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Harnessing trade for development

Benefiting from market access opportunities

Developing countries cannot achieve sustainable growth and poverty reduction unless they integrate into the world economy. Trade reforms are necessary, but not enough to maximise the potential benefits of trade. Negotiations at the WTO Ministerial Conference in Hong Kong in December, 2005 should also focus on establishing an 'aid for trade' mechanism.

In this issue

Sheila Page – Senior Research Associate at the Overseas Development Institute provided academic advice on this issue: **S.Page@odi.org.uk**

At the 2001 Doha conference, the World Trade Organization (WTO) members agreed to launch the Doha Development Agenda. This included multilateral negotiations to reduce trade-distorting policies and strengthen the WTO's relevance to development. Although removing trade barriers can be a powerful tool for poverty reduction, global gains from a Doha Round outcome will be unequally distributed and some poor countries may lose from global trade reforms. Complementary actions and international support are needed to enable poor countries to exploit market access opportunities and manage adjustment costs.

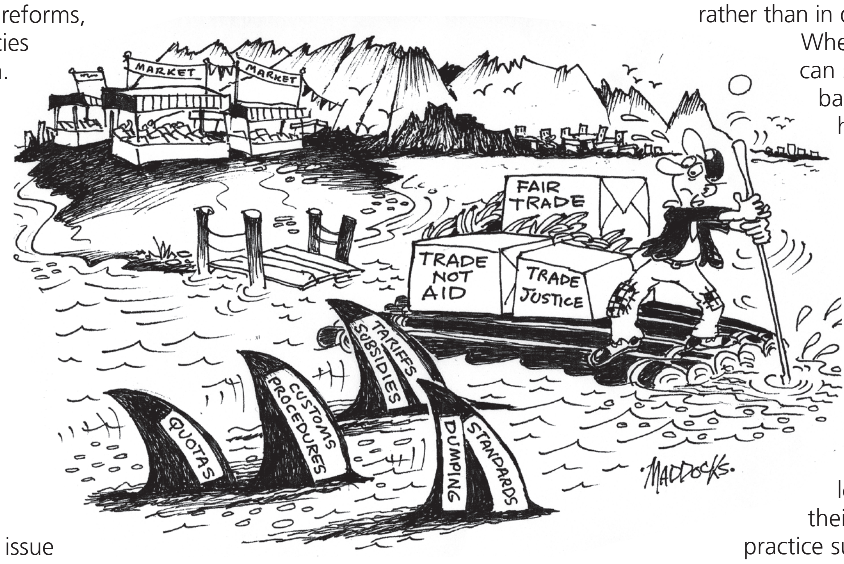
The negotiating agenda confronting developing countries in trade talks is complex (see box overleaf for a summary of key issues in the Doha Round). The challenge is to determine the areas of trade offering the highest gains, the adjustment costs involved in introducing reforms, and the complementary policies needed to benefit from them. This is made more complex because many developing countries are engaged in regional integration efforts and in bilateral negotiations with developed countries such as the European Union -African, Caribbean and Pacific (EU-ACP) Economic Partnership Agreement (EPA) negotiations, in parallel with the Doha negotiations.

The question therefore is – what can developed and developing countries do to generate the highest payoffs from trade agreements? This issue of *id21 insights* suggests that improving market access, which includes removing barriers that impede developing countries' ability to export goods and services should be the highest priority, complemented with expanded 'aid for trade'.

Negotiating the Doha Round

Agriculture is a key issue. As **Peter Tulloch** notes, barriers are particularly high for agricultural products in the Organisation for Economic Cooperation and Development (OECD) countries, justifying the emphasis on agriculture in the Doha negotiations. Developing countries also have higher average levels of protection for agriculture. Achieving greater disciplines on agricultural subsidies is important for negotiations and WTO disputes settlement. But as **Marcelo Olarreaga** argues, although subsidies distort trade and production, market access matters more for poorer countries because trade barriers have a larger effect on the world prices of their products. Abolishing export subsidies and disciplining the use of production subsidies is important. But without lowering border protection in high-income countries global profits from removing subsidies will be small.

The importance of improved market access is not limited to agriculture. Developing countries have much higher protection of manufacturing industries than OECD countries. Low-income developing countries, therefore, face the highest level of trade protection in other developing countries, rather than in developed countries.



Whether the Doha negotiations can substantially liberalise trade barriers is debatable. Progress has been limited and slow. This partly reflects resistance from groups who may lose from the reforms. Some groups in all countries will incur adjustment costs from bold trade reforms. The total gains from trade liberalisation will exceed total losses, especially over time. Thus the gainers could compensate the losers, while still improving their own welfare. But in practice such compensation often does not occur.

One source of potential loss for many developing countries is the erosion of preferential access to OECD markets. Trade preference programmes can benefit countries having the capacity to use them, as **Chris Stevens** discusses in his article. It is important to address concerns over preference erosion. Trade preferences are basically a form of aid. The Doha round offers an opportunity to shift to forms of support such as 'aid for trade' which are more direct and efficient and move away from preferential trade agreements which are discriminatory.

Beyond negotiations

Market access is a necessary but insufficient condition for harnessing trade for development. In many developing countries, domestic supply constraints are the main reason for the lack of trade growth and diversification. Without improvements in supply capacity and reduced transactions costs, trade opportunities cannot be fully exploited and the potential gains from trade will not be realised.

Research on the impact of global trade reforms on the poverty of producers in goods affected by trade barriers confirms the need for complementary measures. For example, **Irene Brambilla's** work on Zambia, where two-thirds of the population are poor, suggests that trade reforms in cotton will have a limited effect on household consumption and income. Even an ambitious Doha Round outcome can generate only small changes in price. Reforms in marketing and assistance to increase productivity can have much larger effects. For the Zambian economy, the role of trade reform is even smaller, as most of its exports are metal commodities which do not face trade barriers.

At the macroeconomic level as well, **Susan Prowse** argues that concerted efforts to expand 'aid for trade'– development assistance to strengthen trade capacity and reduce operating costs – can have high returns for increasing growth and reducing poverty. More aid for trade could help realise ambitious global trade reforms as it would assure poorer countries that they too would benefit. Aid could also develop the capacity of countries to identify trade and investment constraints. The share of aid for trade in total aid commitments has increased in recent years but represents only about four percent of total aid. Aid for trade cannot substitute for progress on market access or unilateral domestic reform. However, it can increase the benefits of trade opportunities for many poor countries by supporting their own reforms while helping to liberalise trade substantially.

To be effective, the 'aid for trade' effort has to address trade-related priorities determined by national governments. The priorities may not be the policy areas subject to WTO rules and requirements as some, such as the rules on intellectual property protection. As **Miguel Lengyel** points out, the Uruguay Round multilateral trade negotiations showed that WTO agreements may not benefit all members, when implementation costs outweigh the benefits.

Regional trade agreements both among developing countries and between developed and developing countries are other powerful instruments to harness trade for development. As with the WTO agreements, the challenge is to use them to address priority areas where the potential benefits for developing country participants are greatest. A major problem with regional agreements, as with trade preference programmes, is that they discriminate among developing countries. Focusing on the case of ACP countries, **Dominique Njinkeu** argues that there is a need for greater coherence between regional and multilateral efforts.

Exploiting and expanding trade opportunities

Global trade reform, in itself, is not enough to ensure positive outcomes for everyone. For developing countries to benefit from the reforms, several steps are needed:

- Governments have to set up mechanisms to be able to assist groups who may lose from trade reforms and be prepared to remove policy or infrastructure constraints for private investment and employment creation.
- Current preference-granting countries can offer other forms of support to compensate for the losses from preference erosion. Global losses from potential preference erosion will be less than the expected global net gains from bold trade reforms. Funds for compensation can be generated if the political will is mobilised.
- Larger gains from reforms are conditional on new employment opportunities, higher wages and a shift from subsistence agriculture. Complementary reforms and investments are needed to stimulate the desired supply response to new opportunities. Measures such as reducing transportation costs from remote areas, increasing farm productivity through extension services or improving the investment climate to support the creation of new employment opportunities are important.
- Governments need to assess what the costs and benefits of any WTO agreements are. This is complex and the solution probably involves a mix of differential treatment to developing countries to allow flexibility and aid to help implementation of WTO obligations.
- To realise the development promise of trade agreements, developed-developing country arrangements such as the EU's EPAs should address national priorities to achieve development objectives. This requires greater emphasis on using such agreements to pursue non-discriminatory market access liberalisation and complementary policies ■

Bernard Hoekman
Development Research Group, The World Bank, 1818 H Street, NW, Washington DC, USA 20433
T +1 202 473 1185 **F** +1 202 522 1159
bhoekman@worldbank.org

See also
Strengthening the Global Trade Architecture for Economic Development: An Agenda for Action.
www.ycsg.yale.edu/focus/gta/GTA_policy_brief.doc

Key elements of the Doha Round

Agricultural subsidies
- Eliminate all forms of agricultural export subsidies
- Reduce other forms of trade-distorting domestic support
- WTO members with higher levels of support to commit to larger reductions.

Market access
- Use a 'formula approach' to ensure larger cuts in higher tariffs,
- Allow for flexibility for categories of 'special' and 'sensitive' agricultural products.

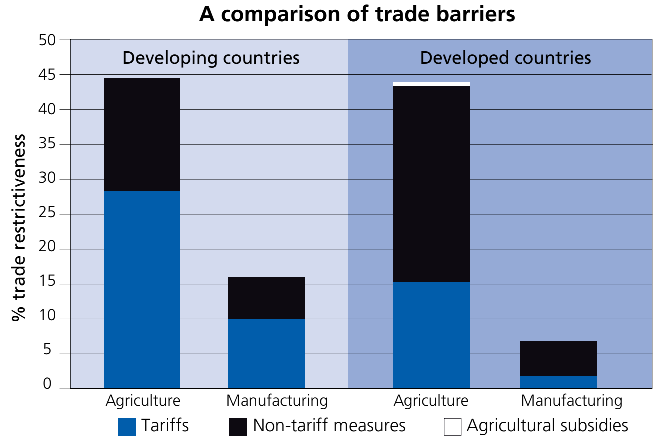
Cotton
- Deal 'ambitiously and expeditiously' with OECD support policies that distort global trade within the agriculture negotiations.

Services
- Expand commitments to provide access to markets
- Reduce the use of policies that discriminate against foreign suppliers of services

Development
- Strengthen provisions calling for 'differential and more favorable treatment' of developing countries
- Make the provisions more effective
- Address implementation difficulties and concerns.

Trade facilitation
- Speed up the movement of goods across borders
- Providing developing countries the technical assistance to implement rules.

A comparison of trade barriers



Source: *Estimating trade restrictiveness indices*, mimeo, The World Bank, by Hiau Looi Kee, Alessandro Nicita, and Marcelo Olarreaga 2005

Getting to know the WTO

The General Agreement on Tariffs and Trade (GATT) regulating trade in goods came into force in 1948 with 23 signatories, of which 12 were developing countries. Conceived as a temporary agreement, the intention was for GATT to be overseen by a broader United Nations agency, the International Trade Organization (ITO), which would be responsible for the rules of world trade and international investment. However, the proposed ITO lacked the political support of the United States, thus leaving GATT as the real basis of the post-war trading system.

During GATT's first 25 years, negotiations cut developed countries' tariffs on industrial goods from an average of 40 percent to around four percent. Important products from developing countries' (namely agricultural products and textiles), however, were largely excluded from negotiations. Originally, GATT did not distinguish between developed countries and developing countries. Over time, however, developing countries became eligible for special treatment, in as much as they have not been expected to liberalise their trade at the same rate and to the same extent as developed countries.

The Uruguay Round (1986-1994) was the last set of negotiations under GATT. It resulted in a new institutional framework for the multilateral trading system, the World Trade Organisation (WTO). Trade rules were extended to include trade in services and intellectual property rights, and trade in agricultural products, textiles and clothing were brought under GATT's scope. Another important change was the requirement that all WTO member countries sign up to all agreements, regardless of their level of development.

The WTO was established in January 1995. Its agreements can be divided into three areas – trade in goods (GATT and supplementary agreements); the General Agreement on Trade in Services (GATS); and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The WTO also administers a mechanism for dispute settlement covering all agreements.

The highest decision making body in the WTO is the ministerial conference, convened at least every two years. Since the establishment of the WTO, five ministerial conferences have been held: Singapore (1996), Geneva (1998), Seattle (1999), Doha (2001) and Cancún (2003). The Sixth WTO Ministerial Conference is due to take place in Hong Kong, December 2005. At the 2001 Doha Ministerial Conference members initiated a new round of negotiations under the name of the 'Doha Development Agenda', also known as the 'Doha Round'. The Doha Round is scheduled to conclude at the end of 2006.

Dominic Furlong
The International Centre for Trade and Sustainable Development (ICTSD), International Environment House, 1219 Geneva, Switzerland
T +41 (0)22 917 8459 **F** +41 (0)22 917 8093
dfurlong@ictsd.ch

See also
Practical Guide to the WTO A publication by 3D, Geneva
www.3dthree.org/en/complement.php?IDcomplement=36&IDcat=4&IDpage=14

Doha negotiations

Focusing on the larger picture

Pascal Lamy, the new Director-General of the World Trade Organization, clearly laid out the agenda for the December 2005, Hong Kong Ministerial Conference. He emphasised that Hong Kong should be 'two thirds of the way' to completing the round of negotiations by the end of 2006. However, are negotiators approaching the right issues in the right way? Or has the process become too complex?

Lamy identified the main strategic areas as agriculture, non-agricultural market access, services and rules. He emphasised that 'substantial results' on development issues must be achieved in all areas and that the development dimension must be central to the negotiations. This will be difficult as the 'easy' parts of trade negotiations have already been completed. Industrial tariffs among developed countries are generally low and quantitative restrictions on textile trade have been eliminated. Developing countries generally receive preferences in developed markets for their manufactures. And least developed countries can have duty-free treatment under schemes like the European Union's Everything But Arms initiative. Trade negotiations are now dealing with more difficult, sensitive issues in all the strategic areas mentioned above.

In agriculture, competitive exporters are keen to open up closed markets and reduce trade distortions. However, farmers and governments in many developed and some larger developing countries are resisting attempts to lower their prices and income support levels. Eliminating trade distortions that result from developed countries' long-standing agricultural support programmes is central to the negotiations. Progress in this is the key to success in other areas.

'Special and differential treatment' (SDT) is becoming increasingly complex. Developing countries are divided among themselves. Some, such as Chile, are pushing hard to achieve non-discriminatory market opening in agriculture, manufactures and services and to reduce or eliminate all trade-distorting subsidies in farm trade. Others, such as Mauritius, are trying to retain preferential access to major export markets.

Countries that depend on preferences tend to follow old-style production patterns and, therefore, face greater difficulties in adjusting to new developments.

Originally, SDT was intended to cover developing countries as a group, with additional special treatment to least developed countries. Successful developing economies, such as South Korea and Mexico have moved out of dependence on SDT into a world where access, not preferences, counts, as was envisaged when SDT was introduced. Countries that continue to depend on preferences tend to follow old-style production patterns and, therefore, face greater difficulties in adjusting to new developments. However, it is important for all countries to apply lessons in adjusting to the pace and scope of trade liberalisation. Countries that could lose from liberalisation will need domestic programmes to assist them in overcoming adjustment costs. Poor countries lacking the necessary resources will need external assistance, as proposed by Prowse in this issue. For economies that are heavily dependent on one or two products, adjustment programmes – involving time and financial assistance – must be found.

The rapid growth of China and India as markets and as exporters adds a new dimension to world trade negotiations. These countries, with other emerging markets such as Brazil and South Africa, are now major players in the negotiations.

The breakdown of developing countries' negotiating positions into small, special interest groups may not help in reaching multilateral agreements that would help all developing countries. Smaller negotiating groups take attention away from the main focus of opening developed country markets for agricultural exports and eliminating the damaging effects of subsidised agricultural exports.

In all trade negotiations the big political picture often gets lost when focussing on the details. Too many special interests can ruin the best-intended process. WTO members – developed and developing countries – need to lift their eyes from the details to see the bigger picture of how trade can benefit all and work on how a transition to greater openness can be achieved. A clear vision must focus on major priorities:

- removing distortions in agricultural trade
- reducing further market access barriers in developed and developing countries, especially larger emerging markets
- the developmental concerns of the poorest countries.

Only then can agreements that benefit all sides can be made. This is the challenge for Hong Kong ■

Peter Tulloch
1, les Poncettes, 01220 Sauverny, France
T +33 (0) 450 411723
petertullochfr@yahoo.fr

See also
Trade for Development: An Action Agenda beyond the Cancun Ministerial. Task Force on Trade. New York: United Nations, by the UN Millennium Project, 2004
www.ycsg.yale.edu/documents/task_force.html

Market access or subsidies

What matters most?

The Doha negotiating agenda is complex, comprising traditional tariffs, non-tariff barriers, trade and investment in services, agricultural subsidies and World Trade Organization (WTO) rules.

Agricultural subsidies have attracted a great deal of attention, because of their harmful effects and owing to the unfairness of developing country farmers having to compete against subsidised produce from rich countries. However, an excessive focus on subsidies may result in market access barriers receiving less attention in the Doha Round and in reducing its potential benefits.

Subsidies are damaging and can have major negative effects on developing country farmers. This is best illustrated by cotton, a product that is so heavily subsidised by the United States that intervention to it lowers world prices substantially (by an estimated 10-20 percent). This has hurt cotton-producing households severely in West Africa. However, recent research from the World Bank illustrates that for most developing countries traditional market access barriers do more damage than subsidies.

Industrialised countries transfer close to US$ 250 billion per year to their farmers. It is often not recognised that two-thirds of this amount involves transfers from consumers, through higher prices paid for food. The instrument used to raise prices is border protection: tariffs. The average agricultural tariff in rich countries is 23 percent. If the effects of non-tariff measures such as quotas and sanitary and phytosanitary measures are added, then agricultural protection reaches 42 percent: ten times higher than for manufacturing. Moreover, agricultural tariffs vary a lot, with some products benefiting from tariffs that are over 100 percent.

Research shows that market access barriers in both developed and other developing countries have a larger overall impact than production and export subsidies

Available research shows that market access barriers in both developed and other developing countries have a larger overall impact than production and export subsidies (see figure on page 2). Policies that affect (lower) export prices for goods matter the most for developing country farmers. It is important to ensure that negotiators do not neglect the traditional market access agenda because open borders 'automatically' discipline governments' ability in subsidising domestic production. If domestic consumers are able to import at the world market price, the costs of supporting inefficient domestic farmers to produce for the world market will be higher.

Many agricultural subsidies are being 'decoupled' from production. This implies subsides are not conditional on production, but, for example, on the assets owned by the farmer. Such subsidies will continue to distort production as long as they benefit households that are engaged in farming. However, they are less likely to induce major trade distortions, especially if countries have agreed to maintain low trade barriers. Income support may also be an effective means of internally redistributing income to rural households, allowing governments to move forward to liberalise access to their markets.

A Doha Round that achieves significant cuts in agricultural domestic production subsidies, but little in terms of improved market access, will miss the point. For farmers in developing countries what matters is market access ■

Marcelo Olarreaga
Development Research Group, The World Bank, 1818 H Street, NW, Washington DC, USA 20433
T +1 (0)202 458 802 **F** +1 (0)202 522 1159
molarreaga@worldbank.org

See also

Agricultural tariffs or subsidies: which are more important for developing countries, World Bank Economic Review 18 (2), 175-204, by Bernard Hoekman, Francis Ng and Marcelo Olarreaga, 2004

Trade preferences

Do they work and who gains?

'Preferences' have been a feature of the trading system since the 1960s. While some authors argue that preferences do not work, research shows they work in cases where they confer a significant competitive advantage on countries that are reasonably efficient sources of supply.

The main reason for controversy is that this combination of requirements is quite rare. Some trade regimes claiming to be preferential are not, whereas others making no such claim do confer a substantial advantage. And many of the highest profile 'preference beneficiaries' (such as the majority of sub-Saharan African (SSA) states) have failed the 'reasonably efficient supply' requirement.

Preferences are a relative matter: if country X pays a lower tariff than Y it may be called 'preferred', but it may not benefit from preferences if Z pays an even lower one (and is a substantial, efficient exporter as well). Nor is it effectively preferred if a requirement for obtaining the lower tariff is that it undertake manufacturing processes beyond its reach that make the output uncompetitive. Such 'small print' conditions are frequently found in trade preference programmes – especially those of the European Union (EU) which has the most complex set of discriminatory policies.

Two examples illustrate this range of issues. The first explains how some supposedly preferred states are unable to benefit whilst those that are not members of a preference scheme gain a lot. The Multifibre Arrangement (MFA) which restricted clothing exports by the most competitive suppliers to industrialised countries, until it expired at the end of 2004, conferred competitive advantages amongst other things, on two groups of states: some developing countries, mainly in Africa, under a range of tariff 'preference agreements' and East Asia's Newly Industrialising Countries (NICs), that had large historic quota rights to supply the high priced restricted markets, despite being completely excluded from tariff 'preference agreements'. But the rules of origin of the EU and, until 2000, the United States made it very difficult for most SSA states to benefit since they needed a competitive textile industry supplying inputs such as yarn and fabric, as well as a clothing industry in order to comply. If the gains went mainly to East Asia and North Africa, who bore the cost? Primarily countries like India and China which had small historic quotas and no preferences.

The second example is the EU's new Generalised System of Preferences (GSP) approved in June 2005 and effective immediately for 14 states and in January 2006 for the rest. On paper it appears both to simplify the EU's plethora of regimes and to liberalise substantially towards developing countries. What it may do in practice is to marginalise a group of about 14 countries in South and South East Asia and South America which will be treated less favourably than almost all others except nine OECD and NIC states. EU imports from developing countries may increase – but equally they could decrease. For almost every product some old discriminations will be removed but some new ones created.

All developing countries have had preferences under the GSP, but for most these have not been effective as stronger schemes existed for groups of more favoured countries, such as the least developed countries. What is the best way out of this complicated situation?

Discrimination between developing countries can be removed in two ways: by lowering tariffs on imports from the less favoured or by re-imposing them on those from the more favoured. Both these measures will cause adjustment problems for the countries that are currently more favoured, especially if they are not as efficient as the less favoured. But the first will also produce gains for the states that are currently less favoured; the latter will not favour anyone except OECD producers.

Unfortunately it is re-imposing tariffs on the more favoured that seems the most likely given the interest by EU producers to reduce competition from imports. The EU in particular has offered little in Doha on opening its market to agricultural exports from developing countries and in its domestic reforms (e.g. sugar) it is reducing the gains of favoured countries without increasing those of disfavoured ones.

Christopher Stevens
Institute of Development Studies, University of Sussex, Falmer, Brighton, UK BN1 9RE
T +44 (0)1273 878790 **F** +44 (0)1273 621202
C.Stevens@ids.ac.uk

See also

Making preferences more effective, Institute for Development Studies Briefing Paper, University of Sussex, by Chris Stevens and Jane Kennan, 2004
www.ids.ac.uk/ids/global/pdfs/CSJKTradePreferences.pdf

Complementary reforms needed for poverty reduction

Whether trade liberalisation is a vehicle for poverty alleviation in developing countries remains contentious. Whilst free-trade advocates highlight the benefits of new export opportunities, its critics emphasise unfair competition from developed countries due to agricultural subsidies and non-tariff barriers, such as standards. Whatever the outcome of the Doha Round, on its own the round cannot do much to reduce poverty.

A cotton merchant in Africa. Global trade barriers are low in cotton but agricultural subsidies to cotton growers in the US and EU depresses world prices by encouraging over production. Low-income economies in West and Central Africa depend upon this labour-intensive crop for employment, foreign exchange, and poverty alleviation. Removing subsidies in the US would reduce US exports by 40 percent and raise world prices by 10 percent. Least Developed Country producers lose more than US$ 200 million as result of US and EU support policies.
(Taken from: Global Monitoring Report, World Bank, 2005) *Photo by: Mark Henley/Panos Pictures*

Domestic trade-oriented complementary reforms in infrastructure, finance, and other sectors are critical for increasing exports and reducing poverty. As most poor people live in rural areas and depend on agriculture, complementary actions must focus on increasing agricultural output and productivity.

By participating in export markets, producers can increase their returns either by receiving higher prices for their products or by shifting into new 'non-traditional' activities that generate greater profits. For example, firms may sell more goods at higher prices once granted better access to export markets, thus increasing employment and wages. Or, farmers may shift from subsistence crops, such as cassava or maize, to export crops, such as coffee or cotton, thus earning higher income.

However, producing for international markets is not straightforward. It requires investment in inputs, including technical knowledge, as well as access to distribution-related services such as transport, storage and marketing. The potential gains from trade will not be realised if farmers do not have access to such inputs and the finance to pay for them. A lack of adequate roads and ports will erode production cost advantages by increasing transport costs. Similarly, if domestic competition (among traders who buy and export the goods) in the exporting sector is limited, the benefits of higher export prices from trade reforms may accrue to intermediaries and not be passed down to the farmers or small firms producing the export goods.

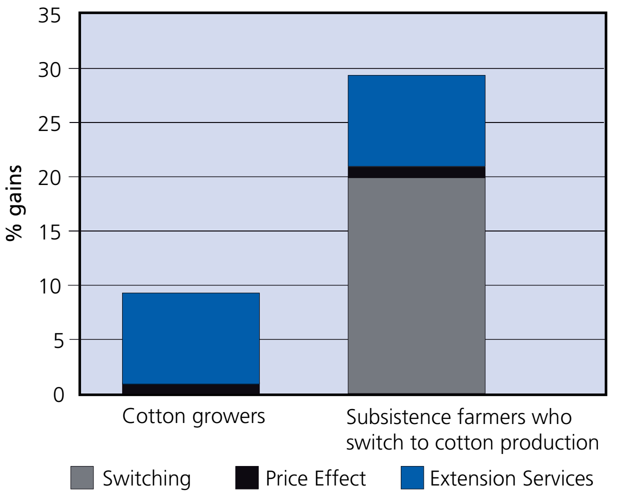
In Zambia, research has shown that marketing reforms in the cotton sector, as well as extension of credit, market information, access to seeds and fertilisers, increased yields per hectare by nearly 50 percent. Moreover, agricultural extension services were important to induce farmers to shift from subsistence crops into cotton. The switch to export production and the provision of extension services increased incomes by 20 to 30 percent (see figure below).

Examples of complementary policies include:

- improved access to credit through microcredit programmes of the type pioneered by Grameen Bank in Bangladesh
- technical knowledge in agriculture through provision of extension services
- building skills, such as the ability to follow written instructions and thus move into higher technology crops and production methods; this could be improved with schooling
- health programmes, in particular to address the HIV/AIDS epidemic – a major factor reducing productivity in Zambia – to reduce labour constraints
- investment in trade-related infrastructure such as roads and ports
- encouraging foreign direct investment – even if only on a sub-contracting basis – to provide marketing skills and awareness of needed infrastructure.

Complementary policies bring high returns as they allow poor people to take advantage of new trade opportunities. Many of these complementary policies, however, will require resources. As all poor countries face severe financial constraints, there is a strong case for additional development assistance to strengthen trade capacity ■

Zambia: income gains from complementary reforms



- Switching boosts income by 20 percent
- Higher cotton prices from a Doha Round add one percent
- Improved extension services improve productivity by 8.4 percent
- Total income gains to households could be nearly 30 percent

Note: Assumes that subsistence households and cotton growers have the same characteristics.

Source: *Globalisation and complementary policies: poverty impacts in rural Zambia*, National Bureau of Economic Research Working Paper No 11175 by Jorge F Balat and Guido Porto, 2005
http://papers.nber.org/papers/w11175.pdf

Irene Brambilla
Department of Economics, Yale University, P.O. Box 208264, New Haven, Connecticut, USA 06520-8264
T +1 (0)203 432 6563 **F** +1 (0)203 432 6323
irene.brambilla@yale.edu

See also

An analysis of the WTO Development Round on poverty in rural and urban Zambia, by J. Balat, I. Brambilla and G. Porto, 2005. Background paper for the UN trade taskforce report
www.ycsg.yale.edu./documents/task_force.html

Farm productivity and market structure: evidence from cotton reforms in Zambia, Economic Growth Center, Yale University, Discussion Paper No. 919, by I. Brambilla and G. Porto, 2005

Aid for trade

Enhancing trade capacity in poor countries

Free access to markets will benefit developing countries as a group. Some large developing countries such as Brazil, China and India have the capacity to exploit opportunities arising from global trade reforms. However, the poorest countries may not gain much even from an ambitious Doha Round. Improving trade integration of poor countries could accelerate growth and poverty reduction.

Many of the poorest developing countries are ill-equipped to take full advantage of trade opportunities, due to the poor investment and business environments they provide. Improved market access without the ability to supply export markets competitively is not useful.

These countries need an environment that allows labour and capital mobility and facilitates investment in new sectors of activity. This requires, among other things, an efficient financial system and good transport/logistics services. Also, to gain from liberalising their own trade policies, countries depending heavily on tariff revenues for monetary resources will need to reform tax systems to maintain social expenditures and government services. Inevitably most poor countries will need to make complementary reforms prior to their own trade reforms and in conjunction with those of other countries.

Two types of assistance are, therefore, needed to:

- address adjustment costs, including from the erosion of preferences
- improve the environment for trade, such as improving infrastructure broadly defined to include measures discussed by Brambilla.
- The communiqués of recent meetings of the IMF/World Bank (April, 2005), G7 Finance Ministers and the G8 (Summer 2005) all stressed the need for aid for trade. They also asked the International Financial Institutions (IFIs) to work with other donors to prepare proposals for 'additional assistance to countries to develop their trade and ease adjustment in their economies', and to 'take advantage of the new opportunities to trade which will result from a positive conclusion of the Doha trade round'.

Donors must provide adequate support and enable developing countries to respond to the new opportunities from trade liberalisation and integration

Multilateral trade liberalisation will yield greater economic benefits to high-income countries than to developing countries, in absolute terms. Some of the additional aid that high-income countries have agreed to provide could be used for encouraging trade, in effect redistributing the increased gains from liberalisation, to help developing countries strengthen their trade capacity. Increasing aid to support trade integration can also help to realise many aims of the Doha Round. It could help to gradually eliminate the current system of highly discriminatory trade preferences.

An effective support mechanism

Although, the procedures for administering, allocating and monitoring additional aid need to be resolved, the basic principles that an aid-for-trade integration mechanism should satisfy are simple:

- Support should take the form of grants.
- Credibility and predictability of funding is important.
- More countries than just the least developed ones should be covered
- A process of identifying trade capacity needs that is truly country-driven and owned is key.
- Processes and outcomes of the new mechanism must be independently monitored.

Donors must provide adequate support and enable developing countries to respond to the new opportunities from trade liberalisation and integration. 'Best endeavour' promises (which were non-binding) made in previous trade negotiations to provide assistance have not been realised. Making more promises does not assure low-income countries that their concerns will be addressed. Past experience shows the need for a mechanism that provides dedicated funding to overcome trade constraints and to offset the adjustment costs of reform.

Aid for trade development has to address priority areas as defined in national development plans and strategies. Dedicated and additional funding can help only when trade competitiveness and integration are aligned with country policies and programmes ■

Susan Prowse
UK Department for International Development, 1 Palace Street, London SW1E5HE, UK
T +44 (0)207 0230862 **F** +44 207023 0470
S-Prowse@dfid.gov.uk

See also

Economic policy responses to preference erosion: from trade as aid to aid for trade, World Bank Policy Research Paper 3721 by Bernard Hoekman and Susan Prowse, 2005
http://econ.worldbank.org/programs/trade

Aid for trade - increasing support for trade adjustment and integration – a proposal by Susan Prowse, 2005
www.ycsg.yale.edu/focus/gta/aid_for_trade.pdf

Glossary

African Growth and Opportunity Act (AGOA): A United States law that amended its GSP to sub-Saharan African countries in 2000, to provide duty-free and quota-free market access to certain African products, such as textiles and apparel, until 2008. In July 2004, this was extended to 2015.

Comparative advantage exists when (in a world of perfect competition) a nation or economic region is able to produce a product at a lower cost relative to other goods, compared to another nation or region. The idea is that each country should specialise in goods that it is able to produce most efficiently.

Competitive advantage refers to the ability to produce a good at lower cost, in terms of its real resources, than another country.

Doha Development Agenda was agreed at the 4th WTO Ministerial in Doha, Qatar and is the basis of negotiations for the Doha Round. It emphasises that 'development' should be the primary result of the final trade negotiations.

Economic Partnership Agreements (EPA) are currently being negotiated between the EU and groups of ACP countries. EPAs try to shift the current non-reciprocal EU trade preferences to ACP countries to that which requires domestic market access for almost all products from the EU within a twelve-year period (2008 -2020).

Everything But Arms (EBA) Initiative is a preferential trade arrangement in the EU's revised GSP scheme that allows least developed countries to export all products (except arms and ammunition) duty-free and quota free to EU markets.

General System of Preferences (GSP) are tariff preferences granted by developed countries to let certain manufactured and semi-manufactured goods from developing countries enter their makets at lower tariffs than other developed or developing countries.

Multifibre Arrangement (MFA) is among developed country importers and developing country exporters of textiles and clothing to regulate and restrict the quantities traded. This was first negotiated in 1973 and was superseded in 1995 by the Agreement on Textiles and Clothing (ATC) to phase it out by 2005.

Non-tariff barriers are any policies or practices, other than tariffs, that interfere with exports or imports between countries. For example, globally agreed standards on quality of products and production processes can be considered non-tariff barriers.

Preference erosion is a process whereby countries enjoying trade preferences with a developed country begin to lose their advantage over other developing countries as a result of liberalisation. This can occur when the developed country eliminates preferences, expands the number of countries benefiting from preferential agreements or when it lowers its tariffs multilaterally or unilaterally without lowering preferential tariffs proportionately.

Rules of origin are used to determine in what country or customs union a product is considered to be made.

Special and Differential treatment (SDT) specifies that the rights and obligations of developing countries within the WTO should differ from those of developed countries. These provisions usually entail longer timeframes for complying with agreements and less stringent liberalisation requirements. SDT forms part of the overall WTO negotiations.

Implementing WTO agreements

Lessons from Latin America

As developing countries gradually started to implement the commitments negotiated in the Uruguay Round Agreements (URA) after 1995, it became apparent that this was more difficult than expected. The net balance of gains and losses associated with implementation were quite unclear, if not negative.

One reason is that the World Trade Organization (WTO) agreements essentially reflect the needs and practices of developed countries. This in turn implies that implementation burdens weigh disproportionately on developing countries.

Recent case studies from the Latin American Trade Network focus on the implementation of WTO agreements in four areas: trade related aspects of intellectual property rights (TRIPs), sanitary and phytosanitary measures (SPS), customs valuation and telecommunications in Argentina. A number of lessons arise:

- Implementing agreements is 'institution-intensive' as compliance with new requirements or exercising new rights requires upgrading public sector agencies and administrative skills. In Argentina, the estimated total expenditure incurred in implementing the four agreements was close to US$ 560 million between 1995 and 2002.
- The manner in which WTO agreements are expected to be implemented not only underestimates the complexities and implications of what is required, but also reduces developing countries' ability to make it more suitable to local capabilities and needs. All four agreements called for complementary policies. They also required the private sector to become actively involved in implementing and managing new commitments.
- The capacity to implement agreements and benefit from them was partly determined by whether the country had any current domestic policy reforms and the priority the reform area had for the domestic policy agenda. In the case of SPS, a reform process that was largely consistent with WTO requirements was already initiated in the late 1980s. However, this was partially true of customs valuation reforms. TRIPs reforms were completely new.
- The scope and depth of implementation depended on the sequence of reforms and the consistency between national policies and WTO-driven requirements: there was a higher probability of successful implementation if there was a closer fit between domestic reform decisions and policy changes required by WTO. Although Argentina considered customs valuation changes necessary, the local authorities did not consider it as the main problem of customs administration. Their major concern was under-invoicing. This poor fit meant that the implementation of WTO agreements experienced considerable setbacks.

Conflicts around implementation depended on whether key public and private stakeholders perceived reforms as being imposed from outside or whether they felt ownership of them. TRIPS rules, by far the most controversial, were perceived as imposed from the outside and not to Argentina's benefit. Most politicians, bureaucrats and other key policy influencers did not support its implementation.

Complementary policies can ensure potential gains from the agreements and/or control their harmful secondary effects. Argentina provides two examples. First, pest-free and plague-free zones had to be created to take advantage of the new market opportunities that the SPS agreement opened up for farm products. Second, stricter competition laws should have accompanied TRIPS implementation to avoid transnational pharmaceutical companies from abusing their power to increase medicine prices.

The relevance of the WTO as a rule-making forum is highly dependent on countries undertaking research and analysis. It is not necessarily true that WTO rules and disciplines embody, by definition, the right diagnosis and solutions to development problems. It is important to:

- determine whether proposed WTO rules are consistent with national priorities
- see whether there are domestic stakeholders that will be affected positively or negatively
- identify and pursue complementary actions that can address potential negative effects.

A much greater focus on research in all developing countries can identify contextual issues and ensure that trade negotiations and implementation of agreements will be beneficial. This is true not just for multilateral negotiations but at all international levels – whether bilateral or regional ■

Boxing bananas at a packing station in Dominica to be shipped to the UK. The African, Caribbean and Pacific group of countries get preferential market access to Europe for their banana trade. Under WTO agreements the EU has to move away from its current preferences and change its quota-based system of import controls to a tariff-only system by January 2006. Several Latin American countries are concerned that they will be unable to compete in the EU market as the tariff which the EU might apply to banana imports from non-ACP countries would be too high. Producers in ACP countries fear that the proposed tariff may not be high enough to maintain their existing market shares.
(Taken from: Global Monitoring Report, World Bank, 2005) Photo by: Philip Wolmuth/Panos Pictures

Miguel F. Lengyel
Latin American Trade Network, Ayacucho 551, (1036) Ciudad de Buenos Aires, Argentina
T +5411 5238 9375 **F** +5411 4375 2435
mlengyel@latn.org.ar

See also

The implementation of WTO Agreements: the case of Argentina, by Miguel Lengyel, 2004
www.latn.org.ar

The Doha Agenda and development: a view from the Uruguay Round. Asian Development Bank, Manila by Michael Finger, 2002

Terms of trade is the relative price of a country's exports compared to its imports. To improve the terms of trade means to increase the relative price of exports compared to imports because that would mean that a country earns more through exports than what it spends on imports.

Trade preferences are special advantages accorded to another country's exports, usually in order to promote that country's development. For instance,the EU may apply a lower (or zero) tariff on a product from one country than from the others.

Compiled by Shefali Sharma
shefali2005@gmail.com

For a complete glossary see:
www.economist.com/research/Economics/

www.smenetwork.net/marketing/tradeterms.htm

Making trade negotiations work

The World Trade Organization (WTO) and many developing countries are engaged in regional integration efforts with neighbouring countries and with the major trading powers – the European Union (EU) and the United States (US).

For many African, Caribbean and Pacific (ACP) countries, establishing Economic Partnership Agreements (EPA) with the EU is the major trade negotiation issue. The challenge is to consolidate regional and multilateral initiatives to enhance ACP countries' production and supplies and create a better business environment.

EPAs aim to enhance market access for products in which ACP countries have comparative advantage, namely agriculture and labour-intensive services. They also open up ACP markets to EU exports. ACP countries are keen on using trade agreements to pursue economic development and not for trade expansion in itself.

To achieve economic development, a supportive institutional framework, improved infrastructure and appropriate macroeconomic policies. The EPAs must extend beyond the traditional exchange of market access concessions to be able to reduce poverty. However, progress in both the WTO and EPA negotiations has been slow, particularly on issues of primary interest to ACP countries. Disagreements on agriculture are the main difficulty. Also, progress on the services trade negotiations, especially the temporary movement of skilled and unskilled service providers, is an important challenge.

The benefit EPAs can generate depends on the reforms that ACP countries will have to undertake and on what the EU and its member states will do to help these countries achieve their development objectives. Recent initiatives at the multilateral level, such as aid for trade, are relevant for the regional setting. Concerted efforts are needed to create suitable conditions for firms to take advantage of trade opportunities that may arise from the agreements. For example, in the WTO a July 2004 agreement made implementation of any multilateral trade facilitation agreement conditional on technical and financial assistance being provided to the countries. This approach could also be followed for the EPAs too.

Trade benefits can be enhanced by:

- completely overhauling the Organisation for Economic Cooperation and Development (OECD) countries' agriculture policy by reforming domestic support policies, abolishing all export subsidies and enhancing market access for exports from low income countries. This would have to include assistance to compensate countries that may lose from preference erosion, so that they can satisfy product standards and measures.
- liberalising labour movement and abolishing restrictions in labour intensive goods and services sectors. ACP countries can make gains in this area to offset any losses.

EPAs must extend beyond the traditional exchange of market access concessions to be able to reduce poverty.

- consolidating unilateral trade preference programmes such as the US African Growth and Opportunity Act (AGOA) and the EU Everything but Arms (EBA) initiative with the multilateral trade framework and simultaneously making it more inclusive with respect to product coverage and the development friendliness of the rules of origin.
- ensuring that the EPAs do not risk reversing the progress achieved by ACP countries in recent years, including regional integration between neighbouring countries. ACP countries' trade liberalisation should be negotiated only after the outcome of the Doha Round is known. A phased liberalisation of goods and services at the regional level and measures to lessen the negative impact of adjustment would assist in reducing overall transactions costs.
- focusing on enhancing the supply response in ACP countries, through aid for trade improve investments and lower transactions and operating costs of industries. Additional commitments for aid for trade should be binding, both within and outside the WTO. This would help improve the policy coherence between trade agreements and ACP governments, bilateral and multilateral aid agencies to pursue development objectives.

Aid for trade is critical to strengthen developing countries' ability to participate effectively in negotiations and identify and defend their national interests. It would also encourage them to expand trade in a liberalised environment. An aid for trade framework that targets country and region-specific problems is needed to improve competitiveness and trading potential, for not just ACP countries but other developing countries too.

Dominique Njinkeu
International Lawyers and Economists against Poverty (ILEAP), 180 Bloor St. West, Suite 904, Toronto, Ontario, Canada M5S 2V6
T +1 (0)416 946 3107 **F** +1 (0)416 946 0797
Dominique.Njinkeu@ileapinitiative.com;
www.ileapiniative.com

See also
Minimum conditions for a package deal - an African perspective, in Developing Countries and the Doha Development Agenda of the WTO, Pitou van Dijck and Gerrit Faber (editors), London and New York: Routledge, Chapter 8, by Dominique Njinkeu and Nicola Loffler, forthcoming 2006

Useful web links

Centre for Economic Policy Research
www.cepr.org/

Center for International Development at Harvard University,
www.cid.harvard.edu/cidtrade/

Kiel Institute for World Economics
www.uni-kiel.de/ifw/homeeng.htm

Overseas Development Institute
www.odi.org.uk

United Nations Conference on Trade and Development
www.unctad.org

World Bank Trade Site
www.worldbank.org/trade

World Trade Organization
www.wto.org

Caribbean Policy Development Centre
http://cpdcngo.org/

EPAwatch
www.epawatch.net/general/start.php

International Centre for Trade and Sustainable Development
www.ictsd.org

Southern and Eastern African Trade Information and Negotiations Institute
www.seatini.org

South Centre
www.southcentre.org

Third World Network
www.twnside.org.sg

Trade Law Centre for Southern Africa
www.tralac.org/

Shefali Sharma
shefali2005@gmail.com

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id21
Institute of Development Studies
University of Sussex
Brighton BN1 9RE, UK
T +44 (0)1273 678787
F +44 (0)1273 877335
Email id21@ids.ac.uk

Institute of Development Studies
Sussex

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Editorial & technical support: **id21 team**
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