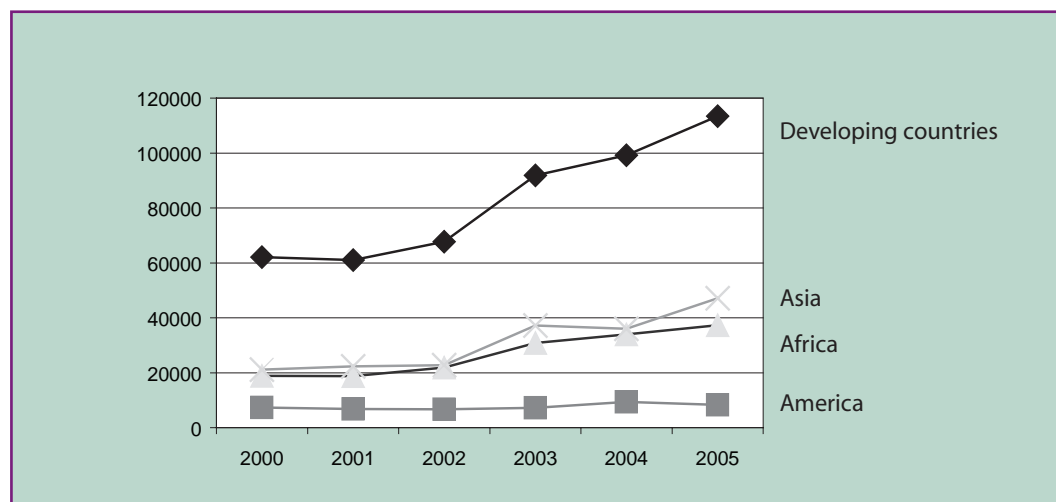
A. The trend of Aid for Trade

Between 2001 and 2005 the total Official Development Assistance (ODA) rose by 86%³. According to OECD estimates, a similar increase is expected for the 2004-2010 period, which would increase ODA from US\$ 87 billion to US\$ 130 billion. The ODA destined to Latin America and the Caribbean also grew, but only 22%. As a result, the region's participation in global ODA dropped from more than 11% in 2001 to 7% in 2005 (Graph 1).

The ODA flows to Latin America and the Caribbean have also fluctuated widely, especially in terms of bilateral donors. The principal sources of concessional lending and donations have been the United States, Japan, Germany, Spain and the European Commission, in that order. The main providers among multilateral organizations are the Inter-American Development Bank (IADB) accounting for more than 50% of the regional portfolios and the CAF⁴ that represents more than 50% of the portfolios of the Andean Community member countries. The World Bank still maintains an important position, but has lost relative weight in the lending volume, which has been partially compensated for by the regional banks. The Andean Community is the group of countries which received the biggest volume of bilateral cooperation until 2003, followed by the Center American Common Market (CACM) and Mexico.⁵

The boundaries of trade-related assistance (TRA) are hard to define, while the difficulties in measuring the magnitude of TRA abound (WTO/OECD 2006).⁶ Nonetheless, according to the joint WTO/OECD report (2006), between 2002 and 2005, total AfT commitment from multilateral and bilateral donors rose by 22% in real terms (at 2005 constant prices) and committed on average US\$ 21 billion per year on the aid categories more closely related with aid for trade (AfT)(see Table 1). This represents a welcome contrast to the long-term declining trends since the mid 1970s. Between 2002 and 2005, the average share of AfT in total aid fluctuated between 32% and 35%. The AfT included US\$ 11.2 billion on average to build economic infrastructure, US\$ 8.9 billion to promote productive capacities including US\$ 2 billions for trade development, and US\$ 0.6 billion for increasing the understanding and implementation of trade policy and regulations.

Graph 1
ODA Commitments, 2000-2005
(US\$ millions, current prices)



Source: OCDE, DAC Online

During the period in question, the category of trade policy and regulations accounted for only 1.1% of the total sector allocable ODA, in a strong contrast to the much higher shares corresponding to the other two categories (economic infrastructure and productive capacity building). Given the large size of typical infrastructure projects, aid to support the development of economic infrastructure (transport and storage, communications and energy – a proxy for the WTO Task Force category ‘trade-related infrastructure-’) has represented 54% of overall volume of Aft.

Table 1
Aid for Trade, by category: (bilateral and multilateral), 2002-2005
(US\$ million at 2005 constant prices, percentages)

	2002	2003	2004	2005
Trade policy & regulations	817 (1.6)	614 (1.0)	478 (0.7)	654 (1.0)
Economic infrastructure	9 421 (18.5)	9 735 (16.2)	13 855 (19.8)	12 174 (18.0)
Transport & Storage	4 955	4 922	6 600	7 325
Communications	318	563	848	441
Energy	4 148	4 230	6 407	4 408
Productive capacity building	7 587 (14.9)	9 388 (15.6)	9 759 (13.9)	8 918 (13.2)
Banking & financial services	1 277	1 332	1 210	1 263
Business & other services	1 126	1 421	1 818	1 056
Agriculture, Forestry, Fishing	3 788	4 623	4 172	4 457
Industry, Mining & Construction	1 402	1 921	2 496	1 977
Tourism	45	91	63	164
Total Aid for Trade	17 826 (34.9)	19 738 (32.8)	24 092 (34.4)	21 745 (32.2)
Sector allocable ODA	51 051	60 232	69 973	67 528

Source: WTO/OECD Aid for Trade at a Glance 2007: 1st Global Review, Table A1.1. Annex I, p.65.

Note: the figures in parenthesis, as % of sector allocable ODA

The increase in flows during the same period has, however, been insufficient to reverse the declining trend of Aft as a share of total sector allocable ODA. The major factors behind

this decline can be explained by the decline of public ownership for utilities in many OECD countries and a concomitant expansion of public-private partnerships.

In the framework of the AfT agenda, the increase in AfT is expected to be at least in the same order of the ODA growth. In fact, Japan, the European Union (EU) and the United States announced a substantial increase in their AfT in the coming years.⁷

Table 2
Latin America's share in Aid for Trade, 2002-2005
(US\$ million, percentage)

Latin America and the Caribbean	2002		2003		2004		2005		Baseline average 2002-2005 (volume, share)	
	Trade policy & regulations	31	(3.8)	36	(5.9)	84	(17.6)	75	(11.5)	57
Economic Infrastructure	503	(5.3)	309	(3.2)	346	(2.5)	539	(4.4)	424	(3.8)
Productive capacity building	1 086	(14.3)	870	(9.3)	1 083	(11.1)	830	(9.3)	967	(10.8)
sub-total	1 620	(9.1)	1 215	(6.2)	1 513	(6.3)	1 444	(6.6)	1 448	(6.9)

Source: WTO/OECD Aid for Trade at a Glance 2007: 1st Global Review, Table A1.4. Annex I, p.68.

Note: the figures in parenthesis, as % of total global Aid for Trade

By recipient region, Asian countries receive on average more than twice the AfT destined to Africa, while other low-income countries obtained on average more than twice the amount of aid for trade, compared to LDCs or lower middle-income countries. Recent statistics from the WTO/OECD database show that Latin America and Oceania have received the smallest portion of resources⁸ during 2002-2005. Indeed, the share of Latin America and the Caribbean in the global AfT total declined to 6.6% in 2005 from an already low level of 9.1% in 2002 (see Table 2). The shares by category indicate that the region has been relatively well-placed in the category of productive capacity building, accounting for close to 11% of the world total, while the share of economic infrastructure has stood only at 3.8%.

Box 1. The overall trends and major features of Aid for Trade

The joint WTO/OECD database, which includes non-DAC donors and therefore differs substantially from the estimates made for the joint study of the same entities, reveals several interesting aspects of the overall use of aid for trade. The major points to be highlighted are:

- The assistance for trade policy and regulations (TPR) grew more than 8% since 2001-2002, reaching like 900 million dollars in 2005. This category includes activities that support the building of local capacities to: (i) formulate a broad national trade strategy; (ii) participate in trade negotiations; and (iii) implement trade agreements. Trade facilitation stands out among the subcategories, representing in 2004 37% of commitments. Other representative subcategories are trade incorporation in national strategies, the assistance for technical barriers to trade and the negotiation and implementation of multilateral and regional agreements.
- The support to trade development (which is part of productive capacity building) grew almost 26%, reaching US\$ 2,173 million in 2005. The most important subcategories were trade promotion and market development, which accounted for 28% of trade development aid. The important increase of the assistance for e-commerce has to be underlined, although it still represents a relatively low level.
- The contributions to trust funds for TCB (including JITAP, the Integrated Framework (IF), ITC and the WTO) grew 17% in 2005 with respect to 2003-2004, reaching 55 million dollars in 2005. During the four years under consideration, the total contribution reached over US\$ 177 million, with a strong support from the cooperation of several European countries (Denmark, Switzerland, Norway, Holland and Sweden) and Canada.
- More than US\$ 12 billion were annually destined to infrastructure assistance (not all directly linked to trade), with Asia being the principal beneficiary region.

Source: OECD (2006)

As a matter of fact, the list of the 25 largest recipients of aid for trade between 2002 to 2005 includes only one low middle-income Latin American country (Bolivia); the rest are mostly Asian and African countries including several Asian export “power-houses” such as China, India and Thailand. Nevertheless, it is noteworthy that the position of Latin America and the Caribbean would certainly improve if the financial resources from regional organizations (not registered by the database) such as CAF, FONPLATA and BCIE were taken into account. The financing from the Inter-American Development Bank fluctuated widely from year to year, passing for example from over US\$ 2 billion in 2002 to barely reach USD 1 billion in 2004.

In a nutshell, the volume of resources committed for ODA and AFT has been important and growing during the last years but the share of Latin America and the Caribbean as a region has declined in increasing flows. This does not necessarily mean that the lack of financing had been the only determinant factor hampering to reach the expected results. In fact, AFT stakeholders share the perception that the resources should be increased but also that management has to be improved. It seems that the assignation of additional resources is a necessary, but not a sufficient condition, in order to translate trade liberalization and the reforms of the multilateral trade system into welfare for the developing regions.

B. The management disorder

The management problem is recognized by the Task Force on AFT. In its recommendations, the Task Force underlines the persistence of problems related to management, as summarized briefly in Box 2. The concerns address the strategic and operational management of assistance, including the identification and preparation of projects, and not only the volume of financial resources and/or its inadequate distribution.⁹ The responsibility of these problems is shared among beneficiaries, donors and intermediaries.

In general, technical assistance lacks a common framework and most of the time the organizations do not know what their neighbor countries are doing, acting case-by-case and respecting mostly the donors’ visions. There are additional restrictions because the same nationality of the source of the resources is required in many cases. AFT is based on annual programmes but often, the needs transcend such a short timeframe, triggering financing problems.

Box 2. Problems of trade-related technical assistance

- Little attention being paid to trade as a development instrument in beneficiary countries as well as in donor agencies.
- Insufficient incorporation of trade in strategies for development and poverty reduction.
- Scarce participation of the private sector in the identification of trade-linked needs.
- Limited absorption capacity in beneficiary countries.
- Inadequate mechanisms of associability and limited predictability in the donors’ response to the priorities identified at the national and regional levels.
- Lack of coordination and coherence in the donors’ responses to trade-linked subjects.
- Slow, superposed and bureaucratic trade technical assistance evaluation and supply processes, including excessive parallel structures in beneficiary countries.
- Lack of information and analysis of trade policies and their impacts on development, scarce information available on AFT instruments.
- Limited efficiency of the monitoring of trade-linked national policies and of donors’ activities, absence of rigorous and independent evaluation of the results and impacts of projects and programmes.
- Limited support for trade-linked regional, sub regional and cross-border programs and projects.
- Inadequate support to recognize and identify the costs of the adjustment associated with trade liberalization.
- Insufficient resources to create productive capacity and infrastructure.
- Uneven coverage of country support.

Source: WTO (June 2006): Recommendations of the Task Force on Aid for Trade. (WT/AFT/1).

Latin America and the Caribbean is not immune to this disorder. The problems identified here apply, to a large extent, to the countries of the region, consisted of middle income economies with sometimes complex and sophisticated social and economic structures already in place. The existing mechanisms in the region share the following problems of AfT management:

- The absence of internal appropriation of the assistance programs (due to the existence of multiple and conflicting agendas) has left TA/TCB highly depend on donors' views and objectives, which do not necessarily coincide with those of the beneficiaries.
- As a result in part of the experience from past decades, there are several organizations and agencies (official and private, and NGOs) who "compete" in the ODA and TA/TCB markets, relegating the beneficiaries and their interests/needs to a secondary importance.
- In a framework of complex institutions and political environment, competition in ODA and TA/TBA markets often translates into fragmentation of aid and superposition of agendas and technical assistance projects, endangering horizontal cooperation between public organisms and between these agencies and the private sector actors.
- Other important issue is the "proliferation" of regional trade agreements (RTAs) which means multiple negotiation agendas and trade rules. As the World Bank states in *Global Economic Prospects (2005)*, "many RTAs have more life on paper than in reality" and "well designed agreement are of limited value if they are not implemented". RTAs should be considered by any AfT initiative, to the extent that the implementation and administration aspects of regional and bilateral FTAs as well as the resulting "adjustment costs" are fully and effectively addressed.

Therefore, the viability of an "additional, predictable, sustainable and efficient"¹⁰ financing to reach the goal of AfT is linked to the creation of more effective and efficient management mechanisms. In order to truly translate trade into growth and welfare of the beneficiary countries; there should be more efficient administration of resources allocated by donors and financiers.

On the other hand, there exist important programs managed by international organizations and donors such as the IF, JITAP, etc. The IF has addressed and resolved several problems and is now in a stage of redefinition. However, it is designed for LDCs, and it faces coordination problems. The proposals to improve its operation suppose a significant increase of resources from US\$ 35 million to US\$ 400 million and, according to revised documents, not only financial resources would be increased but also its bureaucratic structures would be improved.

At the Latin American level, the TA/TCB has taken advantage of programs offered by the IADB, other organizations like the European Union, and the programmes and projects executed by the Andean Community. It is also relevant to underscore the HCP in the FTAA framework. Three organizations participated (IADB, OAS and ECLAC) and undertook an important work on AfT, though the negotiations are regrettably in a state of stalemate. Nonetheless, the HCP allowed the 34 member countries to develop national and sub regional trade strategies, that can be considered as good precedents for future AfT programmes at the national and regional levels. For instance, the AfT exercises made in the HCP framework were useful for the negotiation of bilateral trade agreements between Andean and Central American countries with the United States.

Any proposals should take into account these experiments in order to create an agile, practical and effective mechanism, which should complement the efforts already being made, and at the same time tackle the remaining problems and address the specific regional claims and interests. The idea is to empower initiatives which overcome the financing and management problems, which would result in better efficiency. Instead of overlapping

efforts, new mechanisms should generate communication channels and programs towards the direction stipulated by the Paris Declaration.

The aforementioned approach requires as a precondition, along with other needs, active *private participation* in project identification and development, financing and execution, as well as more enhanced diagnostic and assistance services that can truly identify the peculiarities and AfT needs and interests of the middle-income countries. This approach also calls for projects on trade infrastructure and project-finance possibilities through lending operations.¹¹ The major objective is to articulate and complement the ongoing efforts, so as to allow the channeling of the resources more efficiently.

In this regard, more organizations or bureaucratic apparatus should be avoided. The required are management, coordination; improvement on project evaluation process, control and performance; transparency and information exchange mechanisms, so that the present resources and the future ones would be efficiently used. If measures to improve the management are not contemplated, just increasing resources and higher expectation of recipients is likely to further compound problems and to lead to dissatisfaction of donors and beneficiaries with final results.

III. Understanding Aid for Trade in Latin America and the Caribbean

Latin America and the Caribbean economies have become increasingly open and trade dependent; the share of trade in the regional GDP has nearly doubled as a result of trade reforms, though still remains below the levels of other developing regions. However, the most recent experience of the region shows that growth in exports of goods and services, is a necessary but not sufficient condition to promote economic development with social equity. Trade expansion should thus bring more support for sustainable development, the creation of high-quality employment and the reduction of poverty.

The Latin American and Caribbean governments have been actively involved in negotiating a network of bilateral agreements for preferential liberalization with countries both outside and inside the region. These agreements have generated centripetal and centrifugal forces which tend respectively to unify and fragment the process of regional integration. Some of the main concerns about these agreements relate to their questioned compatibility with multilateral commitments and the extension and increase in the concessions granted, which could go beyond those agreed in the context of the World Trade Organization (WTO). In addition, the rules and commitments assumed in the four regional integration schemes are considered to be much “shallower” than those in bilateral FTAs with the North. In this respect, there is an urgent need to establish a process of mutual complementarity and strengthening between the three roads of liberalization and regulation.

The countries of the region have to assume high logistical costs on account of the weakness of their transport infrastructure, the lower level of development of logistics and transport services, and their slow and costly bureaucratic procedures for handling exports and imports. In this sense, the region urgently needs to establish clear measures and rules to facilitate business and trade activity, including the modernization of customs procedures and harmonization and compliance with international standards. In order to enhance international competitiveness, it is important to provide ECLAC Member countries with policy analysis and technical cooperation on trade facilitation and other regulatory measures to be applied at the interregional, subregional, bilateral and national level.

A. Factors calling for more Aid for Trade at the national level

1. Mainstreaming trade as key ingredient of national development strategy

Latin American and Caribbean governments increasingly recognize the importance of trade and competitiveness to their development objectives, and of making trade growth

a key pillar of their national development strategies. “Supporting governments to further mainstream trade into the economic development agenda is one of the most pressing tasks of the-aid-for-trade initiative and a critical factor of its success” (IADB 2007, p.12).

To achieve this goal, governments must involve an increasing number of stakeholders in devising and implementing trade and broader economic policies, with a view to insuring public ownership of the reform process. More successful the AfT initiative be in its conceptualization and implementation, the more consensus there will be with respect to the potential benefits of reform for civil society as a whole. The AfT initiative provides Latin American and Caribbean governments with a unique opportunity to develop a broader and better coordinated approach to TA/TCB in order to improve their participation in the world economy.

Part of this important challenge is policy coordination and priority-setting among the many government ministries and agencies including finance, agriculture, labour, and economic planning beside trade. Effective coordination among different levels of governments also requires a clear division of responsibility and labour between regional, national and local stakeholders. Regional institutions can play a significant role in identifying projects and in coordinating donors and countries across the region, while regional initiatives cannot be designed or implemented in isolation from national and local policies. Regional programmes are a complement, not a substitute, for national programmes (IADB / WTO 2007).

The implementation of a trade agreement is a case in point. This calls for revision of the national development strategy, including trade policy, technological and productive development policies, social strategy and also the macroeconomic policy. Also, changes in public and private institutions are needed, in order for them to adapt to the requirements of the new trade regime. At the national level, this requires – besides priority-setting, resources and capacity to create change- effective coordination between the different levels of government (central, regional, municipal) and between the former, civil society and the private sector.

All this goes much beyond mere legislation and trade-rules changes since it can involve transcendental decisions in the area of productive policies, State modernization, institutional development and infrastructure creation and deepening. With respect to employment and poverty, more than a “compensation” for those affected by the cost of adjustment is required. Structural and technological changes, which generate more and better, productive employment, are necessary.

2. Pressing needs to address supply-side constraints

Despite that some success has been achieved in the region in terms of trade diversification, the competitiveness of exports still depends mostly on price differentials arising from static comparative advantages, with very few but significant exceptions in the case of some countries. One pending task is to orient the trade agenda of the region not only towards strengthening access to markets for its labour- and natural-resource-intensive products and services, but also to increase the share of technology-intensive sectors.

Latin America and the Caribbean governments are increasingly recognizing the need to tackle supply-side problems to upgrade the quality of participation in the global markets. For this reason, there have been persistent and increasing needs for TA/TCB activities aimed at overcoming restrictions on supply strengthening export capacity and “quality” through trade diversification with products with greater value added, knowledge content, compatible with international standards and markets requirements and promoting productive links between export sectors and the rest of the economy, especially small and medium-sized enterprises (SMEs), making use of the opportunities and advantages offered by the new information and communication technologies (ICTs).

Despite a general consensus on the importance of supply-side constraints, opinions differ as to the orientation, scope and modalities of the assistance. ECLAC suggests that Aft (at least for LAC countries) should focus on three aspects: (i) strengthening of national and regional institutions responsible for applying development-oriented trade policies and regulations; (ii) foster private-sector initiative and entrepreneurship, and helping firms to become more competitive, with support from governments; and (iii) overcoming domestic constraints (trade facilitation and infrastructure, physical, human, institutional alike).

3. Trade negotiation/implementation/administration at various levels

Highly conscious of the benefits of free trade, establishing better and fair access to global markets, together with a rules-based international trading system, has become a major priority in the trade agenda of the region, but most countries still lack the necessary capabilities to negotiate and implement trade agreements. They happen to be currently involved in simultaneous negotiations, including the WTO global agenda, and other regional and sub-regional trade agreements and bilateral free trade agreements, with countries that are not necessarily in their geographical proximity.

The proliferation of FTAs in the region continues. ECLAC estimates suggest that approximately 60% of LAC exports in 2005/2006 were covered by PTAs (i.e., bilaterals as well as plilaterals) in one way or another, and that the increase in this coefficient has been especially sharp since the mid-1990s and continuing on into the present decade. During this period, the most marked progress has been seen in the conclusion of FTAs with countries outside the proper region, especially with the North countries such as the United States, Canada, the EU EFTA countries and Japan. In this process, Chile and Mexico have become true “semi-hubs” for FTAs in the Western Hemisphere.

This heralds a new phase in Latin American and Caribbean trade policy, as well as a definite reconfiguration of trading patterns that poses a formidable challenge for existing integration schemes. This, in turn, means that there is still a large portion of regional trade not covered by any trade preference. An increasing number of the countries in the region face the difficult task of not only negotiating more FTAs but also of implementing and administrating simultaneously those FTAs already signed. As the countries in the region move rapidly towards the implementation stage and adjustment stages of more comprehensive trade agreements, the scope of past technical assistance focused mainly on short-term needs related mainly on negotiations, may prove too narrow to ensure an efficient and equitable outcome of a trade reform.

Another key aspect of trade liberalization lies in reaching consensus between private sector representatives on complex - and often conflicting - issues resulting from various negotiations. Trade agreements can entail tangible benefits (for instance, exports growth and diversification) and intangibles ones (as a better political-juridical certainty) favoring economic growth and making an improvement of social welfare possible. However, if there is an internal atmosphere of distrust between diverse sectors, and the national actors lack information about external trade opportunities and obligations and/or high implementation costs or adjustment costs, it is very possible that the agreements will not achieve the expected results. This requires the change from a “top-down” consultation process to a “down-top” one, so that political impulses play a facilitator role of establishing a process that is validated by civil society and the private sector actors.

For this reason, increasing demand for transparency by the stakeholders is changing the way trade negotiations are conducted and the processes through which trade policies are formulated, adopted and implemented. In this scenario, it is important for policy-makers of the region to ensure that trade policies and practices -and the processes through which they are formulated and implemented- are both open and predictable. Transparency,

therefore, becomes a fundamental requirement for social cohesion, helping to legitimate the agreements and facilitating their implementation.

In sum, an adequate implementation requires being able to generate policies, strategies and consensus to strengthen trade institutions, integrate new sectors and investors in the productive process, form the human resources necessary to incorporate the markets and strengthen trade infrastructure. Nothing of this will automatically result from trade liberalization, even from the deepest liberalization.

4. AfT as a promoter of Public and Private Partnerships (PPP)

Undoubtedly, though the ultimate beneficiary of the AfT initiative is society as a whole, the private sector is immediately and most directly affected by the costs and benefits deriving from trade reform and subsequent adjustment processes. As the trade agenda expands and deepens, more firms will be exposed to import competition and more will benefit from greater market access opportunities provided by FTAs. Therefore, it is critical that the AfT initiative be designed in close collaboration with the private sector agents, with their active participation in the conceptualization and implementation process, from the outset. In this regard, the internationalization of SMEs in the global market, the associability and connectivity among these firms themselves and networking with transnational corporations (TNCs), as well as more enhanced insertion of Latin American and Caribbean SMEs in the world value chains, should receive high priority in the AfT agenda.

Furthermore, the private sector should become not only as a recipient but also an active donor of AfT programmes. Latin American and Caribbean governments increasingly recognize the value of the private sector's technical expertise and knowledge base, and understand the importance of effectively engaging private-sector actors as partners in both in designing and delivering AfT. Those companies with established experience in global supply-chain management can help other firms and even governments in harmonizing, standardizing and improving customs services, for example, with a view to facilitating customs procedures, international shipping and compliance with technical standards and sanitary and phytosanitary measures and trade facilitation.

The recent experience shows that private-sector involvement has not gone much beyond supporting trade negotiations, where defensive short-term interests have tended to prevail over long-term development goals. In this sense, the new AfT initiative should focus on the latter aimed at enhancement of international competitiveness based on endogenous productive capabilities of national firms. However, for the private sector to stay engaged in the AfT initiative, it is imperative that the initiative deliver tangible results in a reasonable timeframe. Because time horizons of the private-sector are often short and its focus is more result-oriented, AfT programmes and projects need to be designed and delivered in a "business-friendly" manner.

5. Distributional and social-equity concerns

Trade expansion should bring more support for sustainable development and the creation of high-quality employment and the reduction of poverty. During trade reform in the region, efficiency considerations overshadowed the concerns on the distributional impact of trade liberalization. As a consequence, the governments did not consistently promote broad adjustment programs to address the disruptions in local industries and labour markets caused by such reform. "Such disruptions, along with perceptions of insufficient public consultations, have tested LAC countries' continued support for trade liberalization. In some countries, reform fatigue has heightened the risk of a backlash to more liberalization." (IADB 2007, p.11). The short-term and often painful process of reform, together with a longer period of time necessary for concretion of many AfT projects, call for regular consultation between the government, private sector, labour and other social actors to sustain the momentum for trade reform.

In order to continue with, and further deepen, the reform process, it is necessary to adopt a comprehensive development strategy that makes trade work for the majority of the population. In sum, attention should be focused on the effects of trade liberalization on the domestic economy, in particular from the perspective of economic and social equity and environmental protection. The AfT initiative should be conceived as an important component of this strategy.

6. Trade facilitation

Trade facilitation has won a special relevance in multilateral, regional and bilateral negotiations, because transaction costs associated with cumbersome, slow and unpredictable import and export processes can be higher than market access benefits obtained in trade agreements.¹² In an ever-globalizing economy where tariff barriers are being rapidly reduced, trade facilitation measures are increasingly transforming in a key area of international competitiveness.

In addition, an efficient implementation of these measures is considered to have a strong and durable impact on FDI attraction because the manufacturing sector today is highly dependent on rapid, transparent and predictable border procedures. Besides, those countries that fail to modernize their border procedures risk being left out of international supply chains. Efficient border procedures also help to attract FDI in production areas that are labour-intensive, such as textiles and apparel and assembly-type activities in electrics and electronics.

Some of the constraints developing countries face cannot be solved nationally because they involve cross-border, sub-regional or regional issues. For example, investments in cross-border infrastructure are required to establish an efficient regional trade corridor, to facilitate cross-border transit or to manage the use of an asset common to several countries such as a river running through different countries.

The countries of the region have to assume high logistical costs on account of the weakness of their transport infrastructure, the less developed logistics and transport services, and their slow and costly bureaucratic procedures for handling exports and imports. The trade logistics-related indicators developed by the World Bank and the World Economic Forum, for example, confirm that in these aspects of trade competitiveness, Latin America and the Caribbean countries substantially lag from developed countries or the developing countries of similar income-levels.

Trade facilitation implies principally the simplification and rationalization of formalities, procedures, information and documents used in international trade with the purpose to decrease transaction costs and raise competitiveness. Some central aspects to take into consideration are the following:

- Laws, procedures and national documents adaptation to the international agreements;
- Redesign of processes to eliminate trade obstacles, without sacrificing controls nor pertinent regulations;
- Incorporate communication and information technologies to optimize information flows; and
- Ensure secure and safe transport, without sacrificing efficiency.

In the most recent regional agreements and the Doha negotiations, trade facilitation has assumed a primary importance. In the case of CAFTA-DR, for instance, a separate chapter is dedicated to trade facilitation. On the other hand, the Doha agenda is based on three central aspects (information norms, standardization and transit) and includes the mechanisms to ensure the application of the agreements (Special and Differential Treatment and technical assistance grants).

There is a strong rationality in the countries' interest to establish platforms to improve their trade procedures and external trade norms. In the multilateral area, the countries most advanced in this area before the culmination of negotiations will extract greater benefits from the new WTO rules. On the other hand, the signature of multiple free trade agreements raises the possibility and the convenience of harmonizing rules and trade procedures between the various regional agreements, and as a result, the region as a whole can improve its competitiveness. The impact will be even greater for landlocked countries and their transit neighbors.

7. Resource-constraints faced by middle-income countries

Latin America and the Caribbean is a region where most of countries are of middle income but still with high levels of debt, which, on the one hand, excludes them from donations and, on the other, makes it difficult to generate fresh resources in financial markets. In this regard, one important priority for most countries is trade financing. The above-mentioned puts in evidence that these countries also require support, although this support should be different than the one given to the LDCs.

Many non-LDCs also need AfT support to mainstream trade into their national development strategies and ensure that relevant stakeholders such as the private sector and civil society actively participate in national consultations and the identification of challenges specific to the country. Suggestions have been made to explore the possibility of establishing for these countries a process similar to the one existing for LDCs and/or of improving existing mechanisms. On the other hand, given the middle-income status and their relatively mature trade institutions in place, the countries in the region need a specific set of AfT operative and monitoring instruments, including non-concessional lending and equity investment (IADB 2007, IADB/WTO 2007).

The WTO Task Force proposals on AfT tend to emphasize the needs of LDCs, nevertheless, only one LAC country falls under this category. ECLAC considers that the AfT analysis should take into consideration the special needs of the countries of ECLAC region, in particular, the landlocked and those at a lower development stage in the region. Therefore, any future work should rely on more flexible and case-by-case mechanisms and procedures in both funding and trade related technical assistance.

8. Reforms of trade-related Institutions

Institutions are key factors to determine transaction costs of trade and doing business, related to: (i) the efficiency in defining clear property rights and protecting them; and (ii) the efficiency of the enforcement and organizational arrangements. Institutions can be understood as a set of formal and informal rules conforming incentives, procedures and limits for organizations and people. Rules can be more or less efficient in terms of channeling resources to their most productive uses.

Latin American and Caribbean institutions are, in general, relatively developed, as a offspring of the "inward looking development" period. However, the existing institutions inherit many traits of bureaucracy and inefficiency, outdated for today's more open and globalized world economy. The change of rules (institutional changes) since the 1980s has been quite insufficient and series of reforms have been implemented unsatisfactorily or stayed trapped in the traditional mechanisms. Although the majority of the countries in the region have been undertaking structural adjustments, which include trade policy in a "multiple"¹³ strategy framework, dating back to the beginning of the 1980s, the most common situation is the presence of advanced but uncompleted or unsatisfactory reforms.

B. Aid for Trade for regional integration and cooperation

Regional integration is both necessary and a matter of urgency. In addition to the traditional reasons for pursuing it, the current phase of the globalization process generates integration-oriented demands, such as the need for strategic international alliances in the areas of production, logistics, marketing, investment and technology. The demand for competitiveness and technological innovation are mounting, while China's, India's and other Asian nations' competitive leapfrogging has redrawn the global map of trade flows and comparative advantages. Expanded markets, legal certainty and the convergence of rules and disciplines, in conjunction with advances in infrastructure, energy and connectivity, are now essential ingredients of growth with equity.

Different to the situations in other regions, the Latin American regional integration process has been led by governments, not by market or businesses, and thereby tends to reproduce the institutional problem at the regional level. Latin American and Caribbean regional integration has not been able to generate or articulate integration *de facto* with that of *de jure*, as is currently being evidenced in the Asia-Pacific region.

In this respect, AfT can support enhanced regional trade policy cooperation by playing an important role as a catalytic instrument to generate consensus and transparency between countries and regions involved in cross-border and sub regional issues. Despite several setbacks in recent years, regional integration can, and should, foster a diversification of exports towards output that is more connected to the overall competitiveness of the economies concerned and that therefore help to create dynamic comparative advantages and to give member countries options to problems of asymmetry, income distribution and equity.

1. Harmonization/Convergence of norms and rules for a “deeper” regional integration

There is much to be done if the Latin American and Caribbean region is to exploit the potential benefits of regional integration fully. The countries in the region should continue to work to overcome the constraints affecting their regional integration process. These constraints include: (i) perforations of common external tariffs and failure to bring customs union arrangement to completion; (ii) the persistence of non-tariff barriers; (iii) inadequate regional infrastructure; (iv) lack of effective sub-regional community institutions in several integration schemes; (v) limited coordination of macroeconomic and sectoral policies necessary for market integration and external trade and investment promotion; (vi) weak dispute settlement mechanisms; and (vii) insufficient mechanisms for promoting a form of socio-economic development that would compensate for asymmetries in the distribution of the benefits of integration. The AfT initiative should support the ongoing efforts to converge rules and norms within and among the different customs unions.

Regional integration should tackle several dimensions of “deep integration” in a context of “open regionalism” by way of enhancing the provision of regional public goods (RPGs) (Kuwayama 2005). This involves reducing tariff dispersions and non-tariff barriers, and addressing “behind-the-border” measures, while seeking to converge, if not harmonizing is possible, regulatory regimes, improving infrastructure (e.g., transport, communications, cooperation in energy via regional interconnection, and ports), and strengthening dispute settlement mechanisms.

Harmonization/convergence of rules among the member countries on areas such as services, investment, intellectual property rights, rules of origin, anti-dumping, safeguards, sanitary and phytosanitary norms, customs procedures, and factor mobility should enhance the systemic competitiveness of each country and the region as a whole. In addition, this approach to integration requires the adoption of agreements that will contribute to macroeconomic stability and productive development in each country. Government provision of many of these public goods is a key determinant of the enhancement of

regional systemic competitiveness and several AfT should include measures to deepen regional integration.

Substantive differences exist between the scope of the rules and disciplines included in each type or category of agreement. Intra-regional agreements tend to consist primarily of trade-remedy instruments designed to expedite tariff reduction schedules and avert the introduction of non-tariff trade barriers. These arrangements do not, however, provide for broader coverage of other types of rules which, because they are not fully harmonized, also act as non-tariff barriers (e.g., sanitary and phytosanitary measures and technical regulations). In addition, in the case of disciplines on trade-related matters (services, investment, government procurement, intellectual property), intra-regional agreements fall far short of the coverage afforded by agreements with outside countries.

The coverage of commitments on trade disciplines also varies from one intra-regional agreement to the next. South America's customs union arrangements and the associated bilateral agreements offer a high degree of coverage in terms of trade remedies and dispute settlement, but this is not the case for sanitary and phytosanitary measures or technical barriers. In contrast, the free trade agreements (FTAs) signed between Chile and Mexico and by them with Central American countries provide more comprehensive coverage in these areas.

There is a striking asymmetry between bilateral and plurilateral agreements within the region and the agreements reached with countries elsewhere, especially some of those in the North. The latter contain more stringent commitments backed up by more binding mechanisms entailing greater legal certainty than do subregional arrangements, which, by the same token, are less demanding in terms of trade and non-trade disciplines and rules.

The present assemblage of bilateral, plurilateral and regional trade agreements in Latin America and the Caribbean could result in discrimination against some countries or subregional groups as a consequence of the wide variety of provisions in force with regard to coverage, difference in treatment and the depth of the commitments entailed by the various disciplines and rules included in these agreements. Unless urgent steps are taken to achieve convergence among these different agreements, trade diversion will increase and the transactions costs for intra-regional trade will climb.

From the perspective of Latin America and the Caribbean, four types of problems need to be addressed: (i) operational issues, such as customs, transit and storage procedures and rules, where a lack of familiarity with the formalities or confusion about methods of application can become hidden trade barriers; (ii) the presence of rules and disciplines that are formalized in some agreements but absent from others (investment, services and intellectual property, for example), that have different depth and coverage in intra-regional agreements than they do in agreements with outside countries, or that have differing provisions regarding similar issues (national treatment) or treat identical subjects differently (commitment or negotiation models); (iii) the institutional structure of trade agreements, and (iv) discrimination between trading partners (less favorable treatment) as a result of differences between intra-regional and extra-regional agreements' regulations, policies and liberalization measures.

Convergence can be promoted by various sorts of stimuli and different sorts of modalities, which should be examined on a topic-by-topic basis. In order to do so, a flexible outlook that is conducive to creative solutions must be maintained.

While recognizing countries' differing sizes and trade orientations, the gains of existing integration schemes must be preserved by fostering convergence on trade and non-trade issues alike. Certainly, the countries belonging to each individual integration scheme must ask themselves what that scheme is doing to contribute to their growth and competitiveness. Be this as it may, prevailing conditions make it advisable to place a higher priority on regional cooperation than on trade negotiations as such.

Current integration efforts should focus on establishing common ground as a platform for convergence in energy and infrastructure policies, first of all, and, later, in policies on the environment, tourism, connectivity, ICTs, e-commerce, regulatory practices and other matters. If regional cooperation efforts in these areas succeed in rebuilding confidence among the countries, then, in addition to paving the way for competitiveness gains, they will make it less difficult, later on, to build bridges among the various intraregional trade arrangements by defining a basic set of shared obligations and flexible timetables, particularly for the smaller economies, together with infrastructure, trade facilitation and connectivity programmes that would provide for special and differential treatment.

2. AfT as a driver of de facto regional integration and South-South Cooperation

Another aspect affecting Latin America's international integration to the global market is its regional trade integration, *de facto* less developed than in Asia and East and Central Europe. Regional integration triggers many advantages which support world integration: regional trade agreements allow an integrated integration with similar neighbors, integration increases the scale of production and sales and intra-industry trade, promotes the creation of international supply chain networks, constitutes a learning platform to compete in other more demanding markets, regional blocs attract more FDI and have a better negotiation power than individual countries.

In the American continent, there is an intense intra regional and intra industrial trade between the United States and Mexico, and in minor degree with Central America and some countries of the Caribbean. North and Central America strengthened their trade relations with the NAFTA in 1994 and then more recently with the CAFTA-DR. In South America, the regional trade is far less significant and in search of a new dynamic. The two main integration systems, the Andean Community and the MERCOSUR, are in a redefinition process after Venezuela left the former and expressed its desire to enter the latter.

3. Physical Infrastructure and Sustainable Development

In Latin America and the Caribbean, there are many issues and major challenges in the field of infrastructure¹⁴ and sustainable development that have motivated regional cooperation. Transport and tourism are representative examples. The issue of transport has gained importance in the debate on instruments to promote trade and investment in a world of low tariffs and progressive elimination or harmonization of non-tariff barriers, since lower transport costs directly encourage exports and imports and are equivalent in effect to a tariff reduction.

At the same time, market failures and imperfections that raise transport costs tend to concentrate industrial and economic activity in areas that are already endowed with suitable human and physical infrastructure. Some major initiatives include the South American Regional Infrastructure Integration Initiative (IIRSA) and the Puebla-Panama Plan (PPP). The Association of Eastern Caribbean States has also set up a programme entitled "Unifying the Caribbean by Air and Sea", which aims to harness public and private efforts among member countries, and stimulate regional cooperation mechanisms. Caribbean countries will also cooperate in implementing air transport training programmes.

In terms of sustainable development, the Latin American and Caribbean region has a characteristic that distinguishes it from all others, both in terms of the wealth and importance of its natural resources and in the global risks implied by the rapid process of environmental degradation. In recent years, several major regional proposals have emerged in this domain. The eight signatory countries of the (PPP) adopted the Meso-American Sustainable Development Initiative as a strategic and crosscutting framework to ensure that all relevant projects, programmes and measures contain appropriate environmental management practices and promote conservation and sustainable management of natural resources.

Another important example is the Regional Biodiversity Strategy for the Tropical Andean Countries a wide-ranging initiative for this sub-region that represents one of the world's richest zones in terms of natural resources, containing about 25% of the biological diversity of the entire planet. The strategy is one of the first attempts by the sub-region to develop a comprehensive platform of community action, promoting cooperation between member countries and projecting them with a new and unique identity to the international community. It is also one of the first community strategies adopted on this issue by a group of signatory countries of the Convention on Biological Diversity, and makes a specific contribution towards fulfilling its objectives (Andean Community 2003).

4. Social Cohesion and Structural Funds

Another important area for AfT action regarding regional integration relates to social cohesion. Despite the recognized importance, social dimensions have not been adequately treated in the Latin American and Caribbean regional integration schemes. The implementation of the social agenda is usually slow or postponed, while the concern for distributive effects has been taken up only sporadically. The mechanisms of the regional and sub-regional agreements provide only small financial resources aimed at improving the cohesion among social groups and supporting regions. Therefore, one of the major challenges in Latin American regional integration has been the adoption of effective, sustainable economic development policies and social integration policies for all social sectors.

In effect, the integration processes have been significantly influenced by the following realities: (i) disparities among the States and regions pose a risk for the integration process itself; (ii) the market by itself does not promote economic integration when the States and regions are charged with such disparities; (iii) growth, competitiveness and employment are the principal instruments to achieve social cohesion; (iv) there is a strong need to integrate economic and social policies in order to guarantee the citizenry an universal social protection system; (v) the reduction of disparities by way of better access to training, education, employment (of women, the youth, and the unemployed for an extended duration) as well as of closing income and wealth gaps is an important base for social cohesion; and (vi) a strong political will to support the States and less developed regions is necessary in order to achieve the conditions of convergence.

5. Building on past experience on AfT

Conscious of the lack of capacity in implementing all the rules and norms contemplated in bilaterally with developed countries, Latin America and the Caribbean included in their FTAs with the North several provisions on TATCB. The association agreements signed by Chile and Mexico with the European Union, for example, include a series of cooperation activities directed toward facilitating implementation. At the regional level, the parties to the Free Trade Area of the Americas (FTAA) negotiations agreed to set up a Hemispheric Cooperation Program (HCP), helping countries determine their needs and help donors target their TA. In a similar vein, in the US-Central American and US-Andean negotiations, the parties developed National Actions Plans, targeting three areas: (i) preparation for negotiations; (ii) implementation of resulting agreements, and (iii) adjusting to integration. These efforts were considered valuable since the parties were often excluded from similar multilateral initiatives such as the IF.

The AfT initiative can build on past efforts but it would have to translate needs into specific TA programs. The Initiative is a welcome outcome since the countries in the region may be reluctant to engage again in time-consuming need assessment exercises without assured funding.

Despite that the countries in the region have not participated in past multilateral initiative such as the IF, they have accumulated experience in linking aid with trade. This should

enable the region to move quickly from diagnosis to action. But this time, the task is difficult: instead of focusing excessively on short-term negotiation needs, the TA/TCB activities should aim at boosting international competitiveness and an efficient and equitable insertion into the world economy, process in which many complex long-time factors interact.

C. Recommendations of the Aid-for-Trade Regional Review for Latin America and the Caribbean¹⁵

This meeting was organized by the Inter-American Development Bank (IADB) and the WTO, and was hosted by the government of Peru, in cooperation with the World Bank. For the first time, it brought together trade and finance ministers, bilateral donors, regional and multilateral agencies and private sector representatives to discuss how to build the capacity and infrastructure that countries need to take advantage of today's dynamic global economy. An important objective of the meeting was to shift the focus of the Aid-for-Trade initiative from policy debate to implementation, and to promote more effective policies. It was also considered as a regional exercise, prior to the WTO Global Aid-for-Trade Review held in Geneva, 20-21 November 2007.

The meeting concluded that the following four areas should be of high priority:

1. Trade-related infrastructure and regional public goods;
2. Trade finance and SME export development;
3. Trade facilitation and standards; and
4. Export promotion and export diversification.

To address these objectives, the IADB and WTO have put forward the following recommendations for consideration by the Global Review on Aid for Trade meeting, November, 2007 in Geneva:

- Encourage countries and sub-regions to map out their main structural constraints and policy bottlenecks to trade, building on existing studies and needs assessments;
- Update national and regional action or plans to address key priorities, including the identification of timetables, institutional mandates, and financial resources for implementation;
- Endorse the constitution of an “Aid-for Trade LAC Support Network” – led by the IDB and the WTO, including countries, regional secretariats, lead donors, multilateral and regional agencies and private sector representatives – to assist countries and sub-regions in mapping out priorities and developing action plans;
- Explore funding for priority pilot projects with existing available resources and/or request the creation of specific regional financial facilities to fund projects included in the action plans; and
- Prepare a road map and timetable for monitoring progress, including a regional “stock-taking” conference to be held in the region to be followed by an operationalization conference.

To mobilize AfT for the region, public-private partnerships were considered essential. The meeting emphasized the importance of finding creative ways to engage private-sector actors in designing and implementing trade strategies. AfT should be mobilized to build private-private institutions that can partner governments on policy development and also on implementation of TATCB activities and projects.

The participants emphasized that certainty on the scale of the AfT initiative would be crucial to secure sustained commitment in the region. As implementation of the initiative begins, the participants considered that concrete actions would be needed in order to meet the most pressing challenges and to ensure that existing momentum would not dissipate.

Given the limited access of the countries in the region to ODA grant resources and concessional lending, in the view of the participants, non-concessional lending and equity investment would be key in addressing the region's TATCB needs. In this regard, AfT

grants can provide crucial seed money for large infrastructure programs and other supply-side problems which would require large non-concessional financing. In their view, a key issue was how multilateral lending could be made more accessible, for example, by facilitating “blending” with donor assistance. Another important issue was how to increase the incentives for private investment in TCB, and to expand the scope for public and private partnerships.

The participants considered that there is potential for large returns from regional investments, as coordination failures may jeopardize the optimal provision of regional public goods (RPBs), and that the availability of grant financing for RPB may help attenuate this problem. Also, the complexity of aligning national sovereign guarantees to access to lending facilities for regional projects might call for the development of new regional financial instruments.

IV. ECLAC’s Aid for Trade agenda and possible contribution to the Initiative

In the background note to CEB High-Level Committee on Programmes, WTO Secretariat calls for the support of UN agencies and other international organizations like OECD, IMF, WB, regional development banks and other relevant international agencies. WTO defines coherence as critical to A4T and as a test of the WTO ability to work more cooperatively. The same paper states also that the challenge is not to invent a new mechanism, but rather to get the existing mechanisms to work together more effectively.

In Latin America and the Caribbean, WTO has a close partnership with the IADB and, within this framework; partnerships exist with other regional organisms and institutions.¹⁶ ECLAC can cooperate in several ways, considering that one of its main institutional objectives is to strengthen insertion in the global economy and regional integration of Latin American and Caribbean countries.

Under its general program of work in the field of trade and development, ECLAC carries out a subprogramme on International Trade and Integration. It places increasing emphasis on the development of local capacity, especially in areas related to:

- Implementation and administration of trade agreements (including regional integration efforts), which requires countries to review, reform or even upgrade their policies, strategies and institutional framework;
- Monitoring and support on trade negotiations (at various levels – multi, pluri, regional and bilateral) to assure equitable distribution of benefits and costs;
- Identification of supply-side constraints that prohibit trade diversification, by product, destination, sector and firm size, and promote greater incorporation of value added and technology and knowledge contents into exports, not only in primary products but also manufactures;
- Analysis on the role of innovation as a facilitator of international competitiveness;
- Identification and implementation of appropriate trade facilitation measures (technological upgrade of customs procedures, sanitary and phyto-sanitary measures, technical barriers to trade, rules of origin, and physical infrastructure including maritime transport and ports) and AfT instruments at the country level;
- Search for convergence of norms and rules within and among sub-regional integration schemes and provision of Regional Public Goods (RPGs) to promote regional integration;
- Diffusion of information on trade related matters, focused on emerging markets such as China, India and ASEAN countries and best practices on trade and investment promotion; and
- Building of network and public and private sector linkages.

This way, the present and future work programmes will complement and support the WTO AfT initiative.

The tasks undertaken by UN-ECLAC in support of administration and implementation functions, arising from the signing of preferential and free trade agreements, start from the basis that exploitation of those agreements requires countries to review, reform or even upgrade, their policies, strategies and institutional framework, especially in relation to issues only partially covered with by WTO (“WTO-plus” issues). Consonant with emerging views, it has also been proposing the coordination of rules in various domains—origin, standards and trade facilitation, among others—in addition to regional-scale investment and financing efforts that would stimulate and facilitate trade between countries.

The conceptualization process of AfT for Latin America and the Caribbean also involves a regional dimension: regional integration as a vehicle for enhancement of international competitiveness and trade diversification. There is an urgent need to address the question of how to: (i) stimulate regional trade flows; (ii) reform regional integration institutions to face the challenge of the multiplication of bilateral trade agreements with countries inside and outside the proper region; and (iii) proceed on convergence of trade-related rules and regulations at sub-regional levels that is necessary for such trade reactivation. AfT measures also include investments and South-South trade expansion and technology transfer, and they call for a more important role for regional banks in supporting trade capacity.

UN-ECLAC has received many requests for assistance from member countries in the AfT sphere with successful accomplishment of training courses and seminars. To carry out effectively and efficiently the above mentioned tasks, UN-ECLAC is well positioned as a UN regional commission to assess real needs of countries at country and regional levels. ECLAC can put to use its renowned expertise to undertake diagnostic or pre-feasibility studies. For AfT conception and implementation, UN-ECLAC has in place its information gathering on and monitoring mechanisms of country needs, while it is equipped with an appropriate institutional framework for management, coordination and provision of the aid at the country or regional level.

Together with institutional and physical infrastructure to strengthen supply-side capacity and competitiveness, ECLAC is currently executing several joint projects on the above-mentioned TCB areas with agencies such as GTZ of Germany and the Corporación Andina de Fomento (CAF) and IADB as well as regional integration organizations such as ALADI, Mercosur, CAN, MCCA, and CARICOM. In last two years, UN-ECLAC has intensified joint activities with WTO, especially in the area of trade negotiation/administration, while it has actively participated in training courses offered by both WTO and INTAL/IADB.

As the previous joint efforts with other regional agencies testify, UN-ECLAC’s extensive experience on regional development process complements well the expertise that IADB offers in AfT. The bank’s program of work points to the urgency of comprehensive strategies that make trade useful to development. This complementarity is evident especially in the area of trade negotiation/implementation: the coexistence of different kinds of preferential agreements (bilaterals, plurilaterals, regionals and even inter-regionals) with integration schemes of different depths adds to the complexity of the AfT agenda and thus to the need of trade capacity building.

There is a fertile ground for collaboration between IADB and UN-ECLAC in the area of regional integration, especially from the perspective of regional public goods (RPGs). Apart from the proper AfT agenda, infrastructure including Information and Communications Technologies (ICTs), energy, and social cohesion are important emerging issues for the countries in the region; UN-ECLAC has initiated several projects to make concrete progress in this respect. The two agencies can pool resources to strengthen country’s trade-related capacity by creating cooperation forums or networks among the countries in the region and

projects linking trade facilitation and investment in order to contribute to the participation of SMEs in the international arena and the infrastructure initiatives (IIRSA and PPP). In short, the regional perspective both for the analyses and for the AfT initiatives seems to be gaining ground and as a result, there is an expansion of the potential role to be played by regional organizations.

Furthermore, there is also room for collaboration between the two institutions in the analysis of the distributional aspects of trade, since both are committed to assisting the countries in the region in utilizing trade as a driver of growth and poverty reduction. There are important synergies to be derived between trade-related development assistance and ECLAC's experience in providing assistance for capacity building to member countries. More specifically, it would be important to collaborate on assisting the countries in development and adoption of pro-poor trade-related strategies and complementary policies that would enable the countries to increase high-quality employment and enhance incomes of the poor. ECLAC can contribute to research, stimulating dialogue and launching specific initiatives on trade and poverty at the national and regional levels, helping the region to make trade work for the majority of the population.

Given its mission and experience, ECLAC could collaborate with the IADB and WTO on the AfT initiative with three complementary initiatives:

- Through the identification of specific projects and initiatives to empower the integration between trade and sustainable development, including private sector organizations and promoting regional integration;
- Through its participation in the design and implementation of regional coordination and cooperation mechanisms so as to implement the AfT agenda at the regional level; and
- Supporting the WTO monitoring and evaluation work from the regional perspective, participating in evaluations and in the consultative group suggested by this organism.

More specifically, ECLAC is well placed to support the AfT initiative working with governments, regional integration organization, in close collaboration with various private sector stakeholders, by supporting:

- National efforts for the implementation and administration of bilateral and multilateral trade agreements in subjects linked to organizational development, critical subjects (such as dispute settlements), productive supply problems (working with the affected productive sectors) and evaluation of the impacts of the agreements.
- Definition of action plans in the trade facilitation area so as to reduce trade-related transaction costs, including small and the landlocked countries, in the framework WTO trade facilitation group.
- Formation and the functioning of AfT National Committees recommended by the Task Force to be organized in Aid receptor countries in order to strengthen their national coordination complement the action of other organizations and serve as a mechanism to articulate the AfT agenda. Their members would be governments, private sector and donors, under the direction of the government's corresponding ministry.

In parallel to these activities, ECLAC can put in place regional coordination and cooperation mechanisms:

- To develop a regular mechanism (for instance, a Trade Forum similar to the one proposed by ESCAP) to share AfT experiences between countries of the region, donors, international agencies and the private sector, in close cooperation with other regional organizations

- To identify and implement technical assistance programs to support the AfT agenda, with support from WTO and other regional organizations, taking stock of the experiences of the IF and the HCP (Tripartite Committee) as a reference. These exercises will be guided by the following principles; (i) coherence and coordination to ensure the efficient use of resources from the perspective of both beneficiaries and stakeholders, and (ii) concrete and verifiable results from the perspective of beneficiaries and other actors.

These initiatives should contribute to make the national and regional AfT agenda more articulated and productive, complementing, not substituting or duplicating the work of other national or international agencies.

In addition, ECLAC can contribute to the monitoring and evaluation of AfT initiatives and projects, by:

- Providing support to the information recompilation and systematization for the joint WTO/OECD database, coordinating and/or supervising the process at the regional level;
- Complementing and supporting the WTO *Trade Policy Reviews* giving basic information of the countries in the region, as well as preparing reports, which could serve as internal materials for the WTO; the TPRs of the countries in the region should be probably prepared with a higher frequency, in the framework of AfT agenda.
- Serving as host, organizer and catalyzing agent for the Aid-for Trade LAC Support Network suggested by the report of the regional meeting of September 2007 (IADB / WTO 2007). This mechanism could be similar to the Regional Committee proposed by the AfT Task Force, integrating regional and sub regional financial organizations and institutions in charge of supervising the AfT regional aspects and presenting reviews of the regional and sub regional needs, on the basis of the Task Force recommendations.

ECLAC can assume these challenges considering that one of its main institutional objectives is *to strengthen insertion in the global economy and regional integration of Latin American and Caribbean countries*. ECLAC has also certain expertise in this area: ECLAC played an important role as a member of the *Tripartite Committee* (with IDB and OAS) created to coordinate activities of the Hemispheric Cooperation Program (HCP) in the FTAA, process actually frozen. The HCP developed methodologies to assist governments with carrying out needs assessments identifying several challenges that faced the initial steps of AfT process.¹⁷

In any region, effective AfT solutions require a “systemic” and “interdisciplinary” approach that takes into consideration a whole range of transmission channels of trade effects to economic and social development; it is of extreme importance to address trade links with other areas such as sustainable development, social development, infrastructure including transport systems, natural-resources endowment, and entrepreneurship and technological progress. In this respect, ECLAC’s comprehensive understanding of the region’s development process and close contacts that it maintains with individual countries and other regional organizations would enable it to provide significant support to the region’s AfT undertaking. Furthermore, ECLAC is equipped with substantive divisions with great expertise in each of above-mentioned areas, and therefore is well suited to assume a leadership role in conceptualizing, operationalizing and implementing the AfT Initiative for Latin American and Caribbean countries.

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Notes

- ¹ WTO (December, 2005): Hong Kong ministerial declaration. WT/MIN(05)/3/Rev.2.
- ² Following the recommendations of the Paris Declaration on Development Aid Efficiency. Endorsed on 2 March 2005, is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organizations to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators.
- ³ OECD Database (DAC Online, 2007).
- ⁴ In Spanish, Corporación Andina de Fomento.
- ⁵ Sistema Económico Latinoamericano (SELA): La ayuda oficial para el desarrollo en América Latina y el Caribe. Caracas, Octubre, 2005.
- ⁶ The Task Force specified six categories of Aft: (i) trade policy and regulations; (ii) trade development, covering investment promotion, analysis and institutional support for trade in services, public-private sector partnership, e-commerce, trade finance, trade promotion, market analysis and development; (iii) trade-related infrastructure; productive capacity building, covering support to address trade-related supply-side constraints; (iv) trade-related adjustment, to help countries put in place accompanying measures that allow the countries to exploit benefits of trade liberalization; (iv) other trade-related needs, not covered in the preceding categories. Trade development was later included in productive capacity building.
- ⁷ WTO (July, 2006).
- ⁸ WTO (May, 2006). Task Force on Aft, Communication from Colombia, Ecuador and Peru.
- ⁹ In fact, both aspects can also be considered as management problems.
- ¹⁰ WTO (July, 2006).
- ¹¹ According to the Doha working chronogram for 2006, the proposal to improve the Integrated Framework included several of these improvements as topics for discussion.
- ¹² Using the data on time it takes to transport cargo from the factory gate to the ship in 126 countries, Djankov et. al. (2006) find that each additional day that a product is delayed prior to being shipped reduces trade by more than one percent, which is equivalent to a country distancing itself from its trade partners by about 70 km on average. They conclude that reducing export times by 10 days is likely to have a bigger

impact on exports of developing countries than any feasible liberalization in Europe or North America. Similarly, Hummels (2007) finds that tariff equivalents for export delays exceed tariffs faced by exporters in developing countries.

¹³ Devlin R. and Z. Vousek: Trade Related Capacity Building: An Overview in the Context of LA Trade Policy and the MERCOSUR-EU Association Agreement. INTAL/IADB, Occasional Paper 29, 2005.

¹⁴ The region needs to spend “more” and “better” in infrastructure. Countries in the region spend, on average, less than 2% of DGP in infrastructure, whereas 3 to 6% is needed to keep pace with other countries like China or the Republic of Korea (Gonzalez et.al. 2007).

¹⁵ Lima, Peru, 13-14 September, 2007. For the complete report, see “Mobilizing Aid for Trade: Focus Latin America and the Caribbean. Report and Recommendations”, prepared by the Inter-American Development Bank (IDB) and the World Trade Organization (WTO), November 2007.

¹⁶ WTO (2004).

¹⁷ The HCP gave technical support to 29 of the 32 developing countries participating in FTAA negotiation. Several country strategy papers were prepared, including outlining trade related capacity building and training needs, and donor’s roundtables were organized to allow donors to identify and coordinate their support.

BUILDING AFRICA'S SUPPLY CAPACITIES AND COMPETITIVENESS THROUGH AID FOR TRADE

Economic Commission for Africa (ECA)

Towards the next steps on Aid for Trade Initiative

This paper informed discussions at the regional review meeting on *Mobilising Aid for Trade: Focus Africa* organised by the WTO, jointly with the African Development Bank and the UN Economic Commission for Africa, and hosted by the Government of the United Republic of Tanzania. The meeting which took place on 1 – 2 October 2007 was the last of three regional meetings organised by the WTO in preparation for the Global Review meeting in November 2007. The other two meetings took place in September in Lima, Peru for Latin American Region and Manila, Philippines for the Asian Region.

I. Introduction

This paper discusses the Aid for Trade (AfT) initiative and its location in dealing with Africa's trade challenges. The AfT is evolving towards being a core area within the broad development finance architecture. Essentially, the AfT idea as will be seen in this paper borders on ring-fenced resources targeted to helping developing countries integration into the global trading system. This paper starts with a discussion of the trade challenges that Africa faces, both internally and externally. These challenges require a response such as that envisaged in the AfT as can be seen from its rationale and its scope which are discussed in this paper.

II. Trade as a development pillar

It is well accepted that trade is an important development pillar in Africa. The current engagement of African countries in multilateral and bilateral trade negotiations, and the regional integration initiatives in the continent, is evidence of the central role attributed to trade in catalysing growth and hence development. A lot of countries have also shown interest in mainstreaming trade in national development strategies as recognition to the role trade could play in their development.

Beyond the policy arena, there has been a lot of debate, driven by the experience of African countries, regarding how trade policy itself could be used to enable trade play this crucial developmental role. There are several studies that capture concisely the elements of this debate, which revolves around the question of the beneficial effects on growth and poverty reduction of trade liberalisation. What would be useful at this juncture though is to point out that there appears to be a consensus that developing countries like those in Africa neither need neo-liberal trade policies as in the 80s nor interventionist ones like in the 70s. Rather they need proactive and pragmatic trade policies that recognise individual countries development visions and circumstances. Notwithstanding this debate, the most important point is that trade and trade policy is at the mainstream of today's economic policy debate.

Yet, the importance of trade and development is a more urgent issue in Africa than in any other region. This is because the region still experiences a very low level of integration in the global trading system. To put this picture in perspectives, today, Africa's share of global exports especially in merchandises remains historically low. The continent's share in global exports in 2005 was a mere 2.8%, roughly equivalent to its 1991 value and less than half its peak value of 6% last achieved in 1980. The region has also been unable to achieve the desired outcomes in regional integration at the continental level. These two developments have intensified the focus on trade in Africa.

And as noted in ECA's Economic Report on Africa 2007, over the past 6 years, world merchandise exports experienced an average growth rate of 10.4%. Over this period, Africa performed better, increasing its exports by 16% on average annually. However, a closer look at this export performance reveals that the rapid increase in export is concentrated in oil-exporting sub-Saharan African countries. Thus, it is the price movements, rather than major structural changes in Africa's production and export patterns that have been driving the recent rapid exports growth. Weak supply-side capacities and lack of diversification continue to haunt Africa's endeavours to increase its share in the global trade. As a result, like in the past, Africa is still vulnerable to shifts in international commodity prices, and particularly in changes in prices of oil.

III. Africa's trade challenges

Given the importance of trade as an important pillar in Africa's development, the question that comes to mind is why the region has not been able to harness this potential? The main answer given to this question in this paper is that Africa still faces major trade challenges. By highlighting these challenges, this paper allows for an objective examination of how best to operationalise the AfT initiative in a way that will help it effectively address the African challenges. At this point, it helps to observe that the AfT initiative as espoused in its rationale and defined scope goes beyond the traditional trade capacity building that programmes like the Integrated Framework (IF) and the Joint Integrated Technical Assistance Programme (JITAP) have been focusing on.

Yet, the African trade challenges go beyond these capacity constraints. In the remainder of this section, the two main categories of trade challenges, not related to trade negotiations capacities are outlined. There are both external and internal challenges. The external challenges happen to be exogenous at the same time in the sense that they are given and Africa as a region cannot do anything about them, as they are driven by policies outside its realm. In the case of the internal challenges, there two types, the software related and those to do with the hardware elements of the trading environment. This section will therefore briefly look at each of these challenges.

A. The external trade challenges

These challenges relate mainly to the international trade environment that Africa faces. As a result, they have more to do with the market access difficulties that Africa's exports have to deal with. The main elements of the external trade challenges include:

Tariff peaks: African exports are still faced with a protection pattern characterized by a large number of tariff peaks. These peaks concern mainly products of agriculture, food, textiles, and apparel, which require low- and mid-technologies.

Tariff escalation: besides the tariff peaks, Africa faces yet another form of market access constraint that is related to tariff escalation. Any value-addition which could lead not only to diversification but to a higher percentage of income benefiting African economies is discouraged by escalating tariffs on semi-processed goods.

Export subsidies: export subsidies provided by some of the developed countries also affect market access conditions that ultimately face African goods. The outcome of the export subsidies has been shown to be depressed international prices, which result in an unfair playing field, as African exports get "out-competed" in these markets where they could otherwise have done better.

Domestic support policies in developed countries: Domestic support measures leads to overproduction, creating international markets gluts, which then result in international prices collapse that eventually negatively affect African exports. The cotton market is a good example where domestic support measures in some developed countries has led to depressed international prices which make African cotton producers look less competitive.

Non-tariff barriers (NTBs): NTBs also pose market access challenges for Africa. The imposition of sanitary and phyto-sanitary measures (SPS) and the technical barriers to trade (TBT) constitute a constraint for Africa in the export of its products to developed countries. The market access constraints related to SPS are more pronounced when one considers the limited capacity for the African countries to meet the measures.

Restrictive rules of origin: One might argue that all the above elements related to external market access challenges for Africa are exaggerated given that the region enjoys a wide array of preferential market access schemes. The Everything But Arms and the African Growth and Opportunity Act quickly come to mind, as they are the broadest. But there are other schemes by developed countries such as Canada and Japan, and lately advanced developing countries such as China have provided preferential market access for selected African exports. However, the rules of origin governing these schemes are not universal. Besides, the requirements on local content tend to be high in most cases, making it difficult for African countries to exploit the preferences optimally. In addition to the high local content requirements, most of the rules of origin do not allow for third country sourcing of raw materials (even where they are cheaper). These restrictive rules of origin therefore pose a major constraint to Africa's ability to fully utilise the preferences and also to deepen the diversification of its economies.

All these challenges, relate to exogenous policy decisions by African trading partners. The current Doha Round has a mandate to address most of these elements. In deed some progress has been made in some of them, and Africa has been very active in the definition of the principles (framework) and now the modalities of how the multilateral rules could be structured in a way that the international market environment is improved.

Yet, even if these externally imposed challenges were to be addressed either through the Doha Round, the EPA negotiations, and other bilateral arrangements, Africa is unlikely to witness any dramatic change in its development prospects through trade for several reasons. In deed, in the context of negotiations, research at the ECA has shown that while there are gains still to be realised from the market access agenda in the WTO, most of these gains could accrue to other developing countries. There will be little benefits for Africa from the multilateral negotiations given the current structure of the African economies, and so their marginalisation in the global trading system is likely to continue. The African countries lack the capacity to exploit the trading opportunities that might be presented by the solutions to the external challenges. And it is this lack of capacity to exploit trading opportunities that AfT is expected to play a major role if effectively operationalised. As will be indicated below, the capacity-enhancing investments in economic and social infrastructure and removal of supply constraints all require significant amount of resources.

Further research within the ECA has also shown that Africa's economies could face the risks of de-industrialisation, for the few African countries that have made some steps towards development of some industries. AfT would be crucial in safeguarding and deepening these gains towards industrialisation, however limited they might have been in the past. Another clear conclusion that studies at the ECA has arrived at is that while there are some benefits from preferences, these benefits could be greater, with the strengthening of internal supply capacities. The AfT would play a major part in such endeavours.

B. The internal trade challenges

The internal trade challenges that Africa faces are already well documented, and as noted they were indeed the motivation for the need to strengthen development dimensions of the multilateral trading system. The challenges range from institutional to infrastructure deficiencies and this section revisits briefly the main elements.

Weak supply capacities: an important challenge that African countries face universally, are the weak supply capacities. There have not been sufficient investments to build requisite capacities to meet the supply needs of demanding markets. Thus, even for the few exports that African countries are able to produce, lack sufficient production infrastructure means that suppliers from Africa are not always able to meet their demand. The low supply capacities are worsened by poor infrastructure and unreliable business support utilities.

Lack of skills towards better quality products: the markets for different products produced under the different segments of the global supply chain are becoming intensely contested. In particular, other developing countries are gaining ground in these markets, and are able to exploit potentials of vertical integration. African countries on the other hand, due to lack of skills are not able to exploit these possibilities as the products fail to meet the required quality standards.

Limited resources for research and development: in addition to lack of skills, African countries face the challenge of having no or limited resources that would support research and development to aid in development and adoption of better technologies essential for manufactured products diversification. As the *Economic Report on Africa 2007*, argues, research and development is critical to countries' ability to diversify—vertically and horizontally.

Trade finance: even where African producers are able to secure international markets, an important constraint that they have to overcome relates to trade financing. This includes both pre-financing and insurance. This is an area that is affected by the shallow financial markets and as such most African countries lack instruments that would facilitate trade financing.

Trade facilitation: one of the major internal challenges that Africa has with respect to trade relates to trade facilitation. As noted above, improved market access cannot be fully exploited if means to facilitate trade are weak. Therefore, as African countries have argued repeatedly in the Doha Round, the question of trade facilitation for Africa goes beyond the customs administration issues. These are the software elements of the trade facilitation. Rather, trade facilitation concerns for Africa also involve the weak transportation infrastructure to and from the ports of entry of exports and imports.

Weak port and transportation infrastructure: Africa is probably most challenged in the area of trade by the dilapidated hardware elements of trade facilitation. Beyond the ports of entry and exit of traded goods, many countries lack appropriate national and even connecting infrastructure to their neighbours. Thus, the time taken to reach the market by African products is magnified by the weak infrastructure making it difficult for Africa to trade.

Internal non-tariff barriers: Besides the infrastructure problems, there are intra-African trade barriers that are still a major challenge in the continent. In this regard, Africa is faced with the challenge of removing the intra-African trade barriers, which today make it difficult for the deepening of African integration. The removal of these barriers, when supported with improvements in the trade facilitation mechanisms (to the border, at the border, and after the border) will allow the continent to tackle the small markets problems that make it difficult for African producers and exporters to exploit the economies of scale, which would have the spin-off of helping build competitiveness.

Institutional constraints: the ECA's diagnosis of the failure for African countries to fully exploit their trade potential led to the thinking that besides low productive capacities and poor infrastructures, trade development in African countries—and in particular LDCs—has been hampered by weak trade policy capacities. This lack of appropriate capacities to analyse trade policy issues in African countries led to outcomes that did not contribute to better role for trade in the regions development. The trade capacity constraints in African countries identified in ECA work include:

- Lack of the capacity to negotiate effectively on trade issues of interest to Africa;
- Lack of capacity to influence and set the agenda or pace of multilateral negotiations;
- Lack of capacity to fulfil commitments to the multilateral trading system, without undermining African development goals;
- Lack of the capacity to formulate effective trade policies; and
- Lack of capacity to exploit trading opportunities.

IV. The rationale of the Aid for Trade

The foregoing discussion shows clearly that African countries are already at a disadvantaged position, and whatever global trade reforms are to be undertaken; they are unlikely to reap proportionate benefits from trade. It is this realisation that developing countries especially those in Africa are unlikely to make in-roads in the rapidly globalising world that underpinned the initiative by World Trade Organization (WTO) Members to develop an Aid for Trade package. AfT was officially put on the WTO agenda at the 6th Ministerial conference in Hong Kong December 2005.

It is worth noting however that the idea of the AfT started gaining currency at the 5th WTO Ministerial Conference in Cancun when the UN Secretary General noted the need for AfT to complement other aid for development. The idea was further deepened in many UN reports and gatherings where it was agreed that there was need to go beyond the soft trade-related technical assistance to the support that would help deepen productive capacities, finance trade-related hard infrastructure, while at the same time deal with the adjustment costs of trade reforms.

This integration of the AfT in the Doha Round was a recognition that there was need to go beyond the traditional trade-related technical assistance. This shift towards acceptance of the importance of the hardware elements of the trade-related support is evident in the mandate given by the WTO member states. The mandate with respect to AfT is “to help developing countries particularly least-developing countries (LDCs), to build the supply-capacity and trade-related infrastructure that would assist them to implement and benefit from WTO agreements and more broadly to expand their trade”¹.

It is also worth recalling that, in spite of the slow progress so far, the need to strengthen trade capacities in developing countries is a major element in the Doha Round. The rationale for the AfT is therefore built around this strong need. But at the same time, it has been accepted that the AfT cannot be a substitute for the development benefits that are aimed for from a successful conclusion of the Doha Round. The Hong Kong Ministerial Decision instructed the Director General (DG) of the WTO to set up the task force that came up with the recommendations on how to implement the AfT. This report was submitted on 27 July 2006 and is the basis of the on-going activities on the AfT initiative.

V. Objectives and guiding principles

In the context of Africa, the objectives of the AfT promise to be an important complement to other forms of aid for development that the region is already receiving. The initiatives objectives includes: enabling developing countries use trade more effectively; helping countries build supply-side capacity and trade-related infrastructure to access markets and export more; helping facilitate, implement and adjust to trade reform and liberalisation; assisting regional integration; assisting smooth integration into the world trading system; and assisting in the implementation of trade agreements. So far, trade-related technical assistance has failed to fully catalyse trade as an engine for growth. This in spite of Africa as a region being more open to international trade than any other developing region except East Asia and the Pacific. Despite its trade openness, the region, as already noted has witnessed a substantial decline in the share of exports relative to the world total. This

decline seems even more worrisome, given a marked rise in the relative importance of developing countries as a whole in world exports. Africa could therefore greatly benefit from the AfT were the initiatives objectives to be met.

The Aid for Trade operationalisation will build on existing trade-related assistance mechanism, for example the Integrated Framework (IF) and Joint Integrated Technical Assistance Programme (JITAP). In addition, it will use existing guidelines for aid delivery as outlined in the Paris Declaration on Aid Effectiveness within the five broad areas² of ownership, alignment, harmonisation, managing for results and mutual accountability. By adhering to these principles, it is expected that the operation elements of the AfT will result in strengthened demand side as developing countries fully mainstream trade in their national development strategies, leading to strong country ownership of aid programmes and country-based formulation of trade related needs and priorities. On the donors' part, there could be strengthened response to trade-related needs and priorities in terms of policies and coordination. These two results could then lead to a stronger bridge between country demands and donor responses at the country level, regional and global level. Lastly, a strong monitoring and evaluation mechanism is possible if the AfT operationalisation were to be guided by the Paris Declaration principles.

A. The scope of the aid-for-trade

To what extent is the AfT likely to address Africa's trade challenges? An examination of the scope of the AfT indicates that there is correspondence with the challenges that Africa faces in trade. This is particularly with respect to the internal challenges identified above and which African countries expected to see in the elements of the AfT (see Box 1). There are six broad categories defining the scope of the AfT. Firstly, it is expected to deal with constraints in developing countries related to trade policy and regulations. This includes among other things training officials, helping governments implement trade agreements, and complying with rules and standards. The traditional trade-related capacity building has to a large extent been addressing some of these issues.

Second, AfT is also expected to be geared towards trade development that includes providing support services for business, promoting finance and investment, conducting market analysis and e-commerce. Like in the case of support to trade policy and regulations, the focus by AfT on trade development is not new. Traditional technical assistance has been dealing with this. However, the support in this area has not been enough to overcome the market access barriers externally imposed for African exports.

Third, AfT is expected to help in the development of trade-related infrastructure such as building roads and ports. This is a more deepened support for trade assistance, an innovation

Box 1. Key elements for AfT identified by African countries

- Enhance productive capacities of African countries, through increased productivity, addressing the necessary regulatory reforms, human resource and physical infrastructure needed to make African economies competitive;
- Support investment in improving competitiveness of African countries;
- Assist African countries to invest in removing impediments to business that drive up costs for exporters;
- Assist African countries to invest in infrastructure;
- Help African countries to effectively deal with adjustment costs associated with trade liberalization, such as rising food prices for net-food importing countries, preference erosion, reduction in tariff revenues, and other economic and social costs;
- Assist African countries to integrate trade policy in their overall development strategies and create a strong public-private sector partnership;
- Help African countries to invest in human resource development; and
- Support to regional integration initiatives.

of the AfT to complement the normal aid for development. At this juncture, it is agreed that there will be additional funds for this component of the AfT, and it will not be a reallocation of already committed development assistance.

Fourth, AfT is expected to provide support for building productive capacity, which comprises of improving the capacity of a country to produce goods and services. This will enable countries to deepen their diversification through development of new products. AfT will therefore facilitate value chain analysis, and then will support the building of capacities for the development of products that help African countries exploit those segments of the value chain where they have comparative advantage.

Lastly, many studies have clearly shown that implementation of trade reforms is not costless. The ECA work on the impacts of different modalities options for agriculture and non-agriculture market access (NAMA) have shown that beyond the economic costs, are social implications associated with de-industrialisation and preference erosion. It is anticipated that the AfT will provide financial assistance to enable developing countries meet adjustment costs associated with trade policy reform, including balance of payment problems resulting from lost tariff revenues or from erosion of preferential market access. At this point, it helps to note that the AfT is also expected to help developing countries implement other trade agreements. And while the Doha Round commitments will present adjustment challenges, the same could be said with respect to Africa's commitments under regional integration agreements and the Economic Partnership Agreements (EPAs) under negotiations with the EU. The AfT scope could allow it to be used in support of the implementation of trade aspects of the EPAs³.

VI. Additionality of resources under the Aid for Trade

Even before the exact estimates of the AfT requirements, an important question as noted already is whether AfT will deliver “new and additional resources” to support technical assistance programmes and projects. This has been an important issue for African countries. Consequently, it will be important for the AfT not to be a “re-packaging” of existing technical assistance and projects, for this would not serve African countries address the challenges hindering them from benefiting from the global trade. As such, the AfT will need to be adequately funded, with the additional resources predictable and sustainable as well. African countries position has been very clear on the question of additionality of resources (see Box 2 on African countries position on financing the AfT). The additionality of resource flows must hinge on other specific issues as identified in the AfT. These include the scope of AfT that will define the resources needed; the content and elements of the initiative, which will define the programmes and projects to be supported; mechanisms for mobilising the resources; modalities for implementation; and system of monitoring and evaluation.

Box 2. African countries on the characteristics of financing AfT

African countries have emphasized the following aspects:

- The Aid for Trade Initiative should be carefully designed, adequately funded, efficiently managed and effectively implemented;
- The AfT should play a catalytic role and be an engine of accelerated growth, development and poverty reduction in Africa;
- The funds provided under the AfT should be additional, predictable and sustainable;
- The funding of the AfT should be provided in grant form;
- There should be a wide stakeholder involvement in the design and implementation of the programmes of the AfT at the national and regional levels;
- The AfT should also be supportive of regional integration initiatives;
- The AfT should be used to strengthen and develop trade policy and enhance trade negotiation capacity at national, sub-regional and regional levels; and
- The AfT should be a complement, and not a substitute, for the development promises of the Doha Development Agenda (DDA) (for example funds made available under ODA, EU's EDF and USA Millennium Challenge Account).

VII. Africa Regional Review on Aid for Trade

In this section, the paper presents the results of Africa's regional review meeting in Dar-Es-Salaam, Tanzania on 1-2 October 2007. These results feed into the global review meeting in Geneva in November 2007. The overall goal of the review meeting was the need to move the AfT initiative from the Task Force Recommendations to action. The following were the key objectives of the meeting:

- Underline trade's central importance to the achievement of Africa's development goals;
- Identify the key priorities for strengthening capacity and increasing trade;
- Emphasise the importance of comprehensive trade strategies (regional as well as national);
- Highlight the need for increased and effective financing; and
- Secure political commitment on the way forward.

A. Key issues from the African regional review of the Aid for Trade

The African review meeting was organized jointly by the ECA, WTO and ADB and it brought together African Ministers of Finance, Ministers of Trade, bilateral and multilateral donors and the private sector. Several key points can be summarized from the discussions that took place between the African policymakers, the private sector, regional development banks and the international partners.

First, there is now consensus that that AfT matters for Africa. This consensus is underpinned by the realisation that African products are competitive at the factory and farm-gate level when compared with those of Asian countries. However, the African products lose their competitiveness when it comes to placing them in the international markets. The African review meeting concluded that for the continent to be able to compete and succeed in the global market place, the AfT is necessary, as it would help the countries to diversify and address the cost of production factors. The regional dimension of the AfT programmes would however be critical as this would both help African countries optimize their regional integration processes, but at the same time exploit economies of scale through larger competitiveness-building markets. For this to happen, new instruments by the development banks to finance regional competitiveness-enhancing strategies will have to be developed. And for this to be successful, the competitiveness-enhancing strategies must at the same time address specific needs of each country and must have the private sector as the key anchor.

Second, it was clear from presentations by the African RECs and interventions from the African Ministers that important initiatives at national and regional level aimed at enhancing competitiveness exist. Many of these projects and programmes already identified have been geared towards strengthening of production capacities for trade. A key issue that the review meeting identified was the need to resolve the lack of coordination in the existing strategies. In particular, bilateral and multilateral development partners have separate and uncoordinated programmes with individual countries and regional groupings, and this would have to be addressed to enable seamless super-imposition of the AfT on these existing strategies.

Third, the African review noted the broad array of areas where AfT support is required especially among the RECs, which then calls for clear prioritisation. But most significantly, it was evident that the RECs priorities narrow for now to just three key priority areas, albeit with different ranking for each REC. Moreover, the existing strategies are at different stages of implementation and financing gaps are a major constraint. The African review meeting therefore concluded that it was important that the concrete implementation of the AfT for Africa focus on the following: *infrastructure, trade facilitation, and standards*.

AfT resources that are targeted at the three areas would help address the paradox of African products, which are competitive at the factory and farm-gate, but uncompetitive at the global markets.

Fourth, the success in implementation of competitiveness-enhancing strategies is contingent upon the AfT also strengthening the human capital development in the continent. This should go hand-in-hand with the deepening of the private sector involvement. Only then can the AfT provide the catalytic effect for economic change as it fills the financing gaps of existing and new strategic areas.

B. Conclusions from the Africa Aid for Trade Review meeting

Leadership the key to success: AfT initiative will have a better chance of succeeding if there is leadership at the national level including on the choices that countries have to make. A pertinent aspect of this leadership relates to clear political decisions that underpin trade and development as an idea upon which countries' future could be built upon. A secondary aspect is the need to build the agenda for trade and development on strengthening national and regional capacity once the political choice is made, as and this must be reflected in the national development plans.

Delivery mechanisms: existing mechanisms were favoured when it came to the point of implementation. The desire for new mechanisms could only end up duplicating existing structures. It was however noted that the parallel enhanced integrated framework (EIF) would continue to serve the LDCs.

Some of the African priorities: a priority that came up which the AfT must immediately tackle relates to the infrastructure constraints and also the maintenance of the infrastructure. The other important obstacle to private sector competitiveness is the trade facilitation issue including at the border that AfT must target. In both of the above priorities, the regional integration, hence regional dimension is a crucial factor towards competitiveness building. Therefore, capacity for the RECs emerged as a priority area for Africa's AfT. A fourth priority, which is part and parcel of the infrastructure and trade facilitation strategies, was the involvement and development of the private sector. In fact, the private sector is on the one hand a player from demand side but also an actor in the supply of AfT. Furthermore, for Africa, in the context of the private sector, the SMEs were identified, as a crucial component/segment given that it is the SMEs that suffer most with the indirect and direct trading costs, and as a result AfT measures must aim to strengthen their competitiveness. Finally, public-private partnerships hold important leverage for the success of the AfT in Africa.

VIII. Looking Ahead: Mobilising Aid for Trade in Africa

As indicated above, the African countries met in Dar-Es-Salaam, Tanzania on 1-2 October 2007 to discuss the best ways to mobilise the political and financial commitments required to realise the objectives and goals of the AfT. But beyond the discussions in Dar-Es-Salaam, there are important issues that the African countries and their partners will have to address in order to achieve effective results from implementation of the recommendations from the Dar-Es-Salaam meeting. These issues are areas of work in themselves for the African countries and the donors as well and they include:

- Mainstreaming of trade in the development strategies of African countries.
- Aligning Donor Strategies with country and regional needs and the global partnership goals as internationally agreed.
- Translating the diagnostics into actionable programmes in which case the regional needs assessments are developed into activities that can be implemented with clear focus on expected outcomes.
- Improving on the delivery mechanisms. In particular, the African countries will

have to finalise the regional instruments e.g. the regional funds in which priorities are as agreed among the member states. The effectiveness of the regional delivery mechanisms will depend on actions at national level given that the AfT programmes will cut across national borders.

- Developing monitoring and evaluation frameworks for the AfT programmes.
- Ensuring the participation of the private sector including having the right incentives that would justify its participation especially in regional projects.
- Coordinated support from the donor community. The lessons learnt from IF and JITAP and the commitments under Paris Declaration should guide the response on this issue of donor coordination.

IX. Conclusion

This brief paper has discussed the challenges that Africa faces in the area of trade and how the scope of the Aid-for-Trade is likely to address these challenges. Operationalising of the AfT initiative should come up with national and regional mechanisms that would effectively address these trade-related challenges as highlighted in the paper in looking ahead. The paper has also shown that there is consensus on the importance of AfT operationalisation in Africa, judging by the outcomes of the African Regional Review meeting on the initiative. The paper also suggests some of the issues that will have to be addressed as the international community and the African countries look ahead to the mobilisation of AfT resources for Africa.

Annex: Recommendations of the task force on Aid for Trade⁴

Mandate

The Hong Kong Ministerial Declaration invited the WTO Director-General to create a Task Force to provide recommendations “on how to operationalize Aid for Trade” and “on how Aid for Trade might contribute most effectively to the development dimension of the DDA”. It states that “Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access.”

Rationale

Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access. Effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries.

Financing

Additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate. The effectiveness of the following recommendations for operationalizing Aid for Trade requires substantial additional targeted resources for trade-related programmes and projects as pledged at the WTO’s Hong Kong Ministerial Conference, and against the background of the broader international commitment at the UN’s Monterrey Conference and the G8 Summits in Gleneagles and St. Petersburg to

significantly scale up development assistance by 2010. The Task Force urges the Director-General to seek confirmation from donors and agencies that funds are readily available for the implementation of the Aid-for-Trade initiative as part of his mandate to consult on “appropriate mechanisms to secure additional financial resources for Aid for Trade”.⁵ In order to measure additionality and the adequacy of funding available to meet the Aid-for-Trade needs of developing countries, including those associated with a successful completion of the DDA, an account of what is being done today needs to be established as part of that process. The Task Force urges donors and agencies to provide the necessary information in order to make it possible for the Director-General to fulfil his mandate.

Scope

The scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country’s national development strategies. In this regard, it should be pointed out that while the PRSPs⁶ reflect national development priorities for some countries, other development strategies are equally important and will need Aid-for-Trade financing. At the same time, clear and agreed benchmarks are necessary for reliable global monitoring of Aid-for-Trade efforts to assure accurate accounting and to assess additionality. The following categories, building upon the definitions used in the Joint WTO/OECD Database, have been identified:

- (a) *Trade policy and regulations, including:* training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.
- (b) *Trade development, including:* investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.
- (c) *Trade-related infrastructure, including:* physical infrastructure
- (d) *Building productive capacity*
- (e) *Trade-related adjustment, including:* supporting developing countries to put in place accompanying measures that assist them to benefit from liberalized trade.
- (f) *Other trade-related needs*

Reporting on categories (a) and (b) should follow the definitions in the Joint WTO/OECD Database. The activities that fall outside of the current Joint WTO/OECD Trade Capacity Building Database definition, i.e. category (c), (d) (e) and (f) should be reported as Aid for Trade when these activities have been explicitly identified as trade-related priorities in the recipient country’s national development strategies, such as the PRSP.

Challenges/Gaps

Since the start of the DDA in 2001, donors have stepped up their commitments on trade-related assistance. More developing countries are also integrating trade into their development strategies. But major challenges remain. These can include:

- Low attention to trade as a tool of development in recipient countries and in donor agencies.
- Insufficient trade mainstreaming in national development strategies and PRSPs.
- Lack of private-sector involvement in identifying trade needs.
- Limited absorptive capacity in recipient countries.

- Inadequate linking mechanisms and lack of predictability in donor response to trade priorities identified at the national and regional levels.
- Lack of coordination and coherence in donors' trade-related response.
- Slow, duplicative and bureaucratic processes in the assessment and delivery of trade assistance, including burdensome parallel structures within recipient countries.
- Lack of data on, and analysis of, trade policies and their impact on development, lack of easily-available information on existing Aid-for-Trade instruments.
- Ineffective monitoring of trade-related country policies and donor activities; absence of rigorous, independent project and programme evaluation and impact assessment.
- Limited support for regional, sub-regional and cross-border trade-related programmes and projects.
- Inadequate support to address the adjustment costs of trade liberalization.
- Insufficient resources for infrastructure and productive capacity building.
- Uneven country coverage.

Operationalizing Aid for Trade

Objectives:

- To enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs).
- To help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more.
- To help facilitate, implement, and adjust to trade reform and liberalization.
- To assist regional integration.
- To assist smooth integration into the world trading system
- To assist in implementation of trade agreements.

Guiding principles

Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved (donors, agencies and beneficiaries), including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of programme-based aid modalities, managing for result, transparency, and predictable and multi-year commitments, which should be built into all programming. Aid for Trade should be rendered in a coherent manner taking full account, *inter alia*, of the gender perspective and of the overall goal of sustainable development. Administrative costs associated with the delivery of Aid for Trade should be minimized to ensure that the resources go to the actual implementation of identified priority projects and programmes. The competence and skills of the human resources available at national and regional levels should be used in an optimal way.

Strengthening the “demand side”

A commitment to country ownership and country-driven approaches – as well as a commitment of governments to fully mainstream trade into their development strategies – is key to the effectiveness of Aid for Trade. In some countries, the processes for mainstreaming trade into national development strategies, for formulating trade strategies, and for proposing priority trade projects for donor financing, need to be strengthened through technical assistance and capacity building to help developing countries put in

place effective and sustainable trade policy frameworks and processes. Where consultative mechanisms already exist, they can be used – or improved upon. Value-chain analysis could be one valuable tool to identify trade needs.

The Enhanced Integrated Framework (IF) for LDCs. The purpose of the IF is to strengthen the LDCs' trade capacity, including the ability to identify their trade needs and to propose priorities to be supported by development partners. The recommendations on an enhanced IF, as agreed by the Integrated Framework Steering Committee (IFSC), will be an essential foundation for strengthening the demand-side of Aid for Trade in LDCs.

Non-LDCs. Many other developing countries also need support to mainstream trade into national strategies, to establish broad-based consultation processes involving the private sector, civil society organizations and relevant government agencies to formulate trade strategies, to develop action matrices, and to formulate priority project proposals.

Regional needs. Some of the constraints facing developing countries are regional, sub-regional or cross-border in nature. These needs should be identified and properly addressed. Regional organizations, including regional banks, regional integration organizations and regional economic communities, may play a role in assisting countries to identify such needs.

Recommendations:

- Implement the recommendations for an enhanced Integrated Framework.
- Establish effective national coordination, involving all relevant stakeholders, including the private sector, with a view to identifying the strengths and weaknesses of economies as a whole, and the particular challenges facing the trade sector.
- Explore the necessity of establishing a similar, but separately funded, in-country-process for non-LDCs "International Development Assistance (IDA)-only" countries, if such mechanisms do not already exist or can be improved upon.
- Urge agencies, donors and governments in other developing countries to work together to establish similar processes if they do not already exist. These processes should be modelled to the specific circumstances and needs of the country concerned, building on what already exists where possible and appropriate.
- Urge donors and agencies, together with regional banks and organizations, to step up their efforts to identify regional, sub-regional and cross-border needs, including those related to regional integration.
- Establish a system of data collection and analysis at country level.

Strengthening donor “response”

Donor policies. Donors should give more attention to trade issues in their aid programming and strengthen their trade expertise both in the field and at headquarters. There is a need for improved coordination of staff working across sectors and for greater trade mainstreaming in aid agencies' programmes.

Donor coordination. Greater donor and agency coordination and harmonization of procedures – at both the local and global level – is critical. Trade-related programmes and projects should be more coherent, both in terms of operations and policy.

Donor response. In allocating resources for Aid for Trade, donors and agencies should be guided by priority projects and programmes identified by developing countries, as well as by their potential merit in relation to the objectives for Aid for Trade. These priorities should be mirrored by donor and agency support. Each agency would need to determine how to deploy or reorient its financial and technical assistance to support either capacity building or accompanying measures related to trade liberalization.

Recommendations:

Donors and agencies should:

- integrate trade and growth issues more effectively in their aid programming;
- further strengthen their trade expertise both in the field and in capitals;
- use needs assessment processes (where available), and their results, as a basis for their programming;
- move towards a programme/sector/budget approach, if country owned, if mainstreamed in national development strategies and if a robust system of financial accountability is in place;
- make targeted funds available for building infrastructure and removing supply-side constraints – over and above capacity building and technical assistance – perhaps as co-financing with multilateral development banks; and
- consider channelling Aid-for-Trade Funds multilaterally, when appropriate.

*Strengthening the bridge between “demand” and “response”**Country level*

Matching. Strengthened in-country structures, with improved links to donor financing, are needed to help move from trade-related diagnostics to implementation, and to maximize access to multilateral and bilateral resources. The task of matching demand for Aid-for-Trade projects with response could be addressed by strengthening national coordination through a “National Aid-for-Trade Committee”, which would include recipient countries, donors, and other relevant stakeholders, such as the private sector, under the leadership of relevant ministries. This committee should complement – not replace – existing PRSPs and other coordination mechanisms. If needed, this process could be supported by agencies that could serve as a clearing house.

Mainstreaming trade. Effectiveness in implementing Aid for Trade will depend on many actors working together in a coherent way. It will involve, for example, the World Bank, the IMF, regional development banks, UN agencies and donors at the national as well as the international level, and trade, agriculture, development and finance ministries at the national level. It is the responsibility of donors, agencies and recipients to do their part in reforming how those entities integrate trade into development and national strategies.

South-South cooperation. Technical cooperation among developing countries is a valuable tool to deliver effective results because of their common experience and understanding of the challenges they face. The valuable technical expertise of the South could be used to implement projects through triangular schemes of cooperation.

Private sector. As actors in the field, private enterprises are well placed to identify trade-related problems and bottlenecks. An increased dialogue between the public sector and private entrepreneurs would improve effectiveness in assessing Aid-for-Trade needs, in diagnostics, and in implementation, as well as in evaluating effectiveness in implementation.

Recommendations:

- Recipient countries should mainstream trade into national strategies, such as PRSPs, formulate trade strategies, and propose priority trade projects for donor financing.
- The division of responsibility for funding and implementing Aid-for-Trade projects and programmes should be addressed through country-based processes such as PRSPs or Consultative Groups, if necessary complemented with a partner conference focusing specifically on trade-related support, convened once countries have integrated trade into their national strategies.

- A National Aid-for-Trade Committee could be established, where necessary, to ensure trade mainstreaming in national development strategies, determine country needs, set priorities, assist in matching "demand" and "response", and help in evaluation. Tasks could include identifying co-financing or leveraging funds from other larger funds, as well as assessing adjustment needs and brokering financing for such programmes. Recipient countries could request agencies to perform a coordinating role.
- Partners should commit to contributing to the implementation of trade strategies and identified priority projects and programmes. The resulting plan should incorporate a results-based management framework resting on – and reinforcing – mutual accountability. Indicators of progress should be agreed.
- Promote the involvement of local, regional and private-sector actors, as well as South-South cooperation through triangular schemes.

Regional level

Many countries require cross-border infrastructure and regional policy cooperation to trade more effectively. The ability to identify cross-border and regional needs should be strengthened at the country, regional and multilateral level. Once needs have been identified, donors and agencies must improve their ability to respond. In particular, assistance in formulating and financing accompanying measures could help to make regional integration an effective building block for the multilateral trading system. At the forthcoming September Development Committee Meeting, strengthening support for regional, sub-regional and cross-border needs will be discussed.

Recommendations:

- Strengthen the following functions in relation to regional, sub-regional and cross-border issues:
 - diagnosis of needs;
 - costing of projects;
 - preparation of project proposals; and
 - the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes, (e.g., cross-border infrastructure and policy-integration projects).
- Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms, including those at the multilateral and regional level, before considering a new mechanism. In exploring the most efficient solution, the conclusions from the discussions at the forthcoming Development Committee should be taken into account. Any solution should involve all relevant stakeholders and give priority to existing regional integration programmes that lack funding.
- Explore the merits of establishing a Regional Aid-for-Trade Committee, comprising sub-regional and regional organizations and financial institutions, to oversee the implementation of the sub-regional and regional dimensions of Aid for Trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation.

Global level

A number of tasks in relation to AFT are best performed at the global level. These include: *Data collection*. Lack of empirical data has made it difficult to examine the relationship between policies related to trade and development performance. Better data and statistics are a precondition for better understanding the process of globalization and its impact, and for determining priorities for development cooperation.

Knowledge creation and sharing. Dissemination of Aid-for-Trade evaluation results, development of best practices and guidelines, and facilitation of information sharing, involving all relevant actors, needs to be improved at the global level, in order to assure efficient use of Aid-for-Trade funds.

Channelling donor funding. Some donors might wish to direct Aid-for-Trade funds through multilateral channels, which would allow them to support Aid for Trade without having to build their own institutional capacity in this area and without getting involved at country level. This could include providing support for processes similar to the IF for non-LDC IDA-only countries.

Matching. While a clearing-house function should in most cases be performed at the country and the regional level, sessions dedicated to specific themes and groups of countries could be periodically organized to provide a platform for donors and developing countries to discuss specific gaps which may occur in the implementation of Aid for Trade. One important function could be to connect outstanding Trade-Related Assistance (TRA) needs to donors willing to contribute to their fulfilment.

Recommendations:

- Strengthen the following functions in relation to global issues:
 - the collection and analysis of data on trade policies and their impact, the facilitation of knowledge sharing, and the development of guidelines. Funding for such activities needs to be secured;
 - provision of information on existing AfT instruments and expertise; and
 - matching and brokering unfunded TRA-needs and available donor funding for such projects and programmes.
- Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms before considering the establishment of a new clearing house at the global level.

Strengthening monitoring and evaluation

Monitoring and evaluating progress is essential in building confidence that increased Aid for Trade will be delivered and effectively used. It will also provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda. It is important to emphasize the need for concrete and visible results on the ground. All the providers of Aid for Trade and the recipient countries have the responsibility to report on progress and results.

Monitoring. In recipient countries, monitoring should cover trade mainstreaming in national strategies, such as PRSPs, the identification of priority needs, donor responses, progress in implementing trade-related projects and programmes as well as the impact of these efforts. Donors who have made commitments to Aid for Trade should report on the content of such commitments as well as on how they plan to meet the targets for Aid for Trade that they have announced.

Evaluation. Rigorous Aid-for-Trade programme evaluation is particularly important because projected significant increases in Aid for Trade may stretch the delivery capacity of donors and the absorptive capacity of recipients. In-depth country-impact evaluations of Aid-for-Trade programmes should be undertaken to build knowledge and facilitate a results-based approach to delivery. Evaluation of in-country processes should focus, *inter alia*, on progress in mainstreaming trade in national development plans. Evaluations should adopt a results-based approach in order to ensure effectiveness of Aid-for-Trade programmes in relation to the objectives.

Recommendations:

- A global periodic review of Aid for Trade should be convened by a monitoring

body in the WTO, based on reports from several different sources, to be published if feasible on the WTO web page:

- from the country level;
 - from donors;
 - from the regional level;
 - from relevant multilateral agencies; and
 - from the private sector.
- Mechanisms to facilitate reporting to the global monitoring body should be enhanced, including the possibility of a notification process for WTO Members.
 - The global periodic reviews should be followed by an annual debate on Aid for Trade convened in the WTO General Council to give political guidance on Aid for Trade.
 - Recipient countries should report on the trade mainstreaming in national development strategies, such as the PRSPs, the formulation of trade strategies, Aid-for-Trade needs, donor responses, and implementation and impact. The primary responsibility for reporting to the global monitoring body would lie with the National Aid-for-Trade Committee.
 - Donors should report on funds dedicated for Aid for Trade, how they intend to meet their announced Aid-for-Trade targets, the Aid-for-Trade categories covered, and their progress in mainstreaming trade into their aid programming.
 - Multilateral and regional actors should be encouraged to report regularly on their Aid-for-Trade activities, progress and impact. When appropriate these actors – including the OECD/DAC – should be asked to assist in providing input and in the organization of the periodic Aid-for-Trade review in the WTO.
 - The private-sector should be provided an opportunity to report on their Aid for Trade contributions.
 - An assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews.
 - Evaluation of country-needs identification, trade mainstreaming in national strategies and PRSPs, donor response and impact on the ground in relation to stated objectives, should be promoted and funded.
 - The scope of the Joint WTO/OECD Database should be reviewed in light of the Task Force's definition of Aid for Trade. It should also be updated based on more accurate identification of needs (and the responses) by both providers and recipients of Aid for Trade.

How Aid for Trade can contribute to the Development Dimension of the DOHA-Round

Aid for Trade is important in its own right. It should assist developing countries to benefit from increased trade opportunities multilaterally (both from previous rounds and from the anticipated results of the DDA), regionally, bilaterally and unilaterally. The Task Force therefore recommends that Aid for Trade must be operationalized as soon as possible. At the same time, the Task Force affirms that Aid for Trade is a complement, not a substitute, for a successful Doha Round. Increasing trade opportunities for developing countries, in particular the least-developed among them, remains the most important contribution that the WTO can make to development. A successful conclusion of the Round will increase the need for assistance to implement new agreements (e.g., Trade Facilitation), to ease adjustment costs, and to make use of new market access. Aid for Trade is a complement to the Doha Round, but it is not conditional upon its success.

Next Steps

These recommendations are directed to many different actors. The Task Force suggests the following next steps:

- urges Members to expeditiously implement the recommendations of the Task Force;
- urges the Director-General to use these recommendations in pursuing his mandate to consult on "appropriate mechanisms to secure additional financial resources for Aid for Trade" so that the joint mandate in Paragraph 57 of the Hong Kong Declaration can be implemented in a holistic manner;
- invites the Director-General to communicate these recommendations to relevant agencies and organizations and to urge Ministers at the upcoming Development Committee Meeting in Singapore to give consideration to these recommendations and to encourage the Bank and the Fund to ensure adequate follow-up and to report on the results at the 2007 Annual meeting;
- invites the Director-General to continue, under his coherence mandate, a dialogue on how recommendations targeted at the agencies could be implemented, including where responsibility for implementation should lie;
- invites the Director-General to establish an ad hoc consultative group to take forward the practical follow-up of these recommendations;
- invites the Director-General to begin examining how to implement the recommendations regarding WTO monitoring of Aid for Trade;
- invites the Director-General to convene, at an appropriate time, an initial review of Aid for Trade, with the participation of all relevant stakeholders; and
- suggests, after the completion of the DDA, that the Secretariat conduct an assessment of associated Aid-for-Trade needs in developing countries, particularly those most affected, including LDCs, and of how Aid for Trade can contribute to the development dimension of the DDA.

Notes

¹ Paragraph 57 of the Hong Kong Ministerial Declaration., WT/MIN/DEC, 22 December 2005.

² OECD (2005) Paris Declaration on Aid Effectiveness, DCD/DAC/EFF (2005) Final. OECD Paris.

³ The European Union has already indicated that the large proportion of its Aid for Trade pledge is going to be used for the implementation of the EPAs by the ACP countries.

⁴ WTO/AFT/1 27 July 2006.

⁵ In Hong Kong, Japan announced development assistance spending on trade, production and distribution infrastructure of \$10 billion over three years, the US announced Aid-for-Trade grants of \$2.7 billion a year by 2010, and the EU and its member States announced trade-related development assistance spending of €2 billion per year by 2010.

⁶ Poverty Reduction Strategy Papers (PRSPs) describe the macroeconomic, structural and social policies and programmes that a low income country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing. They are country-led, country-written documents prepared by governments through a participatory process involving domestic stakeholders and external development partners, including the World Bank and the IMF.

AID FOR TRADE AND PUBLIC-PRIVATE PARTNERSHIPS

United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)

Abstract

Aid for trade (AfT) has achieved increased attention particularly since the Ministerial Declaration of the Sixth WTO Ministerial Conference of the World Trade Organization (WTO) made explicit reference to the need for aid to countries to increase their capacity to implement WTO agreements as well as to build their supply-side responses so that they can facilitate trade and benefit from enhanced market access. The paper explores the need for and rationale behind AfT in the Asian and Pacific region. It considers the role of the United Nations, in particular that of regional commissions, in AfT. The paper highlights the fact that AfT is a multi-stakeholder and multi-actor initiative in which Governments and the private sector have roles to play. The paper explores various modalities for AfT by Governments, international organizations, business and, in particular, public-private partnerships. Related to this, the paper reviews trade facilitation initiatives in the region, including the possible convening of the Asia-Pacific Forum for Efficient Trade (AFET) by the end of 2007.

I. Introduction

Aid for trade has attracted increased attention particularly since the Ministerial Declaration of the Sixth WTO Ministerial Conference of the World Trade Organization¹ made explicit reference to the need for aid so that countries could increase their capacity to implement WTO agreements, as well as build their supply-side responses in order to facilitate trade and benefit from enhanced market access. This paper sheds light on the background and rationale for AfT, making particular reference to the Asian and Pacific region (section 2). In particular, the paper highlights the fact that AfT is a multi-stakeholder and multi-actor initiative in which Governments and the private sector have roles to play. For that purpose, the paper explores various modalities for AfT by Governments and business, and in particular public-private partnerships (section 3). Related to this, the paper reviews public-private partnerships in trade facilitation initiatives in the region, including the possible convening of the Asia-Pacific Forum for Efficient Trade (AFET) by the end of 2007. Section 4 discusses the role of ESCAP and other United Nations agencies in AfT.

II. Aid For Trade: background and relevance to the Asian and Pacific region

A. Background

An oft-quoted slogan, to the point of overuse, has been: “trade, not aid” as it has been universally recognized that trade leads to growth and development. Since the end of the Second World War, official development assistance (ODA) has continued to increase in the post-war period. But by the mid-1980s, it became evident that the impact of ODA had remained limited while trade barriers remained high. This prompted many developing countries to call for better market access. At the same time, concerns were expressed with regard to the effectiveness of ODA, the absorptive capacity of developing countries, and the perception that often aid was “tied” to donor-driven agendas and conditionalities, including the structural adjustment programmes of the Bretton Woods institutions. ODA flows were further put into perspective by the rapidly rising flow of private funds, in particular foreign direct investment (FDI). All these led to a decline in ODA flows and at the same time market access increased as a result of the Uruguay round and proliferating regional trade agreements. Soon it became apparent that even with better market access, developing countries may not have the capacity to compete internationally apart from the traditional commodity trade from which they were urged to diversify. Hence, trade-related official

development assistance, once again assumed more importance and the “Aid for trade” concept gained momentum.

Since 1995 and the establishment of WTO, the impetus of trade-related technical assistance (TRTA) has continued to increase. The link between trade and development was emphasized in the preamble to the Marrakesh Agreement Establishing the World Trade Organization, while the Marrakesh Declaration of the General Agreement on Tariffs and Trade (GATT) recognized “the need for strengthening the capability of GATT and the WTO to provide increased technical assistance in their areas of competence, and in particular to substantially expand its provision to the least-developed countries”. Thus, while the principal function of WTO is not development per se, the organization has been traditionally engaged in providing technical assistance to developing countries to ensure their effective integration in the multilateral trading system and to help them to benefit from it.

The emphasis on TRTA for the least developed countries (LDCs) received further momentum with the establishment of the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries at the First Ministerial Conference of WTO, held in Singapore in 1996. The Integrated Framework represents the first attempt at providing TRTA in an organized, multi-agency, multi-donor coordinated programme. The participating agencies are the International Monetary Fund (IMF), International Trade Centre UNCTAD/WTO, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Bank and WTO. The objectives of the Integrated Framework are as follows:

- (a) To “mainstream” (integrate) trade into national development plans, such as the poverty reduction strategy papers of LDCs;
- (b) To assist in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDCs. The Integrated Framework is built on the principles of country ownership and partnership.

The Integrated Framework served as a pilot that laid the foundations for AfT. It has encountered numerous problems, notably the lack of additional funding to implement trade-specific programmes, but it did pave the way for “more” coordinated delivery of TRTA at the global level. Since 2006, efforts have been taken to strengthen the Integrated Framework and enhance its implementation.

The need for TRTA has been emphasized in subsequent ministerial declarations of WTO. In particular, the Doha Declaration,² launching the latest round of multilateral trade negotiations – the Doha Development Agenda (DDA) – restates that “international trade can play a major role in the promotion of economic development and the alleviation of poverty” (paragraph 2). Paragraphs 38 to 41 specifically deal with TRTA and identify specific purposes for which TRTA should be delivered. In particular, “the delivery of WTO technical assistance shall be designed to assist developing and least developed countries and low-income countries in transition to adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership, including drawing on the benefits of an open, rules-based multilateral trading system” (paragraph 38). Paragraph 39 recognizes the need for coordination and underscores “the urgent necessity for the effective coordinated delivery of technical assistance with bilateral donors, in the OECD Development Assistance Committee and relevant international and regional intergovernmental institutions, within a coherent policy framework and timetable”. Paragraph 43 endorses the Integrated Framework “as a viable model for LDCs’ trade development” and urges “development partners to significantly increase contributions to the Integrated Framework Trust Fund and WTO extrabudgetary trust funds in favour of LDCs”.

Paragraphs 48 to 51 of the Ministerial Declaration of the Sixth WTO Ministerial Conference in Hong Kong, China again reiterate the ministers’ high priority to the effective implementation of the Integrated Framework and their endorsement of the Integrated Framework as a viable

instrument for LDCs' trade development, building on its principles of country ownership and partnership. In particular, ministers highlight the importance of contributing to reducing their supply-side constraints. Paragraphs 52 to 54 deal with TRTA, re-emphasizing the need for TRTA and specifically invite the WTO Director-General "to reinforce the partnerships and coordination with other agencies and regional bodies in the design and implementation of technical assistance programmes, so that all dimensions of trade-related capacity building are addressed, in a manner coherent with the programmes of other providers."

Paragraph 57 of the above-mentioned Ministerial Declaration for the first time makes reference to "aid for trade" and states that AfT "should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade". As such, WTO members for the first time explicitly recognized that AfT and multilateral trade negotiations are inextricably linked. They also emphasized that AfT should not be linked to "quid-pro-quo" bargaining and that more aid should not be a substitute for increased market access benefits for developing countries. The Declaration called for a task force to make recommendations on how to operationalize AfT. After its formation, the Task Force presented its report to the WTO General Council on 27 July 2006.³

B. Conceptualization and operationalization of the Aid for Trade: an ongoing process

The recommendations of the Task Force are comprehensive. The report states that "the scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part". It identifies the following categories of AfT:

- (a) Trade policy and regulations, including training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards;
- (b) Trade development, including investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development;
- (c) Trade-related infrastructure, including physical infrastructure;
- (d) Building productive capacity;
- (e) Trade-related adjustment, including supporting developing countries to put in place accompanying measures that assist them to benefit from liberalized trade;
- (f) Other trade-related needs.

The Task Force also identifies challenges and gaps and makes recommendations concerning the operationalization of AfT, at the multilateral, regional and national levels. It recommends, inter alia, that the "demand side" and use value-chain analysis as one valuable tool be strengthened in order to identify trade needs. It makes reference to and recommendations for an enhanced Integrated Framework, which implies that the Integrated Framework forms an integral part of AfT.

With regard to the regional-level implementation of AfT, the report recognizes that "many countries require cross-border infrastructure and regional policy cooperation to trade more effectively. The ability to identify cross-border and regional needs should be strengthened at the country, regional and multilateral level". In particular, the Task Force recommends strengthening the following functions in relation to regional, subregional and cross-border

issues: “diagnosis of needs; costing of projects; preparation of project proposals; and the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes, (e.g., cross-border infrastructure and policy-integration projects)”. In this context, it is recommended the establishment of a regional aid for trade committee, “comprising subregional and regional organizations and financial institutions, to oversee the implementation of the subregional and regional dimensions of Aid for Trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation”.

For simplicity sake and without prejudging the final outcome of current international efforts to define and operationalize AfT, AfT could be defined as financial and technical assistance from multiple sources for the following purposes:

- (a) Increase the capacity of Governments to effectively negotiate, conclude and implement multilateral, regional and bilateral trade agreements, including accession to WTO;
- (b) Increase the production capacity of businesses and their capacity to effectively compete internationally, i.e., to enable them to effectively utilize gains from increased market access as a result of concluded trade agreements.

Within these two broad dimensions of AfT, many other subdimensions can be identified the importance of which depends on individual country needs. It is understood that the needs are most urgent in LDCs and other less developed countries with specific development constraints, such as being landlocked, those in transition to a market economy, those of small size and island developing countries.

The trade negotiation dimension of AfT centres on human resources development and institutional capacity-building, including strengthening the legal framework for WTO compliance and enhanced capacity to negotiate and implement WTO agreements and commitments. With the adoption of bilateral trade agreements, some of which contain WTO-plus commitments, this dimension can be understood to include research and analysis on the design and contents of WTO-consistent agreements as well as capacity-building to negotiate and implement such agreements.

The second dimension of AfT, supply-side capacity-building, has assumed centre stage. This dimension not only addresses the need to raise the productive capacity of businesses but also to improve the environment in which businesses operate in order to enable them to compete effectively in international markets, such as through better institutional support and trade facilitation. The inclusion of infrastructure development, including transportation, energy and communications, is a debatable matter and no clear consensus seems to exist on this issue, in particular as it is difficult to determine to what extent infrastructure development for trade purposes can be distinguished from other purposes. However, the Doha Development Agenda Trade Capacity Building Database includes this category separately from TRTA and capacity-building (TRTA/CB). Similarly, the issue of inclusion of debt relief for AfT purposes is also a moot point.

A recent WTO note⁴ on AfT identifies three principles for future work on AfT:

- (a) AfT must be a complement to, not a substitute for, results from the Doha Development Agenda;
- (b) AfT must not have to compete for existing ODA flows with other development and poverty reduction priorities (this was a problem for the Integrated Framework);
- (c) The case for attracting AfT to implement WTO agreements and build trade-related capacity more broadly must have the commitment of trade, development and finance ministers in developed and developing countries, including LDCs, and the support of private business if it is to live up to its promise of catalysing their trade-related investment and production.

While there appears to be consensus that AfT is important, an emerging issue is to identify those recipient countries that should receive priority. In this context, Asia and the Pacific so far has not figured prominently. However, a cogent case can be made explaining why this region can and should not be ignored. This case is taken up in the next section

C. Aid for Trade in Asia and the Pacific

1. Overview

According to the database on ODA of OECD Development Assistance Committee (OECD/DAC), total TRTA/CB worldwide was \$1.7 billion in 2005. Africa has emerged as the largest recipient of TRTA/CB, accounting for 36.4 per cent of total, while TRTA/CB for Asia and the Pacific⁵ amounted to almost \$331 million in 2005, or about 19.3 per cent of worldwide TRTA/CB (Table 1) and only about 1 per cent of total ODA to the region.⁶ This share has declined from a high of 30.6 per cent of global TRTA/CB in 2002. Of the total amount for Asia and the Pacific, the Pacific has received a negligible share, while South Asia received the highest share. The amounts have declined since a peak of \$473 million in 2002. However, it is difficult to assess the exact amount of AfT due to the different categorization of ODA and reporting formats among donor agencies and countries. For instance, according to the 2006 joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building, a total of \$3.1 billion was committed to TRTA/CB worldwide, a significant increase over the \$2 billion committed in 2001. These figures were obtained from the Doha Development Agenda Trade Capacity Building Database (TCBDB), an initiative of WTO and OECD.⁷ This database is much wider in scope and covers all global and regional programmes, including those for tourism. According to this database, total TRTA/CB for Asia and the Pacific (defined as Far East, South and Central Asia, including Caucasian countries and Afghanistan, and Oceania but not including the Islamic Republic of Iran and Turkey) amounted to about \$420 million or 14.6 per cent of the global amount in 2005.

Table 1.
Regional breakdown of trade-related technical assistance and capacity-
building, 2001-2005 (*Thousands of constant 2004 United States dollars*)

Region/year	2001	2002	2003	2004	2005
East Asia ^a	42 066	79 329	82 528	42 184	20 322
South-East Asia ^b	94 257	191 561	159 766	172 026	128 943
South Asia ^c	70 965	126 610	140 792	131 252	130 191
Central Asia ^d	109 370	62 809	64 310	90 674	46 211
Pacific ^e	8 423	12 486	4 617	7 550	5 043
Asia and the Pacific	325 081	472 795	452 013	443 686	330 710
World	1 251 054	1 541 128	1 761 283	1 826 577	1 716 968

Source: Doha Development Agenda Trade Capacity-Building Database of WTO and OECD.

Notes: ^a China, Democratic People's Republic of Korea and Mongolia.

^b ASEAN countries minus Brunei Darussalam and Singapore but plus Timor-Leste.

^c Includes all members of the South Asian Association for Regional Cooperation (SAARC) plus Afghanistan and Iran (Islamic Republic of).

^d Includes Caucasian countries of Armenia, Azerbaijan and Georgia.

^e Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia (Federated States of), Nauru, Niue, Palau, Papua New Guinea, Solomon Islands, Samoa, Tonga, Tuvalu and Vanuatu.

Country-level data only; regional assistance is excluded.

TRTA/CB, as accounted for by the above-mentioned statistics, is divided into two categories: (a) trade policy and regulations, and (b) trade development.⁸ Trade development has routinely captured the largest share in any given region. In 2005, the total volume of

commitments world-wide for trade policy and regulation amounted to \$906 million, while for trade development the amount was \$2.17 billion. For Asia and the Pacific (excluding the Islamic Republic of Iran and Turkey), the amounts were \$135 million and \$285 million respectively. However, when the much wider definition of AfT recommended by the Task Force is used (consisting of trade policy and regulations, trade development, economic infrastructure, building productive capacity and trade-related adjustments), total global committed AfT in 2005 amounted to almost \$26 billion or a combined share of 36.5 per cent of global sector allocable ODA.

It is expected, though, that AfT will continue to grow in absolute terms, especially if DDA is concluded. However, concerns have been raised not so much about the volume of AfT but rather about its effectiveness.⁹

2. Relevance of Aid for trade for the Asian and Pacific region

How relevant is AfT for the Asian and Pacific region? It is recognized that the region is home to the world's fastest growing economies, in particular China and India, which have amassed huge foreign exchange reserves. Against this, one question arises: compared with other developing regions of the world, is there really a need for TRTA and AfT in this region?

To answer the question, the following facts should be considered:

- (a) Asia and the Pacific is the largest and most diversified region in the world, both geographically and in terms of population. Two thirds of the world's poor live in the region. While it hosts some of the world's richest countries, it is also host to some of the world's poorest.
- (b) In this context, it is worth noting that the Asian and Pacific region accounts for 14 of the total number of 50 LDCs in the world. These countries face severe capacity constraints, since they do not necessarily have access to finance from the capital-surplus countries. In addition, despite significant progress, the incidence of poverty remains high in some of the high-growth countries as well. It is worth noting that LDCs have significantly increased their share in AfT since 1995.
- (c) Despite the availability of capital surpluses in some countries, such surpluses are not necessarily easily available for investment purposes and as sources of finance for development. In particular, foreign reserves by themselves do not constitute investment capital and some countries actually experience huge capital outflows to developed countries (in particular the United States) as a result of the long-term willingness of some countries to swap high-return domestic investment with low-yielding (United States) government bonds and other securities.
- (d) The Asian and Pacific region also accounts for a large number of economies not yet members of WTO; however, 12 of these have observer status and are in negotiations for full membership.
- (e) While the region may have more advanced developing countries and developing countries with a greater potential than those in some other regions, it could be argued that such countries may merit increased AfT to ensure that they can take full advantage of the emerging opportunities for trade. In other words, countries which show promise for development should be actively supported to enable them to keep the development momentum. Not surprisingly, middle-income countries have seen their share of total AfT grow significantly to almost 40 per cent since 1995. There is also evidence that, of all regions, the impact of AfT has been the greatest in Asia.¹⁰
- (f) While the region is awash with capital, demand for investment capital tends to outstrip supply. Already the needs for infrastructure financing far surpass the availability of available resources, both public and private.

For that reason, there is a strong argument in favour of delivering AfT to those most in need in the Asian and Pacific region, in particular, because the region is the world's most dynamic and as opportunities for economic growth and development, as well as for economic integration through trade and investment are abundant. It would be truly unfortunate if those opportunities are missed due to capacity constraints, and inadequate AfT to address those constraints. For instance, there are strong indications that sustained technical and financial assistance from multiple donors played a significant role in facilitating the accession to WTO of LDCs such as Cambodia and Nepal. While Africa has the Joint Integrated Technical Assistance Programme (JITAP), Asia and the Pacific does not have such a programme. A convincing argument could be made that a similar programme should be developed for Asia and the Pacific as well. Such a programme should have strong linkages with the Integrated Framework, and ESCAP could take a leading role in the coordination of such a programme.

Before delving further into the specific role of ESCAP in this process, section 3 below considers some modalities for public-private partnerships which could enhance the effectiveness with which AfT could be delivered in the ESCAP region.

III. Public-private partnerships in Aid for Trade

A. Concepts and modalities

AfT is a multi-stakeholder and multi-actor initiative in which Governments and the private sector have roles to play. In particular, it is increasingly evident that Governments cannot do the job on their own while the role of private capital as a source of finance for development has increased considerably.

Although trade negotiations seek to create new trading opportunities, the gains are meaningless unless the business sector actually benefits as a result of enhanced trade. However, businesses often find that they lack the capacity to compete effectively at the global or even regional levels. While AfT also seeks to develop government policies that would strengthen supply-side capacities, a cogent case can be made for businesses to participate actively in this initiative. After all, businesses are the principal agents for trade and investment.

AfT delivered through public channels remains limited, whereas the needs are real and increasing with the expanding complexities in the global and regional trading environments in an era of unabated globalization and regionalization. As trade and investment are primarily business transactions, the argument can be made that businesses could also assume an increasing role in providing technical and financial assistance to Governments, as well as to other, smaller and weaker businesses.

With regard to the provision of business support to Governments, public-private partnerships could be conceived which would set and formulate the national agenda for international trade negotiations. The government and business sectors could also collaborate in the implementation of trade agreements and commitments, including joint initiatives to reform and strengthen the national legal and institutional framework for trade and make it WTO-consistent. This would require active and institutionalized government-business dialogue and cooperation. The absence of a serious and inclusive dialogue in some countries has made the acceptance of international trade obligations more difficult at the national level and, hence, their implementation and compliance with their terms. Businesses, including small and medium-sized enterprises (SMEs), have an important stake in a successful negotiation outcome, and Governments need in-depth knowledge of the needs and requirements of business to be able to formulate the intended outcome and negotiation strategies. If Governments face capacity constraints on effectively conducting those negotiations, businesses could and even should help out; this applies in particular to the

more experienced and resourceful ones through the provision of expertise and assistance, for example in compiling the needed background information.

Public-private partnerships are also useful in developing supply-side capacities. For instance, in the agro-food sector, Governments (which provide the incentive and enabling legal environment), farmers (who need access to markets) and businesses (which sell seeds and provide farmers with technical support) combine market potential, technical competence and managerial skills to build the supply-side capacity of the sector.¹¹

With respect to the supply-side dimension of AfT, businesses could also provide assistance to other businesses. This argument is particularly relevant when one recognizes that competition takes place more and more at the level of supply-chains rather than at the level of individual businesses. Moreover, these supply-chains have assumed regional and global dimensions. Within those supply-chains, the larger businesses, not only transnational corporations but also large domestic enterprises, could benefit themselves by providing assistance to their smaller suppliers, such as the previously mentioned example of an agro-food business providing technical support to farmers. This could be done in the form of capacity-building to comply with prevailing standards in a given industry, as well as by providing financial support and training to facilitate the adoption by smaller businesses of the latest production technologies, management techniques and practices, and quality certificates among others. The supply-chain, after all, is only as strong as its weakest link. Businesses could help each other to optimize the strength of the whole supply-chain. This is indeed already taking place in some supply-chains, but could be more actively promoted. However, businesses could also help Governments and aid agencies analyse value chains to determine the need for AfT.

In considering modalities for business involvement in AfT one has to realize that increasingly the United Nations and official international organizations are assigned the role of the Government by donors in AfT programmes. Thus, while the modalities described below are based on business-government relationships, in some of them the Government's role can be complemented and/or replaced by the United Nations or international organizations. In general, there are two possibilities:

- (a) Business to Government: businesses could provide financial and technical assistance to Governments in order to strengthen the latter's capacity to negotiate, conclude and implement international trade agreements and facilitate accession to WTO. They can also fund public projects implemented for this purpose by multilateral aid organizations, such as the United Nations agencies. Businesses could also help Governments (and United Nations agencies) to provide assistance to other businesses in order to develop their trade capacity either through bilateral aid or through multilateral organizations, such as relevant United Nations agencies or through the provision of direct technical expertise (e.g., by participating in technical assistance activities as resource persons/consultants at own cost).
- (b) Business-to-business assistance: businesses fund and implement their own assistance within their own supply-chain or industry cluster. Such assistance already takes place. More often than not, it is transnational corporations which provide financial and technical assistance (including training) to their overseas suppliers, which are often SMEs in developing countries. Often, such assistance is provided to enable the suppliers to comply with the standards they set as buyers. Governments, in turn, can help by forging such linkages and strengthening international supply-chains which integrate their SMEs in the global economy.

Businesses will be naturally indisposed to provide funding for public projects without a clear financial return. After all, Governments are supposed to implement such projects on the basis of the revenue obtained, which to a large extent comes from taxation on businesses and their transactions, i.e., trade and investment. Often, taxation levels and the modalities

for levying taxes are cited as barriers to business and investment. Business will therefore be understandably wary of providing additional funds to public agencies. However, such funding would not be without return. If Governments simply have no capacity to negotiate international trade agreements, the results may have adverse effects on business. Businesses therefore have a stake in being closely involved in the negotiation process. At the minimum they should provide in-kind assistance by maintaining a close dialogue with the Government and participate in consultations regarding negotiation needs. More likely though, and already increasingly common, is business support to other businesses, often in the same supply-chain, which is to everybody's benefit. Such support does not have to be financial (unless a return on investment is expected) but can consist of providing technical expertise to ensure that the whole supply-chain functions at optimum efficiency and delivers a final top quality product or service. Finally, business support does not have to be financial but can consist of technical expertise provided free of charge to Governments and aid agencies. For instance, members of the ESCAP Business Advisory Council have participated in ESCAP-organized forums at their own cost.

Businesses of course already indirectly provide financial support for AfT. As recognized by the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, trade is a major source of financing for development, including trade development. As businesses are the primary agents of trade, obviously their activities provide revenue for development purposes. The exact linkages other than through taxes of business revenue to financing for development need further research and elaboration to more closely identify modalities for business involvement in AfT.

Although consistent calls are made for an increase in global ODA levels, including ODA for trade purposes, ODA remains limited and is subject to periodic declines. In fact, where ODA has increased it is often linked to foreign policy and security objectives, e.g., eradication of terrorism or humanitarian objectives such as disaster relief rather than for purposes such as AfT. Therefore, the public capability to provide sufficient funding for AfT will remain limited. As a result, and in their own interest, the role of business in AfT is expected to increase.

One of the areas which have been generally recognized as providing significant contribution to trade, growth and development is trade facilitation. It is now accepted as fact that, in countries where trade facilitation is not developed and functional, trade cannot flourish, and without trade, economic growth lags behind. Therefore, it is relevant to explore further how public-private partnerships could be harnessed to increase the effectiveness of AfT in the area of trade facilitation.

B. Public-private partnerships in trade facilitation

1. Overview

During the 1980s and 1990s, many small developing countries undertook comprehensive programmes of policy reform, structural adjustment and reducing trade barriers. Although open trade is essential for success in trade, they are far from sufficient. Countries also need infrastructure and institutions that will enable them to take advantage of export opportunities and compete in the global trading system. However, since its inclusion in DDA, more attention and recognition has been given to the importance of trade facilitation as a tool for developing countries to participate in, and benefit more from, global trade. Moreover, trade facilitation is one very important work area of AfT.

Trade facilitation involves many customs and other trade procedures that are required to move goods and services across national borders. In many developing countries often complex customs, inspection and logistic requirements deter the use of the most cost-effective trade corridors. Inadequate trade facilitation systems create an "efficiency penalty". According to the World Bank, antiquated trade administration in poor countries, combined with the failure

to adopt information technology in support of trade facilitation, accounts for a 7 per cent loss in the value of goods shipped. Facilitating trade requires simplifying administrative and commercial procedures for the movement of goods and services, investing in supporting infrastructure, and removing other barriers to trade flows. Both the public and the private sectors need to act to facilitate trade. Governments need to examine carefully their trade policies and procedures to ensure that these do not unnecessarily restrict trade. They must also commit to reducing delays and eliminating environments that foster illegal payments associated with implementing the policies and procedures that are in place. The private sector needs to lobby for reform and monitor the implementation of such reform.

In trade facilitation, collaboration among stakeholders, both private and public, enables the identification of critical trade and transport impediments and in defining alternative ways to achieve similar objectives at lower costs. Public-private partnerships can provide a forum where stakeholders can develop strategies to remove barriers to efficient trade. By involving private parties with competencies in trade and with vested interests in the success of their businesses, public-private partnerships can develop the most efficient and properly regulated supply chains.

The United Nations Centre for Trade Facilitation and Electronic Business put forth a recommendation specifically addressing the purpose, methods of creation, and operating structures of public-private partnerships under “Recommendation No. 4, National Trade Facilitation Bodies”.¹¹ The recommendation emphasizes the importance of these partnerships in order to among others:

- (a) Identify issues affecting the cost and efficiency of a country’s international trade;
- (b) Develop measures to reduce the cost and improve the efficiency of international trade;
- (c) Assist in the implementation of those measures;
- (d) Provide a national focal point for the collection and dissemination of information on best practices in international trade facilitation; and
- (e) Participate in international efforts to improve trade facilitation.

To be successful, potential parties to any partnership must overcome their traditional beliefs about Government and business intentions. For example, the trade community frequently hesitates to meet with Government representatives and express its thoughts and concerns for fear of possible retribution through government action. The Government often shares this reluctance for fear that the trader might somehow find a technicality in regulations that enables non-compliance with the rules. An environment in which trust exists between both parties provides a precursor to a good public-private partnership.

2. Public-private partnerships in trade facilitation in Asia and the Pacific

As discussed previously, AfT often uses channels of public-private partnerships and this is also applicable for the trade facilitation area. Institutionally, public-private partnerships could be promoted at three levels, namely the national, subregional and regional levels. The functions of institutions at the subregional and regional levels are identical except for broader membership coverage.

At the national level, national trade facilitation bodies can represent their countries in international and regional initiatives aimed at facilitating trade. Many public-private partnerships created to improve the efficiency of the supply chain are formed by the government entity with the greatest interest in modernizing the existing process. Smaller, growing economies can benefit greatly from the use of public-private partnerships in trade facilitation because those partnerships provide inputs for aspects of the economy that governmental ones would address in larger economies.

Given the multidisciplinary nature of trade facilitation and the involvement of a large number of stakeholders from the public and private sectors, the benefits of trade facilitation can be maximized, if it is undertaken based on public-private partnerships. Effective cooperation and coordination among all stakeholders is a fundamental prerequisite for the success of trade facilitation. A partnership between the public and private sectors could help to better define the real needs, improve transparency and information flows and encourage viable and sustainable solutions. Several members of ESCAP, including Azerbaijan, Armenia, Mongolia, Kyrgyzstan, Pakistan and Sri Lanka, have already established or are in the process of establishing national trade facilitation committees or other forms of a national trade facilitation coordination mechanism.

Public-private partnerships at the national level however should not be confined to the establishment of national trade facilitation bodies alone but may also extend to subsets of trade facilitation measures such as the operation of single-window systems. The Singapore TradeNet Systems, Dagang Net of Malaysia and Tradelink Electronic Commerce Ltd. of Hong Kong, China are prime examples of successful public-private partnerships in trade facilitation. There are other areas of trade facilitation where public-private partnerships can operate successfully. These areas should be further explored.

There are also many active subregional groupings such as SAARC, ASEAN and the Pacific Islands Forum. Since these groupings are all the creation of their own members, it would be useful if the various national trade facilitation committees from within such subregional groupings could be organized or grouped into a subregional trade facilitation forum, as they face many similar problems. As and when a region-wide forum is established, such groupings could then be invited as a member of that forum.

At all levels, trade facilitation networks that build on public-private partnerships could articulate appropriate recommendations for strategies and action plans for the implementation of relevant international and regional conventions, standards and tools. They could also develop regional knowledge in order to improve the trade facilitation environment of countries. Further, they could provide the stakeholders with a platform for coordination and harmonization of trade facilitation measures among countries and subregions. For example, for those trade facilitation measures that employ modern information and communication technology solutions, such as automated customs procedures, electronic single-window facilities and paperless trade environments, ensuring their interoperability at the regional level would be crucial. In such contexts, such a regional network could play a vital role.

Several intergovernmental meetings have sought to establish an effective regional mechanism to encourage more collaborative efforts to improve the implementation of international and regional conventions, standards and best practices, as well as to harmonize trade facilitation policies and measures in the Asian and Pacific region. Initially, the establishment of such a regional collaboration platform was proposed by the participants of the UNDP-ESCAP Regional Consultation on Issues in Trade Facilitation and Human Development, held in Bangkok on 16 and 17 August 2005, the International Conference on Strengthening Regional Cooperation for Managing Globalization held in Moscow from 28 to 30 September 2005, as well as the Commission at its sixty-third session in Almaty, Kazakhstan in May 2007. A similar request was made by some members of ESCAP at the second session of the Committee on Managing Globalization which was held in Bangkok from 12 to 14 October 2005.

Following these requests, ESCAP has been promoting the establishment of a regional network of subregional and national trade facilitation committees and other coordination mechanisms in the Asian and Pacific region, based on public-private partnerships. Its mission is to contribute to the effective implementation of trade facilitation in a coordinated and harmonized manner, and thus to increase the level of trade and competitiveness of the countries in the region. This initiative, the Asia-Pacific forum for efficient trade, would be aimed at championing efforts and initiatives for boosting trade and competitiveness

through the streamlining of trade and border-crossing operations, building capacity and enhancing cooperation in Asia and the Pacific.

AFET could provide countries in the ESCAP region with a regional platform and voice in defining trade-facilitation strategies and action plans at the regional and subregional levels as well as promoting the implementation of international and regional trade facilitation and border-crossing conventions, standards, best practices and other tools. It could also serve to showcase and exchange best practices and lessons learned in implementing trade facilitation measures and monitoring and evaluating the impact of these measures at the national level.

The above-mentioned aspirations could be achieved in the region through a network of government agencies, such as ministries of trade and finance, customs authorities and other organizations, including national trade-facilitation committees, chambers of commerce, single-window operators that are willing to commit their own resources to deliver products in order to cater to the trade-facilitation needs and priorities of policymakers and practitioners. The organization of regular AFET events would provide opportunities for representatives of Governments, business, civil society and academia to discuss current problems and plan future directions. The first such event is expected to be organized by the end of 2007.

IV. The role of ESCAP and other United Nations agencies

Various United Nations agencies, including ESCAP and the other members of the United Nations Trade Cluster, UNCTAD, the other regional commissions, UNDP, the United Nations Environment Programme, among others, have been mobilized to sustain the momentum towards the operationalization and implementation of the AfT initiative. The United Nations system is supportive of the AfT initiative and its developmental goals, which include helping to achieve sustainable development and poverty reduction. Such commitments are contained in, inter alia, the United Nations Millennium Declaration¹³ and the 2005 World Summit Outcome.¹⁴ To this end, to be effective, the United Nations system needs to promote a more coherent approach that could result in coordinated implementation of the AfT initiative. Currently, collective efforts are being undertaken to formulate a coordinated United Nations approach to AfT within the context of the United Nations Trade Cluster.¹⁵ The important role of regional commissions has been recognized in respect of the “experience and significant analytical capacity on trade matters in the regional commissions, including, in particular, in the context of regional and subregional trade agreements. The Commissions could thus contribute effectively to the Aid for Trade initiative, especially in relation to regional reviews and their follow-up.”¹⁶

As one of the United Nations regional commissions, ESCAP has long maintained a strong trade and investment programme in recognition of the need for regional-level TRTA. This programme has addressed both the market access and supply-side capacity-building aspects of AfT. The mandate of ESCAP focuses on promoting regional economic cooperation. Because trade and investment are by definition cross-border economic phenomena, trade and investment have assumed a central role in the activities of ESCAP, in recent years within the theme group of managing globalization. In parallel, the Task Force has clearly identified a need for a regional dimension to AfT. In this context, the following considerations are pertinent:

- (a) The needs for AfT are enormous, especially in the area of training and skills development. No agency by itself has the resources or capability to address all those needs.
- (b) At the same time, it is recognized that effective AfT requires a multi-disciplinary approach which few agencies possess. ESCAP’s strength is exactly the availability of multi-disciplinary expertise.
- (c) UNCTAD, as the principal United Nations agency in area of trade and development is the global forum for the integrated treatment of trade and development and the

related issues of finance, investment, technology and sustainable development. WTO, on the other hand, is the platform for negotiating multilateral trade rules, monitoring their implementation and handling trade disputes. WTO is not a donor agency and though it provides technical assistance it is supposed to find global and regional partners for TRTA. The International Trade Centre handles strategic and operational aspects of trade development, focusing on exports and, unlike UNCTAD and WTO, it deals directly with the business sector. None of these global trade-related institutions has a regional office.

- (d) ESCAP is the only United Nations agency in Asia and the Pacific addressing comprehensive trade, investment and economic integration issues with a regional focus. It addresses multilateral trade issues through concrete training in cooperation with WTO and addresses the proliferating bilateral and regional trade agreements in the region by tracking and rating them in an attempt to forge their consolidation and integration as building blocks of the multilateral trading system. In addition, ESCAP provides regional-level support for supply-side capacity-building in areas such as investment promotion, enterprise development and trade facilitation.
- (e) In recent years, a number of regional and subregional agencies started trade-related programmes (e.g., Asian Development Bank, UNDP). In view of its long experience and accumulated expertise as well as analytical capacity in this area, ESCAP offers effective support to such agencies.
- (f) ESCAP therefore is complementary to the other agencies rather than duplicative, and it stands to increase the impact of its activities through concrete partnerships. Such partnerships do indeed exist, such as the WTO/ESCAP Technical Assistance Programme. There is scope to expand further such partnerships as recommended by the Task Force.

Whatever its definition, AfT needs to be provided on multilateral, regional and national bases as the Task Force recommends. While WTO, UNCTAD and ITC are suited to provide such assistance at the global level, the regional commissions are ideally placed to fill the regional dimension, in particular as each Commission has a strong and long-established and well-recognized trade programme, as previously mentioned. At the national level, UNDP could take the lead. The Task Force makes a strong case for donor and agency coordination and effective monitoring and evaluation of AfT in all its dimensions. The role of the regional commissions will be further elaborated in the joint efforts of the United Nations agencies to operationalize the concept of AfT. In these efforts, due reference should be made to the recommendations of the Task Force.

In past years, ESCAP has launched various cooperative programmes with global organizations such as UNCTAD, WTO and ITC; subregional partners such as ASEAN, SAARC, the Economic Cooperation Organization, the Eurasian Economic Community and Shanghai Cooperation Organization; as well as with national institutes in member countries. Such cooperation constitutes an excellent example of the division of labour and joint efforts to produce greater impacts in servicing member countries.

Notes

- ¹ Held in Hong Kong, China, from 13 to 18 December 2005. See WTO document WT/MIN/(05)/DEC.
- ² The Doha Declaration on Trade-related Aspects of Intellectual Property Rights Agreement and Public Health was adopted by the Fourth Ministerial Conference of WTO, which was held in Doha from 9 to 14 November 2001. See A/C.2/56/7, annex.
- ³ See Recommendations of the Task Force on Aid for Trade, WTO, WT/AFT/1 of 27 July 2006.
- ⁴ See "Aid for Trade: WTO Work Programme on Aid-for-trade", Background Note (WT/AFT/W/26), 29 May 2007.
- ⁵ Unless defined differently, the term "Asia and the Pacific" refers to the area covered by the ESCAP members

and associate members, www.unescap.org/about/member.asp.

- ⁶ The data from this database differ somewhat from those in the TCBDB and do not include cross-country and regional level assistance. However, the TCBDB does not provide country-level data and defines Asia as including West Asia and Middle East, making it difficult to disaggregate the data for ESCAP developing countries only.
- ⁷ <http://tcbdb.wto.org>.
- ⁸ Trade policy and regulations covers support to aid recipients' effective participation in multilateral trade negotiations, analysis and implementation of multilateral trade agreements, trade policy mainstreaming and technical standards, trade facilitation including tariff structures and customs regimes, support to regional trade arrangements and human resources development in trade. Trade development covers business development and activities aimed at improving the business climate, access to trade finance, and trade promotion in the productive sectors (agriculture, forestry, fishing, industry, mining, tourism, services), including at the institutional and enterprise level; <http://tcbdb.wto.org>.
- ⁹ See for instance, *Aid for Trade: Making it Effective*, OECD, Paris, 2006 www.oecd.org/dataoecd/27/14/37198197.pdf.
- ¹⁰ See, for instance, the Rapporteur's Report of the OECD Policy Dialogue with Non-Members on Aid for Trade: From Policy to Practice, Doha, 6-7 November 2006, para 57, www.oecd.org/dataoecd/24/55/37819542.pdf.
- ¹¹ This point was made at the OECD Policy Dialogue with Non-Members on Aid for Trade: From Policy to Practice, which was held in Doha, on 6 and 7 November 2006.
- ¹² Adopted by the Working Party on Facilitation of International Trade Procedures, Geneva, September 1974. TRADE/WP.4/INF.33; TD/B/ASTF/INF.33 [Edition 96.1], and ECE/TRADE/242 of March 1999.
- ¹³ See General Assembly resolution 55/2 of 8 September 2000.
- ¹⁴ See General Assembly resolution 60/1 of 16 September 2005.
- ¹⁵ A concept paper on this issue is being developed by the Cluster, and a joint event involving UNCTAD and the regional commissions will be organized in parallel with the twelfth session of UNCTAD, which will be held in Accra, from 20 to 25 April in 2008.
- ¹⁶ See Summary of Conclusions of the United Nations System Chief Executives Board for Coordination on its first session, held in Geneva on 20 April 2007, CEB/2007/2-CEB (Rev. 24 May), para 38, p. 10.

AID FOR TRADE: SUPPORTING THE USE OF STANDARDS

The United Nations Economic Commission for Europe (UNECE)

The goal of the Aid for Trade (AfT) initiative is to nurture productive capabilities so that the opportunities of a more liberal trading system can be fully exploited by all countries. This paper focuses on aid specifically geared towards standards, as one key component of the AfT envelope. It takes a broad look at technical assistance and capacity-building in the area of standards, encompassing assistance by different actors, and for a wide spectrum of related objectives. The term “standards” will be used to refer to technical regulations that are developed for reasons of health, safety and environmental protection (among other goals), as well as voluntary and private standards that are designed to promote the smooth functioning of supply chains.

With traditional barriers to trade – such as tariffs and quotas – being progressively eliminated, the ability to comply with technical regulations and use international standards emerges as a key factor of success on national and international markets. The paper argues for increasing resources for assistance in trade-related standardization matters, and for resources being used to envision and implement tailor-made, coherent and integrated strategies that will enable the participation of developing countries and countries with economies in transition as full players in the standards-development process.

Participating as full players means identifying and defending national priorities with a full understanding of the terms of the debate, both within the relevant standard-setting institutions, and in the work underway in the WTO. Such effective participation requires expertise developed at a local level, through standards use, compliance with technical regulations, and research and development. Effective coordination among stakeholders is also needed so that expertise developed nationally through these activities translates into informed and effective participation at a regional and international or multilateral level.

Currently, the thrust of assistance in the area of trade-related standards is aimed at increasing compliance through the upgrading of the relevant infrastructure – such as metrology and conformity assessment laboratories - and human resource development. While this is valid, it needs to be recognized that compliance with regulations, standards’ use and participation in international standards-setting activities and WTO work are intrinsically linked, and projects in all these related areas should be developed as part of a coherent whole.

In more detail, the idea the paper exposes is that assistance in the area of trade-related standards, needs to focus on three priority areas:

- Strengthening the participation of developing countries and countries with economies in transition in the standards-related work underway in this area in the WTO as well as in the specialized technical institutions;
- Assisting firms and institutions as they respond to a growing pressure to comply with safety, quality and technical regulations of increasing complexity; and
- Promoting the use of standards as a means of making firms more productive and helping them move up the value chain in their own markets.

The first area of priority engages institutions as the key players, while the second two are more specifically directed to the business community. At the same time, the involvement of all the stakeholders across the board is a key factor of success, because the input of business is needed to identify a country’s priorities in international standards negotiations, and because business cannot successfully compete in heavily regulated markets without high-quality public infrastructure. Assistance is also needed in the overall coordination of work underway in standardization matters at a national and regional level.

The plan of the paper is as follows. Section 1 makes a case for increasing effective participation and promoting stakeholders' balance in standards-setting activities as well as in the work of the WTO SPS and TBT Committees. Sections 2 and 3 discuss how business can benefit from compliance with technical regulations as well as an increased use of standards. Section 4 describes on-going and completed technical assistance and capacity-building projects in the field of trade-related standards. This is based on data available in the WTO Trade Capacity-building Database and a review of efforts to ensure consistency between needs and disbursements, as well as in the approach used by various executing agencies involved. Section 6 summarizes and draws policy conclusions.

I. Mobilizing stakeholders for effective participation

It is essential that there be effective participation in the regional and international work on trade-related standards during two crucial phases: (i) in the negotiation of new standards and the amendment of existing ones; and (ii) in the monitoring of the use of technical regulations to ensure against protectionist intent.

A. Effective participation in the WTO Committees on Sanitary and Phytosanitary Measures (SPS) and on Technical Barriers to Trade (TBT)

The TBT and the SPS committees of the WTO are mandated to work to avoid unnecessary obstacles to trade from standardization-related activities and sanitary and phytosanitary measures. The participation of developing countries and countries with economies in transition in these committees is essential to ensure that the agreements are implemented effectively and bring tangible benefits to the business community.

Establishing enquiry points and national notification authorities in all WTO member countries remains a priority. These provide information about domestic regulatory developments to the WTO membership and also relay to national stakeholders information pertaining to new regulations introduced by trading partners.

As of January 2008, and 13 years after the entry into force of the agreement, 18 countries had yet to establish a TBT enquiry point¹. As regards SPS, 20 countries have yet to establish a national notification authority² and 12 an enquiry point³.

Together the enquiry points and national notification authorities can be thought of as an entry point that will enable a country to participate in the work of the committees, at first "passively", by attending meetings and notifying relevant national measures, and progressively in a more active way, by putting forward expressions of concern and initiating dispute resolution procedures.

In the space of just a few years, both passive and active participation by developing and least developed countries in the work of the committees has greatly increased, albeit from a low basis⁴. To further increase participation and make it more effective a number of concerns need to be addressed.

First, as attending the meetings of the TBT and SPS Committees severely stretches the budgets of national Governments, financially supporting the attendance of delegates from developing countries and countries with economies in transition should remain a priority. However, assistance for this purpose, which falls under the aid-for-trade category of "trade policy and regulations" (TPR), accounts for the smallest share of aid-for-trade flows, at merely 3 per cent. It even decreased 20 per cent during the period from 2002 to 2005.⁵ More recently, however, and according to the joint WTO/OECD database, the annual growth rate over the baseline period is 3 per cent, reflecting assistance from the Trade Capacity-building Trust Funds.⁶

Second, the large volume of notifications poses considerable challenges for the enquiry

points and national notification authorities of developing countries and countries with economies in transition. For instance, 947 notifications were submitted in the period from 1 January to 28 September 2007, bringing the total number of SPS notifications submitted since the entry into force of the Agreement to 8,313 by October 2007⁷. To ease the strain that this implies for countries, the WTO secretariat has recently established the “SPS Information Management System”, which allows users to track and obtain information about SPS measures in all member countries⁸.

An interesting initiative has simultaneously been developed at a regional level by the Brazilian National Institute of Metrology, Standardization and Industrial Quality (INMETRO). INMETRO operates two online information services for exporters: Using the “Solicitação de Informações” information service, exporters can obtain information about technical requirements their products have to comply with in foreign markets. And by subscribing to the Alerta Exportador e-mail notifications, they will receive early warning of notifications of new draft technical regulations and conformity-assessment procedures issued by WTO Member countries. More than a million Brazilian exporters currently use this service, which INMETRO provides free of charge to exporters in all four MERCOSUR countries. With sufficient funding, this Brazilian initiative could be replicated in other regions⁹. Regions such as the Pacific Islands that are very remote and find it costly and difficult to participate in these highly technical activities, have requested that a regional body assists them in the implementation of their TBT-SPS obligations.

A key area of concern for enquiry points is the lack of sufficient scientific and technological capacity to evaluate the potential impact of new measures for their domestic stakeholders. For example, enquiry points may have insufficient understanding about new hazards for which scientific expertise is predominantly based in developed countries. Or they may lack surveillance, toxicological and epidemiological data based on their own particular circumstances to challenge notifications of new SPS measures. Training and capacity-building are then essential for reinforcing participation by developing countries and countries with economies in transition. Making sure that enquiry points have sufficient time to respond to notifications – and that the notifications are translated into their working languages - are also important priorities.¹⁰

Countries that are acceding to the WTO also benefit from assistance in implementing the requirements of the SPS and TBT agreements. An interesting extension of the projects underway would be to establish a body similar to an enquiry point in accession countries. This entity would be responsible for relaying information about regulatory changes in main export markets to national exporters.

B. Standards-setting institutions: representation of the interests of developing countries and countries with economies in transition

The work of the TBT and SPS committees hinges on standards that are developed in relevant regional and international standards-setting institutions including the Food and Agriculture Organization (FAO), the Codex Alimentarius Commission, the United Nations Economic Commission for Europe (UNECE), the World Customs Organization, the International Telecommunication Union (ITU), International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). Of course, standards developed in these institutions have a significance that goes well beyond the WTO and trade-related aspects, and permeates all aspects of production and consumption of goods and services.

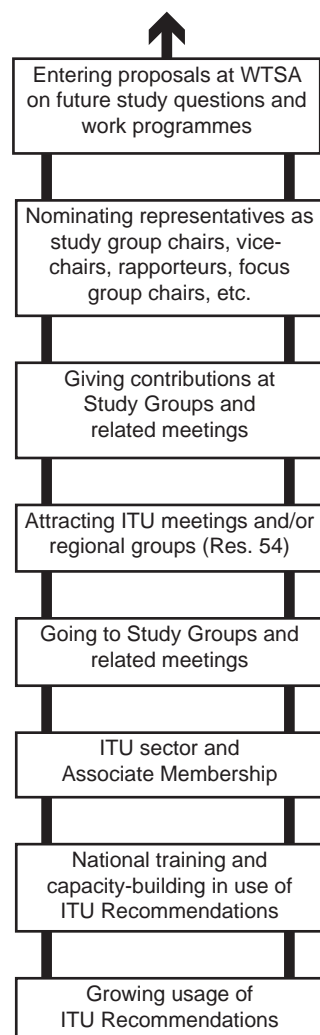
These standards strike a delicate balance between very different appreciations of what is necessary to guarantee quality and safety. A wide scope of stakeholders needs to be active in the standards-setting processes so that no one group makes its interest prevail. By participating effectively in these negotiations, representatives can expose the economic and technical capacity of developing country Members with respect to proposed standards

and tilt the debate in their favour. Or, if a satisfactory compromise cannot be found, then representatives can plead for appropriate conditionalities to ensure a smooth transition. Understanding early on how the debate is evolving in one area also allows more time to devise and establish appropriate implementing strategies.

For these reasons, Aid for Trade should include as one of its elements the development of a coherent package that would include funding travel to international meetings of specialized standards-setting institutions; awareness-raising about the importance of trade-related standards; training for a core group of highly skilled professionals and promoting increased coordination among national stakeholders to define national interests and needs.

The Food and Agriculture Organization, the World Health Organization and the International Plant Protection Convention have established trust funds built around these priorities. ISO has established a technical assistance programme that includes training programmes and direct sponsorship of participation in meetings as well as the production of publications to guide experts joining technical committees¹¹. More recently, ISO has also developed technical assistance and training activities that support all stakeholders in a balanced manner, including experts from developed countries, particularly in the framework of standardization activities for social responsibility, through a special trust fund established for this purpose.

It is important to define “increased participation in standards-setting activities” as accurately as possible. ITU, for example, uses the “ladder” reproduced here to the left to represent how countries can – in practical terms – take increased responsibility in the development of standards in their organization.



The first steps of the ladder are a growing usage of the existing recommendations and the organization of national training workshops. This is followed by membership in ITU sectors and associate membership, as well as increased participation in meetings of regional study groups. One step up the ladder is to attract regulatory meetings to the country itself, allowing the local industry and regulators – not normally travel to attend these meetings – to obtain a more direct understanding of the standards-setting process as well as to make personal contacts with the secretariat and the working groups. These resources may be precious for local stakeholders to continue being updated on the negotiation process, even if they subsequently cannot attend on a regular basis.

In addition, if a national representation continues attending, it will be able to count on more informed inputs from the national stakeholders, even if they have only been able to attend only one session. The final steps are: giving contributions to study groups and related meetings, nominating representatives as chairs, vice-chairs and rapporteurs, and entering proposals at the World Telecommunication Standardization Assemblies on future study questions.¹²

Similarly to ITU, ISO has elaborated on opportunities for exerting influence on its standards-development process. Again, a country will start by becoming more involved in the work of the Organization – including by exploiting opportunities for twinning with more advanced partners and working with the policy development committees – then providing working party convenors, chairs and project

leaders. Since no country can be expected to participate actively in all ISO committees on all subjects, it is imperative for every national member to select those projects in which it wishes to participate, on the basis of its national interests, and to develop a “bottom up”, coordinated approach aiming to increase its representation in the project work.¹³

UNECE is another body that develops international trade-related standards and best practice, with the active involvement of business:

- The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) develops methods to facilitate national and international transactions, through simplifying and harmonizing processes, procedures and information flows;
- The Working Party on Regulatory Cooperation and Standardization Policies (WP.6) is leading the concept of the use of standards as the basis for technical regulation and is developing recommendations on a variety of policy matters relating to technical regulations, standardization, conformity assessment, accreditation, market surveillance, quality/environmental management systems and metrology;
- The Working Party on Agricultural Quality Standards (WP.7) develops, interprets and promotes the practical application of international commercial quality standards for agricultural produce.¹⁴

Even though UNECE technical assistance activities focus on Central and Eastern Europe, the Caucasus and Central Asia, the standards and best practice developed at the UNECE are of a global nature. As one example of the significance of these standards, 36 of the UNECE commercial agricultural quality standards form the basis of European Union directives. They cover around 90 per cent of the market volume of fresh fruits and vegetable products traded throughout Europe. In practice, for purposes of quality, the EU accepts produce coming from non-EU countries if it is marked and controlled according to UNECE standards. UNECE needs to find more resources to support increased participation by developing countries in its standardization activities and ensure better stakeholder balance. In doing so, it may build on the best practice developed within WTO, ITU and ISO described above, as well as experiences in other agencies.

II. Increasing compliance with technical regulations to preserve and enhance market access

Effective participation in standards-setting activities requires extensive experience in using the standards and in complying with the technical regulations applied in export markets in order to build awareness of the different options available, their implications and cost. More resources need to be drawn into standards implementation, on the one hand as a means to promote informed participation, and on the other to ensure smooth trade relations and avoid disruptions that are costly for both buyers and suppliers.

Border detentions represent one important dimension of this issue. These occur whenever testing by the importing country reveals that a product is not in conformity with the regulations in place; for example, because there is evidence of contamination from a toxic substance above the levels permitted.

Over the last few years, the number of detentions and rejections at border points have increased tremendously. Under the EU Rapid Alert System for Food and Feed (RASFF), the number of notifications rose almost tenfold from 698 in 1999 to 6,840 in 2006. In the United States, import refusals by the Food and Drug Administration (FDA) rose from 23,687 in 2002 to 77,260 in 2006¹⁵. Neither RASFF nor the FDA, however, records the value or the volume of the detained trade goods. One estimate of the value of agro-food trade affected by official product rejections for the year 2000/2001 was as high as \$3.8 billion or 0.84 per cent of world exports¹⁶.

The actual costs of import detentions are likely to be much higher than this estimate suggests. In fact, many of the costs incurred by the exporter cannot be recouped, over and above the value of the lost consignment. Furthermore, under the RASSF system, when one member country detains a single consignment for failure to comply with an SPS standard, the exporter will be included in a “rapid alert” list. Increased controls will be set in place in all EU Member States until a certain number of consignments have been cleared by the EU Member who initially imposed the alert. Furthermore, although other consignments may eventually not be detained, they will be significantly delayed and large costs will be incurred for import clearance. The combined effect of numerous import detentions – or of an import ban – can in some cases affect an entire export sector, as the example in the box shows.

A. Challenges at the level of the industry or sector

Investing in compliance is a costly exercise. To provide an idea of the investments needed to restore and develop trade relations, Table 1 presents some summary information from case studies undertaken within a World Bank study programme that focused on key commodities for which standards present a significant challenge to market access and competitiveness.

Table 1

Case	Reference	Costs of compliance (millions of United States dollars)	Exports (millions of United States dollars)	Costs as percentage of one year's exports
Senegalese fisheries sector	P.N. Niang (2005)	32.6 (cumulative total 1990-1999)	387.7 (average 1996 - 2001)	0.8
Bangladesh shrimp Sector	Cato and Lima dos Santos (2000)	18.1 (upgrade) 2.43 (annual maintenance)	225 (average 1996-1998)	1.1 (maintenance/ annual exports)
Indian spice industry	S. Jaffee (2005)	14.5 (mid-1990s to 2003)	434 (2004-5)	3.0

Source: World Bank project on “Challenges and Opportunities Associated with International Agro-Food Standards”¹⁷

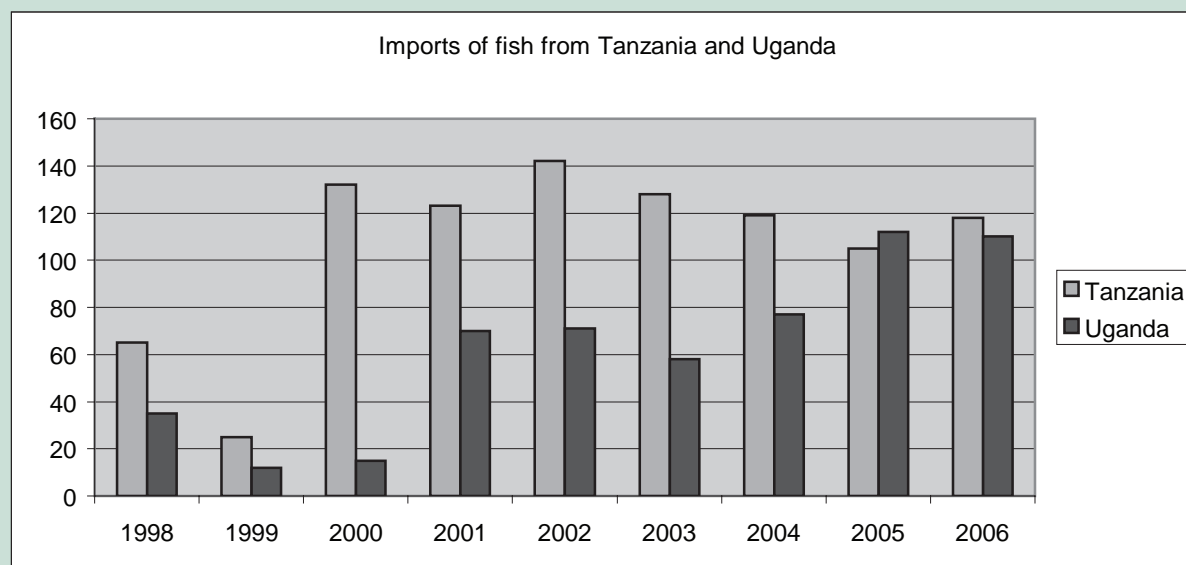
Expenditures incurred to restore trade relations when they have been disrupted typically amount to several million dollars, as the table shows. However, it is apparent that when the right strategy is in place, costs are recouped very rapidly, as also happened in the Lake Victoria case. The projects then become self-sustainable thanks to increasing export revenues from existing and new markets. It should be noted that the table shows cumulative, including a large proportion of non-recurrent, expenses made over the course of several years by a number of different actors, with substantial assistance from international agencies and bilateral donors. Obviously, without international assistance such a large amount of resources cannot be generated and sustained by developing countries and countries with economies in transition.

If we examine how the funds were allocated, we can make a broad distinction between costs that are incurred at the level of an industrial sector or a country, and those that are borne by single companies. In the first category, although there are wide variations from sector to sector, the main investments are directed at:

- Establishing or revamping laboratory facilities;
- Hiring and retaining specialized personnel to carry out tests;
- Investing in equipment to ensure cleaning/hygiene;
- Establishing or upgrading the institutional mechanisms or competent authorities;
- Revising the legal and regulatory framework and regulations; and
- Upgrading the transport and storage facilities.

Box 1. Exports of fish from Lake Victoria

Starting in 1999, due to several cases of suspected fish poisoning and evidence of inadequate quality standards, the European Union imports of Nile perch fish from the region of Lake Victoria were banned. Uganda and Tanzania, the main exporters of Nile perch from the lake, suffered a tremendous loss, with fish exports dropping by more than 50 per cent as compared to the previous year (see Chart 1 below). A number of fish factories closed or operated under capacity, resulting in redundancy and unemployment. The United Nations Industrial Development Organization (UNIDO) then set up a large technical cooperation project with a total budget of USD 4.6 million with financing from several bilateral donors: Austria, Denmark, Germany, Italy, Japan and the United Kingdom, as well as the United Nations Development Programme. The project established a solid foundation for fish safety so that in 2000, the EU ban could be lifted and new markets opened up, in particular in the United States.^r



Source: Eurostat

Traditionally, technical assistance projects place emphasis on the role of the Government and Government agencies in projects that aim at increasing compliance with trade-related standards. However, the business sector has a fundamentally important role in compliance, especially in developing and transition economies. For example, many companies or industry associations establish their own testing laboratories because the public administration cannot afford to equip and maintain them. Therefore, funds directed at public administrations should be complemented by assistance to the business sector.

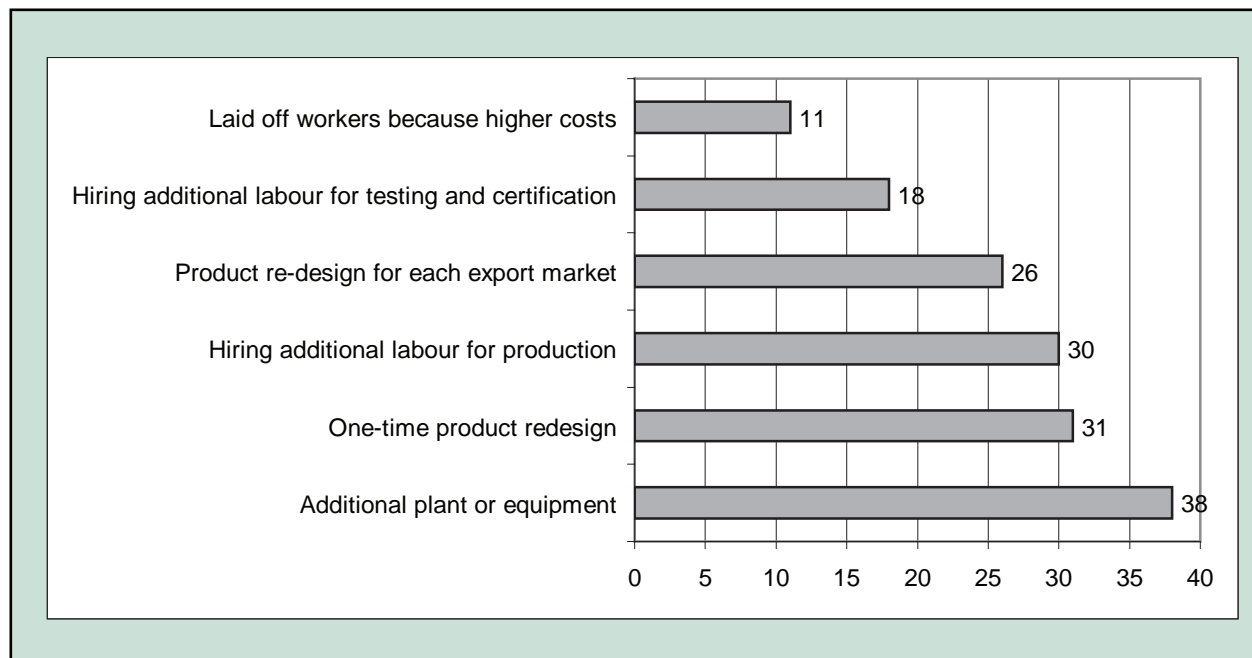
B. Costs borne by single companies

For any single company, complying with international standards and mandatory technical regulations is a costly business. The World Bank has compiled a comprehensive dataset through a 2002 survey administered to 689 firms in 17 developing countries. The data are freely accessible through the web at a high level of desegregation and detail. The firms were, for instance, asked to assess the investments that they had made to meet the technical regulations in export markets. These investments were then grouped into six different categories as shown in Chart 1. Almost 40 per cent of the firms had to make additional investment in plants or equipment, and 30 per cent had to hire additional labour.¹⁸

An important item missing from the database are the expenses incurred for training staff in the implementation of the standards. Nevertheless the analyses reveal a high level of awareness and understanding of the potential effects of international standards. As documented also in the case studies reviewed above, private firms have shown commitment to working with their foreign partner to resolve the problems as they arise, and have also demonstrated their

ability to join forces with their competitors at a national level to establish common facilities and exert pressure on local authorities and to remove bottlenecks.

Chart 1
Percentage of firms that report additional investment in the following categories to comply with technical regulations on export markets



Source: Author calculations on World Bank Technical Barriers to Trade database

Projects that aim at increasing standards use and compliance should be developed on the basis of surveys that document the needs of producers so that an informed choice, by the national authorities in consultation with all the stakeholders, can be made regarding the chosen standard or standards and the implementation strategies.

III. Using standards at a company level to increase competitiveness

Standards may often be seen as a means of complying with technical regulations and hence preserving or developing access to markets. Nonetheless, since they are developed by international experts and incorporate the latest research and know-how, they are also an important means to improve quality and reliability of goods and to climb the value chain to different and more lucrative niches.

For example, the family of standards known as “ISO 9000” requires “continual improvement of a firm’s performance in the pursuit of excellence” in applying relevant regulatory requirements, producing in conformity to the customer’s quality requirements, and enhancing customer satisfaction. Certification of a product with “ISO 9001: 2000” requires not only that an external audit assess an extensive sample of the firm’s sites, functions, products, services and processes, but also that the firm’s staff are trained for continuing a process of “continual review and assessment, to verify that the system is working as it’s supposed to, find out where it can improve and to correct or prevent problems identified”¹⁹.

Certification with ISO 9001: 2000 has an intrinsic value. It promotes an organizational culture based on the critical assessment of the firm’s performance by its own staff on a continuing basis. While this is particularly true of the 9000 family of standards (and similarly ISO 14001), it is true in general that bringing standards developed by internationally recognized

technical experts to the firm production floor will always bring about change and challenge established production methods.

Of high relevance for developing countries and countries with economies in transition is the recent ISO 22000 food safety management system which sets requirements for organizations throughout the food chain. This standard combines the CODEX principles of Hazard Analysis and Critical Control Point with pre-requisite programmes such as Good Manufacturing Practice with the establishment of an overall safety management system.

The ability of firms to use product and process standards is also one important element in the choices the transnational corporations (TNCs) make regarding their first and second tier suppliers. Producers that have a record of consistent quality in their output and can be relied on to undertake conformity assessment and certification directly on their own premises or at agreed upon public inspection points will be able to enter into long-term and stable contractual relationships with large clients. These agreements typically involve not only regular and recurrent orders, at pre-agreed prices, but also on-site training and transfer of technological and organizational know-how. On the other hand, those producers that have a mixed record of compliance with international standards will often have no choice but to sell their produce on more volatile international markets, where the TNCs and other smaller clients conclude “on-spot” transactions to fill needs for peak-season orders or unexpected surges in demand.²⁰

Finally, standards’ use may contribute to creating valuable strategic partnerships with research institutions. This is an especially important point because achieving a “regulatory objective” may require different production processes depending on the technological or climatic conditions of the firm or the farm. For example, if the objective is to achieve a minimum contamination level on consignments of fruit, different production methods may be required depending on where the fruit is grown. The same is true, although it may seem less intuitive, for technical standards as well, because the technology that is used for a given purpose in more technologically advanced economies may not be readily adaptable or may be too costly to integrate. Therefore, more research activities are needed towards devising practical and cost-effective ways to meet regulatory objectives that take into account the concerns of developing countries and countries with economies in transition.

IV. Assistance in the area of trade-related standards to date

This section reviews technical assistance and capacity-building undertaken to date within the area of trade-related standards, as well as the various attempts that have been made at identifying unmet needs and setting the priorities for action.

The first Global Trade Review, which took place in November 2007 at the WTO, together with the regional events that preceded it, promoted a better understanding of what kind of assistance is currently being provided and whether it meets developing countries and transition economies’ needs. Yearly donor commitments during the period 2002-2005 were estimated to average USD 21 billion per year²¹. This global estimate includes support to traditional categories such as trade policy and regulations and trade development, as well as the promotion of productive capacities and the major category represented by the support to setting up and maintaining of economic infrastructure. The latter represents an addition to what was traditionally included within the “technical assistance and capacity-building” categories.

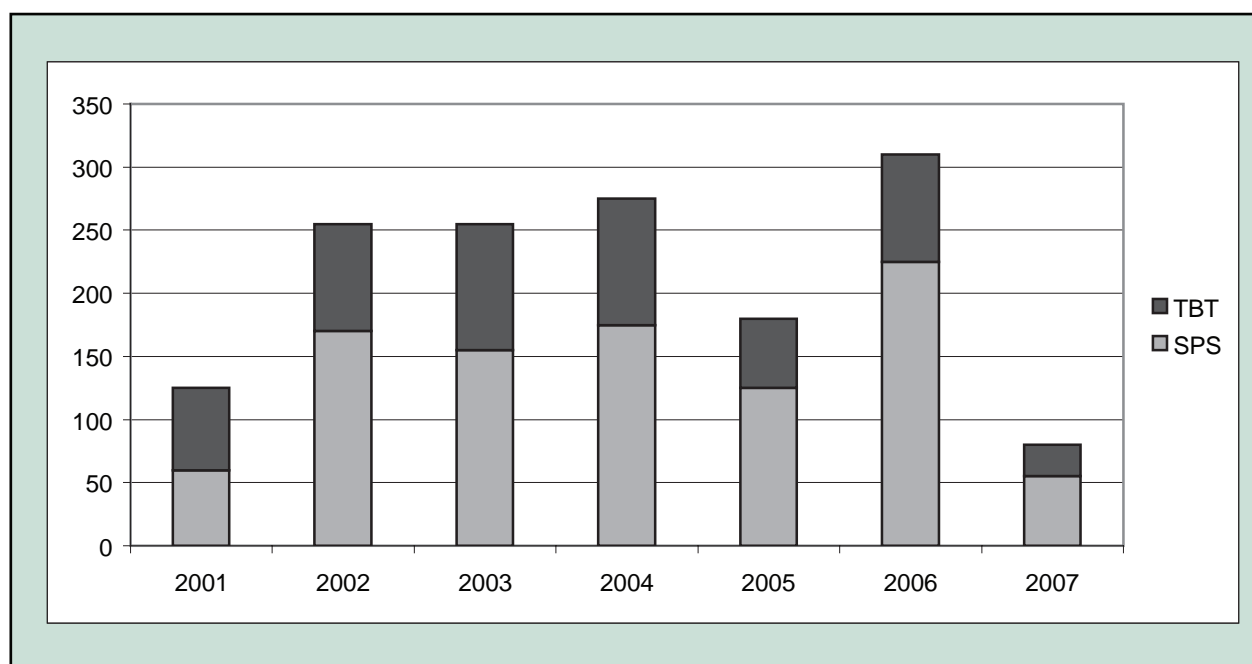
The WTO/OECD Trade Capacity Building Database provides a large volume of data on trade capacity-building assistance and is today the main source for analysis and information. It captures the monetary value of support provided and also includes a short description of the project goals and expected outcomes. The charts presented here have been produced on the basis of the database, and a few qualifications are needed to appreciate the reliability of the analyses that are developed below.

First, standards-related technical assistance and capacity-building are mainly captured in the database under the TBT and SPS labels. However, capacity-building in standardization matters, as defined for the purposes of this paper, goes beyond SPS and TBT. Supply-side productive capacity-building often involves assistance in standards implementation, in particular for quality and management systems standards. And indeed, the database records a number of projects within other categories, such as “Business Support Services and Institutions”, “Trade Promotion Strategy Design and Implementation”, “Market Analysis and Development”, which provide assistance in standardization matters. For coherence sake, it was however decided to include in the analysis only those projects that are listed within the SPS and TBT categories.

A second caveat is that the database is incomplete because not all donors and recipients fully disclose assistance projects. In particular, World Bank projects are not included in the database, although they play an important role in technical assistance in trade-related standardization matters.²²

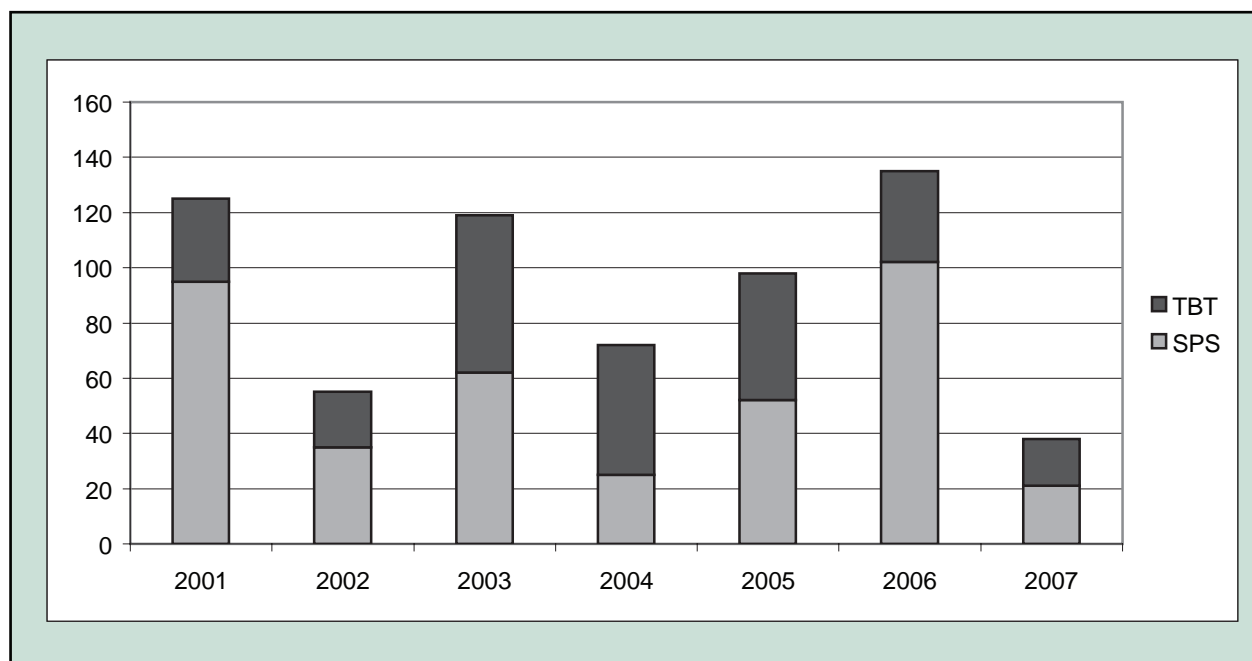
The charts presented here attest to the limitations of the database. It is for example difficult to explain the variations in total donations from year to year, which are substantial both as regards the number of projects and their monetary value. It seems plausible that with improved collection and capture of data we would get a more coherent picture. Donors, recipients and implementing organizations should therefore be encouraged to report in full, and in as much detail as possible, the development assistance that is being made available.

Chart 2
Number of projects or activities



At a global level, there are between 200 and 250 projects on issues related to TBT and SPS in a typical year. The value of the assistance provided ranges between USD 60 million and 120 million. SPS accounts for the majority of both the value and the number of the projects.

Chart 3
Amount in million dollars



*Data for 2006 and 2007 incomplete.

Source: WTO Trade Capacity-building Database.

A. Assistance in the area of TBT

Assistance in the TBT area aims at raising awareness and strengthening standards implementation capabilities, while standards development is supported mainly in terms of establishing standards information capacities, including the creation of enquiry points. In monetary value terms, a large share goes for building conformity-assessment infrastructure either by providing equipment for metrology or establishing testing and calibration laboratories.

The total number of projects listed in the database concerning TBTs is 490. Their average size is USD 530,000. The range among recorded projects is quite wide: 79 projects report very small grants (under USD 10,000), mostly to finance participation in training programmes. At the other end of the spectrum, 42 projects have a budget of between USD 1 million and 10 million, 3 have one of over 10 million dollars, the largest project being of 17 million.

The European Commission is financing or implementing almost all of the large projects. The share of projects implemented by international organizations is 18 per cent. The two agencies that are involved the most are UNIDO and ITC, followed by OECD, the regional commissions of the United Nations, ISO, UNDP, the World Customs Organization (WCO) and FAO. The rest are implemented directly by bilateral agencies, and in isolated cases, by the beneficiary.

ISO activities in the area of TBTs and more in general in support of developing countries are reflected in its strategic framework entitled, "ISO Action Plan for developing countries". The objectives of the Action Plan are: raising stakeholders' awareness of the importance of standardization, capacity-building, improving the use of electronic tools and strengthening the participation in technical work. The regional dimension is central to ISO work, which prioritizes relations with regional and sub-regional standardization bodies.

B. Assistance in the area of SPS

The average size of the projects related to SPS measures, as recorded in the database, is USD 455,000. Out of a total of the 890 projects listed as active or having been active, 236 small projects report grants of below USD 10,000. At the other end of the spectrum, 57 projects have a budget of between 1 and 10 million dollars, 6 projects one of over 10 million, with the largest being of 42 million.

Again, almost all of the very large projects are financed and/or implemented by the European Commission. Similar to what was noted above for projects in the area of TBT, only 14 per cent of the projects are implemented by intergovernmental organizations, mainly UNIDO and FAO, followed by ITC, the World Organization for Animal Health (OIE) and WHO.

Channeling more of the resources through intergovernmental organizations would ensure that these agencies' expertise could be relayed effectively. In particular, involving those agencies that are active in standards-setting in the standards implementation would allow for increased coordination among the stakeholders involved in the various stages of a standard's life. For example, unresolved issues that become apparent in the implementation of a standard could be brought to the attention of the experts when the standard is being revised. And agencies that are active in standards' implementation could usefully bring to projects' design the benefit of a perspective that includes the whole supply chain, therefore building up the policy coherence and credibility of the assistance programme²³.

Assistance in SPS and TBT is an important category as a percentage of the total assistance being reported in the TCBDB database. As shown in Table 2, these projects account on average for 10 per cent of the total number of projects relating to trade policy and regulations, and around 5 per cent of the total number of projects relating to all trade-policy regulations and trade development. In monetary value, the percentages are similar but fluctuate in a more pronounced way from year to year.

Table 2
SPS and TBT projects as a percentage of the number of projects and their monetary value

	Number of projects		Monetary value of the projects	
	All trade policy and regulations projects	All trade policy and regulations, plus all trade development projects	All trade policy and regulations projects	All trade policy and regulations, plus all trade development projects
2001	7.8	3.5	19.7	5.9
2002	9.9	5.3	8.5	3.0
2003	10.2	5.0	12.9	4.0
2004	11.4	5.6	8.7	2.4
2005	7.7	3.3	10.5	3.1
2006*	10.5	4.5	10.9	3.8
2007*	10.7	7.8	9.9	7.1

Source: WTO trade capacity-building database.

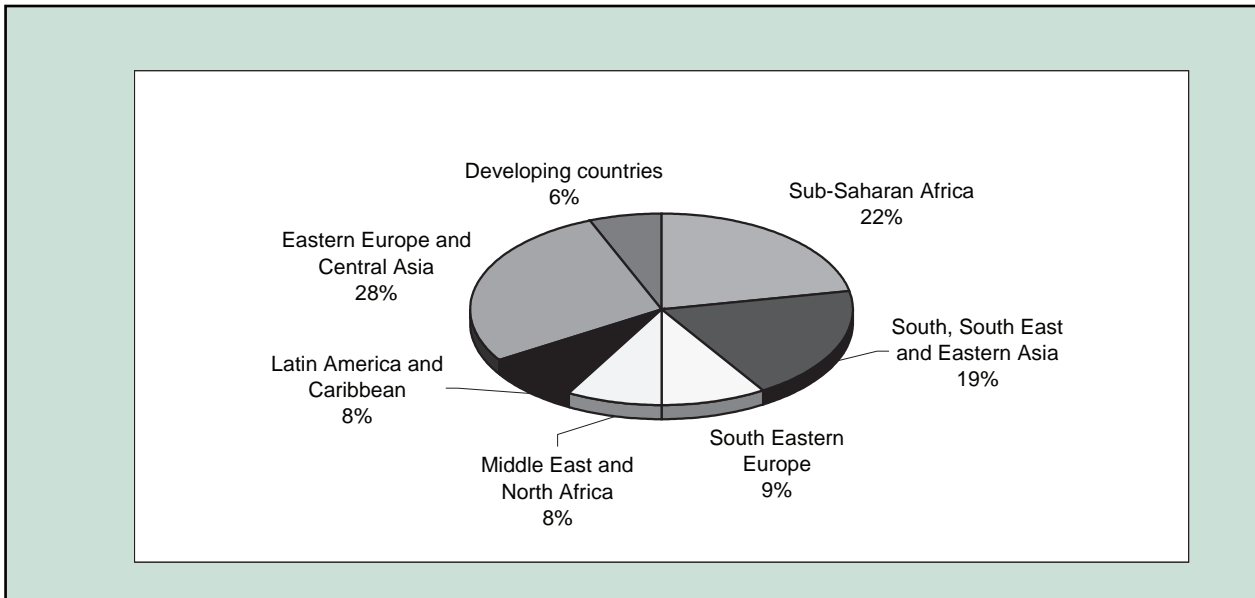
*Data for 2006-2007 incomplete.

C. Regional distribution of assistance

The regional distribution of assistance is set out in Chart 4.²⁴ The low share of the Latin American countries in this distribution is not easy to account for, considering that these are relatively advanced economies that have a large industrial infrastructure in place. On the other hand, the relatively high share of projects allocated to the countries of South Eastern Europe and Eastern Europe and Central Asia is clearly related to the exceptional assistance received by some of the countries in the region, and in particular those that

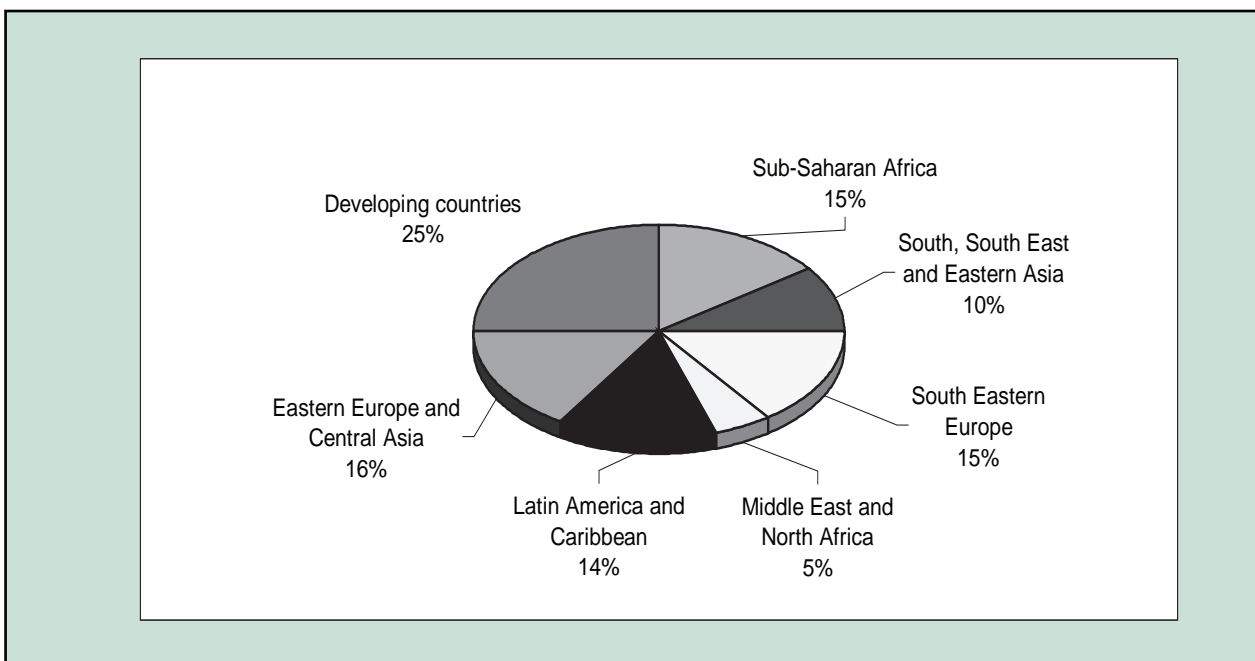
acceded to the European Union in 2004, since a prerequisite for accession was the adoption and implementation of the *acquis communautaire*.

Chart 4
Percentage of total TBT donations by region



Concerning the SPS donations, we see that the distribution is relatively more even, as each of the regions receiving more or less 15 per cent of the total amount, with the exception of South, South East and Eastern Asia that received 10 per cent and Middle East and North Africa that received 5 per cent. An explanation for this pattern may be that most developing countries export agri-food commodities and have articulated their needs more systematically in this area.

Chart 5
Percentage of total SPS donations by region



In addition, the countries with economies in transition clearly have special needs in the area of trade-related standards, because they started their transition to a market economy with limited resources in this area. Some of the countries had no national standards-related infrastructure, everything having been previously centralized in locations that – after the period between 1988 and 1992 – were no longer within the national borders.

The regional dimension is of special importance as regards technical assistance in the area of standards. For example, because of the costs of the technical infrastructure needed to assess compliance with certain technical regulations, it may not be economically viable to set up national laboratories, and a regional approach might offer a feasible alternative.

Also, to further trade relations among regional partners, especially within South-South trade arrangements, increased regulatory cooperation in sectors of common interest brings a number of benefits, which are at the core of the work of the UNECE in this area.²⁵ The regional dimension of technical cooperation and capacity-building in the area of trade-related standards should therefore be maintained and strengthened. All the regional reviews have reaffirmed at a high and coordinated level their concern about increasingly stringent SPS and TBT measures in view of their weak capacities to meet international standards and assess conformity through testing, certification and accreditation, and have attracted attention to the need for increased assistance.²⁶

One important dimension, which was briefly touched upon in Section 1.1 above, is the important contribution that “South-South” cooperation projects bring to building capacity in developing countries in the area of trade-related standards. These projects are often not based on financial contributions but instead aim at sharing the expertise and best practice that has been developed at a technical level through well designed and operational tools. It is very important that this assistance is appropriately accounted for and recognized, and that a repository of the expertise is developed in complementarity with the OECD/WTO trade capacity-building database.

V. The way forward: reinforcing project ownership by beneficiary and fostering coherence among executing agencies

In recent years, a number of efforts have been directed towards assessing and prioritizing needs in the area of standardization. At the institutional level, the WTO/TBT Secretariat conducted a survey upon the Second Triennial Review, in 2002, which identified the following priorities, all of which remain relevant:

- Financial and technical support to establish conformity-assessment bodies and the relevant systems;
- Technical cooperation to strengthen and upgrade existing laboratories (e.g. through the provision of new equipment, training of staff and study visits);
- Assistance to purchase relevant international standards;
- Training in defining measurement uncertainty for calibration and test laboratories;
- Training in inspection activities and product certification by means of marks of conformity; and
- Assistance to formulate a certification scheme that meets WTO requirements, and at the same time protects the interests of consumers and national industry.ac

More recently, the TBT Committee has also pointed to the need to facilitate the demand and supply of technical assistance and, in 2005, adopted a “Format for the Voluntary Notification of Specific Technical Assistance Needs and Responses”. It appears, however, that this voluntary system is not yet being used sufficiently, which may hint to a need for technical assistance activities of an awareness-raising, needs-assessment and training nature.²⁷

A. Coordination among executing agencies

Much of the development assistance provided over many years to build quality infrastructure has been fragmentary and has not been integrated into national strategies. Countries were receiving different and sometimes contradictory advice on how to set up their technical quality infrastructure effectively and efficiently. Responding to country demands requires coordination among the principal technical international organizations that have mandates to strengthen the technical infrastructures relating to metrology, standardization and conformity assessment around the world.

In 2004, a first contribution towards increased coherence was made through the establishment of the Committee on Co-ordination of Assistance to Developing Countries in Metrology, Accreditation and Standardization (JCDCMAS). The Committee members started by exchanging information and sharing experiences about the provision of technical assistance to developing countries.

The Committee went on to develop a common approach for providing of technical assistance for building technical infrastructure and for helping developing countries deal with a number of related challenges. It now recognizes²⁸ the urgent need for the coherent development of standardization infrastructure. Since each element of the infrastructure is interdependent, a composite approach to standardization, conformity assessment and accreditation is called for. For this, the Committee recommends that the following be considered:

- A thorough needs assessment of all parts of the economy;
- An appreciation that there is no ready-made infrastructure model to be slotted into place; Each country must create its own tailor-made solution;
- The technical infrastructure should be carefully developed and implemented to ensure sustainability, as there is no such thing as a “quick-fix”;
- A clear statement of the resources and finance required should be prepared; and
- National development of technical infrastructures does not preclude, but may well include, regional approaches, subject to the recognition of historical, political and cultural sensibilities.

In the area of SPS, a recent WTO survey of national notification authorities and enquiry points identified the following priorities for technical assistance:

- Raising awareness at the political level and among the public at large;
- Increasing coordination among different Ministries;
- Mobilizing the relevant private-sector representatives;
- Encouraging regional and inter-governmental cooperation, including through mentoring and twinning; and
- Assisting the enquiry points and national notification authorities in managing the inflow of notifications.

As a result of increasing pressure to improve coherence in responding to developing countries' needs in this area, in 2002 FAO, the World Bank, WHO and WTO established the “Standards and Trade Development Facility” to share information and support capacity-building for developing countries and countries with economies in transition in implementing SPS standards. This Facility has seen a rapid increase in the resources at its disposal, starting from USD 1 million in 2002 to USD 5 million in 2005. It is becoming the major clearinghouse as well as an important funds-mobilization scheme.²⁹

For least-developed countries, one importance source of funding for trade-related technical assistance and capacity-building in recent years is the “Integrated Framework for Trade-Related Technical Assistance to Least-developed Countries”. This has, however, only marginally included standards and conformity-related issues. Projects mainly concentrated on raising awareness of the TBT and SPS agreements and supporting the establishment of

enquiry points but failed. It failed to address at a more systematic level, the development of human resources and technical infrastructure in developing and transition economies so as to meet the challenges of potential barriers to trade and seize the opportunities of using standards as a vehicle to improve access to global markets.

While it is commendable to ensure coordination among executing agencies, care should be taken to avoid a proliferation of overlapping coordinating mechanisms. Coherence should be established among executing agencies not only at the operational level but also at the conceptual level, to ensure that a common message is consistently delivered, irrespectively of which agency is executing the project.

B. Strengthening country ownership

Along with coherence, the country ownership of projects developed in the area of SPS and TBTs also needs to be strengthened. In a review of projects related to SPS measures, a World Bank report notes that “a large proportion of assistance in this field by bilateral donors is driven by the “self-interest” or domestic considerations of the donors, such as ensuring that food imports are safe and preventing the spread of (...) pests and animal diseases from their main partners in the developing world”³⁰.

Similar considerations are true for the projects in the area of TBTs which often have as their main objective to provide officers in standards-setting bodies of the recipient country with information and training on the trade-related standards and practices of the donor country, with little or no consideration given to other approaches that may exist in other regions.

In sectors in which an agreed international standard has yet to be developed, assistance of this nature may, in some cases, be construed so as to influence international negotiations on trade-related standards in a way that is favourable to the donor country’s interests. Additionally, if several donor countries act in a way that influences the development of standards in different regions in different ways, this may result in structural divergences in rule-making across regional blocs which will make an international agreement on a common standard much more difficult, if not impossible to achieve. Assistance in the area of trade-related standards has effects that are similar to those of regional and bilateral trade agreements that contain provisions relating to rule-making. From this perspective both the regional trade agreements and the kind of development assistance that focuses exclusively on the donor’s own regulatory approach – disregarding other approaches that may exist in other regions – may have important systemic effects on the development of common rules at a multilateral level.³¹

Aside from these systemic implications, developing countries will benefit from projects that aim at assisting them in identifying their own regulatory needs and national priorities and guide them in choosing international standards that are adapted to their technological level.

For example, a project could fund a country team to engage in training and study tours of countries at a similar level of development, so as to choose among a variety of approaches those that are adapted to their specific conditions, and that can be more easily tailored to the requirements of different export markets. This would result in a level of ownership that will not be attained by simply adopting the regulations in use in the donor’s country.

The above-mentioned World Bank report further states that projects related to SPS measures are typically “triggered by crises or imminent trade disruptions and involve reactive and remedial responses”. The project regarding the export of fish from Lake Victoria described above in section 2 is one clear example.

Clearly, once a crisis is apparent or imminent, it can only be resolved through a technical assistance project and it is commendable that one is set in place. This should not, however,

be the main source of technical assistance in this area. Crises are very costly for the exporting country, which will probably have suffered significant losses and damage to its reputation before the project is underway. Additionally, in facing a situation of crisis the donor may have to retain higher cost solutions to save time. In the long run, therefore, the emphasis should be on projects that prevent crises rather than aim at resolving them, including by promoting adherence by large importing countries to international standards.

VI. Conclusions

As more of the scarce resources devoted to international development assistance are geared towards standards, it is important to define the priorities for action.

First, resources should be devoted to further debate about standards at a national level, including through comprehensive needs assessments, as well as mainstreaming standards in projects that focus on the development of productive capacities in specific sectors. Three broad areas of action can be identified:

- Reinforcing effective participation in standards-setting and in the relevant WTO institutions;
- Increasing compliance with technical regulations; and
- Furthering the use of standards by business.

To reinforce participation, a policy priority should be for countries to secure funds not only for increased attendance but also for sustaining active involvement. Countries will need to be assisted in identifying national priorities, in consultation with all the stakeholders. The participation in standards-setting processes should be carefully defined and measured, including by defining “ladders” that document increased involvement, so as to give a visual and tangible dimension to progress made over time by national delegations.

The inclusion of new categories in the “Aid for Trade” database should not overshadow the need for continued assistance in traditional categories, and in particular in the category of “Trade Policy and Regulations”, which appears instead increasingly marginalized, not least in the international debate.

In devising programmes directed at increasing compliance, particular attention should be given to involving the business sector, and its priorities and needs should be better documented and understood. The funds required to restore trade in the aftermath of a crisis are major, but are often recaptured in a relatively short span of time. Aid for trade should aim at preventing and not simply responding to crises situations.

Standards are not only a means of securing market access. They have a value in and of themselves because they are developed by international experts and embody the latest technology. They also raise output quality and provide indications to firms on how to better access markets and even to lower costs through the adoption of best practice. However, they also act as a selection device, assisting those producers who are able to adapt to them.

In reviewing the assistance that has been made available to date, it appears that the data are incomplete and do not allow a full appreciation of all the resources that have been invested in the area of assistance for trade-related standardization.

In particular, the lack of a trend and the variation in the amounts registered from one year to the next are difficult to account for. Too few of the projects seem to be implemented directly by international organizations, despite the fact that these are the main repository of expertise in standardization matters.

In recent years, attempts at coordinating the work of international organizations active in this area have multiplied and while this is doubtlessly beneficial, a proliferation of overlapping

coordinating mechanisms is counterproductive. Coherence needs to be maintained not just at the operational level but also at the conceptual level to ensure that a common message is consistently delivered, irrespectively of which one agency is executing the project.

Together with coherence among implementing agencies, country ownership of projects developed in the area of SPS and TBTs needs to be strengthened. Too many of the projects seem to aim at facilitating the donor's imports from the country that benefits from the technical-assistance project. The assistance is not tailored to the needs and priorities of recipients. It also may have adverse systemic effects in those areas where a common regulatory approach has not been developed at a multilateral level, because it may result in a structural divergence in rule-making across regional blocs.

The real value added of aid for trade in the area of trade-related standards should be to empower recipient countries to make an informed choice regarding the instrument that best meets their development needs and the priorities of the national stakeholders. The assistance that is given in this context through "South-South" cooperation projects is of great value in this perspective and should be appropriately accounted for and recognized, including through the development of a repository of best practice that would represent a useful contribution to the OECD/WTO database.

In conclusion, comprehensive technical-assistance projects should be developed to assist developing countries and countries with economies in transition in establishing comprehensive national strategies in trade-related standardization matters. Such projects should aim at putting in place effective coordination mechanisms among all the relevant stakeholders, including at the regional level if appropriate; ensuring active participation in standards-setting institutions in areas that are of key national interest; matching unmet needs for compliance with the expertise available in governmental and non-governmental organizations and fostering the use of standards by business.

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Notes

- ¹ Of these, 10 countries are in sub-Saharan Africa, 4 in Latin America and 4 in Asia.
- ² Of these, 15 countries are in sub-Saharan Africa, 1 in the Middle East and North Africa and 4 in Asia.
- ³ Eleven in sub-Saharan Africa and one in Asia.
- ⁴ In 2003, high-income countries accounted for 19 per cent of WTO membership, but for 23 per cent of notification authorities, 21 per cent of enquiry points, 60 per cent of SPS notifications, 30 per cent of meeting participants, 55 per cent of the trade concerns raised, and 84 per cent of all SPS disputes. See Walkenhorst (2003).
- ⁵ See OECD-WTO (2007), page 23.
- ⁶ Namely, ITC, JITAP, Integrated Framework and WTO Trust Funds. See OECD-WTO (2006).
- ⁷ See: WTO (2007).
- ⁸ <http://spsims.wto.org/>.
- ⁹ For more details please see: <http://www.inmetro.gov.br/> This is but one example of the “South-South” cooperation projects implemented by Brazil, and more in general by emerging economies. These projects, which are again discussed in Section 4.3, bring the benefit of the expertise of relatively advanced developing countries to other developing and least developed countries, in the area of trade related standards as well as others.
- ¹⁰ See: Henson S.J. et al (2000).
- ¹¹ As another example, the Robert Oteng Fellowship is used to sponsor the studies of individuals from developing country national standards bodies. Projects undertaken under the auspices of the Fellowship support the development of human capacity in the field of standardization.
- ¹² See Kelly, T. (2007).
- ¹³ See: ISO (2007) p. 27.
- ¹⁴ See: <http://www.unece.org/trade/wp6>, www.unece.org/cefact and <http://www.unece.org/trade/agr/>.
- ¹⁵ For the European Union, data are available at http://ec.europa.eu/food/food/rapidalert/index_en.htm, while for the United States at <http://www.fda.gov/ora>. RASFF is a network involving the European Commission, the European Food Safety Authority (EFSA), as well as the Member States of the EU and of the European Economic Area (EEA).
- ¹⁶ See Jaffee, S. and S. Henson, (2004).
- ¹⁷ See UNIDO “Trade Capacity-building: Case Studies: Lake Victoria” Available at www.unido.org.
- ¹⁸ Permanent URL: <http://go.worldbank.org/GHIT6173E0>.
- ¹⁹ See: World Bank Technical Barriers to Trade database: <http://go.worldbank.org/18YE2SZTJ0> (permanent URL).
- ²⁰ See www.iso.org and Wikipedia : ISO 9000.
- ²¹ See Giuliani, E.; C. Pietrobelli; and R. Rabellotti (2005), and UNCTAD (2007), page 23 onwards.
- ²² See OECD/ WTO (2007).
- ²³ Most of the support provided by the World Bank in this area is through a sub-component of a broader programme, i.e. in export promotion and competitiveness, regulatory reforms, agricultural diversification, etc, making it difficult to extrapolate with precision the resources devoted to standards implementation.
- ²⁴ This paper cannot do justice to the UNIDO and the ITC technical assistance activities in this field. For more details about these two organizations programme of work, including their activities on trade-related standards please see, respectively: UNIDO (2007) and the UNIDO Trade Capacity-building website and ITC (2007) and the ITC website on “Aid for Trade”.
- ²⁵ The category “Developing countries” in the WTO database refers to projects that have no pre-established geographic coverage.
- ²⁶ The UNECE Working Party on Technical Harmonization and Standardization Policies (Working Party 6) works to explore how national (mandatory) technical regulations could make wider use of international standards and to promote, where feasible, greater regulatory convergence in specific sectors, including telecommunications terminal equipment and earth-moving machinery.
- ²⁷ See: WTO-IDB (2007), WTO-ADB (2007) and WTO, AfDB and UNECA (2007).
- ²⁸ See: WTO (2003).
- ²⁹ See: WTO (2006).
- ³⁰ See: JCDCMAS.

³¹ See: <http://www.standardsfacility.org>.

³² Jaffee, S. et al. (2005), p.115.

³³ These issues have been explored by recent works that examine the role of rule-making in regional trade agreements. See in particular: Isaac, G (2006).

