

CHAPTER 11

THE WAY FORWARD

Contributed by the Organisation for Economic Co-operation and Development and the World Trade Organization

Abstract: *Much has been achieved since the Aid for Trade Initiative became operational in 2006. The initiative has succeeded in raising awareness among developing countries and donor agencies about the positive role that trade can play in promoting economic growth and development. Since 2006, a total of USD 246.5 billion in official development assistance and USD 190.7 billion in trade-related other official flows has been disbursed to contribute to financing aid-for-trade programmes. There is now ample empirical evidence suggesting that aid for trade is broadly correlated with increases in trade. Despite these achievements, a number of challenges loom as the Aid-for-Trade Initiative needs to adapt to the 2015 development agenda, with its focus on Sustainable Development Goals, such as maintaining focus, scaling up, ensuring poverty impact, enhancing effectiveness, ensuring sustainability, expanding partnerships. Embedding a trade cost perspective at the centre of the Aid-for-Trade Initiative would provide an operational focal point for action among a broad collation of stakeholders.*

INTRODUCTION

After ten years during which the global economy has changed dramatically, it is time to assess whether the Aid for Trade Initiative is still fit for purpose “to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to implement and benefit from WTO Agreements and more broadly to expand their trade” (WTO, 2006). In the run-up to United Nation’s Third International Conference on Financing for Development, which aims to support the post-2015 development agenda, and the Tenth WTO Ministerial Conference in Nairobi, Kenya, the trade and development community have a unique opportunity to ensure the continued relevance and effectiveness of aid for trade. This concluding chapter highlights some of the main achievements and challenges of the initiative. It suggests that a focus on reducing trade costs could serve as a rallying point for integrated approaches to achieve inclusive and sustainable development outcomes.

ACHIEVEMENTS

The 2006 Task Force recommendations on aid for trade established the WTO-led global and country-based monitoring framework (i.e. the global review and the aid for trade section in the trade policy review). The framework is built around transparency, accountability and dialogue to create incentives for more and better aid for trade. The biennial global review has shown that the Aid-for Trade Initiative has indeed worked as expected and is broadly considered a success. In particular, the following holds true:

- The Initiative has succeeded in raising awareness among developing countries and donor agencies about the positive role that trade can play in promoting economic growth and development. Successive global reviews have shown that developing countries – notably the LDCs through the help of the Enhanced Integrated Framework – are getting better at articulating, mainstreaming and communicating their trade-related objectives and strategies.
- Since the Initiative was launched in 2006, a total of USD 246.5 billion in official development assistance (ODA) and USD 190.7 billion in trade-related other official flows (OOF) has been disbursed to contribute to financing aid-for-trade programmes and projects. In 2013, ODA commitments for trade-related programmes stood at USD 55 billion, with an additional USD 49 billion in OOF. Since the 2002-05 baseline, commitments have more than doubled, while the share of aid for trade in country-programmable aid has increased from an average 31% to 38% in 2013.
- There is now ample empirical evidence suggesting that aid for trade is broadly correlated with increases in trade. For instance, OECD/WTO (2013) found that one dollar invested in aid for trade is on average associated with an increase of nearly eight dollars in exports from all developing countries – and with an increase of twenty dollars for the poorest countries. A number of other studies, using a variety of different methodologies, found similarly strong associations between aid for trade and export growth. Furthermore, it is now widely accepted that trade generates economic growth which – depending on its pace and patterns – reduces poverty.
- The empirical evidence is buttressed by anecdotal findings from a large number of case stories submitted in the context of the 2011 and 2015 monitoring exercises. The sheer quantity of activities reported by the public and private sector suggest that aid-for-trade efforts are substantial, that they have taken root across a wide spectrum of countries and that they are becoming central to development strategies. Although not always easy to attribute cause and effect, the stories provide tangible evidence ranging from increased trade volumes, diversified products and markets, faster customs clearance times, reduced trade costs and additional domestic and foreign investments to more employment – including for women – and poverty reduction.

- In addition, the Initiative has proven to be flexible in addressing a broad set of issues on the evolving trade and development agendas. These include the need to maintain momentum (2009), manage aid for trade and development results (2011), link to value chains (2013) and reduce trade costs for inclusive, sustainable growth (2015). Beyond these objectives, the Initiative also engaged a broad community, including providers of South-South co-operation, the private sector and civil society.

CHALLENGES

Despite these achievements, a number of challenges loom as the Aid-for-Trade Initiative needs to adapt to the 2015 development agenda, with its focus on Sustainable Development Goals (SDGs). The following challenges are particularly salient:

- **Maintaining focus** – The 2013 Bali Package refocused attention on the possibilities offered by multilateral approaches to agreeing on trade rules. This publication has underscored how progress in border modernisation can be further advanced and locked in through ratification of the WTO's Trade Facilitation Agreement (TFA). Trade facilitation is a policy area that is central to today's interconnected markets and production processes. The TFA highlights how trade agreements can be tailored to individual development circumstances, with built-in flexibilities, and backed by aid-for-trade support. Part of the Bali Package, the TFA was a so-called early harvest on the broader Doha Development Agenda (DDA) negotiation. The challenge now is to agree on a work programme that can be used as a springboard to concluding the DDA. Research suggests that delivering a substantive DDA deal could advance progress towards the SDGs and could be considered as a down payment on financing the post-2015 development agenda.
- **The right emphasis** – The definition of aid for trade as “projects and programmes [...] that have been identified as trade-related development priorities in the recipient country's national development strategies” is based on the 2005 principles for aid effectiveness found in the Paris Declaration. Such a broad definition allows for operational flexibility to tackle any type of trade-related binding constraints at the country level. This also reflects the reality of trade measures, particularly as they concern non-tariff measures (NTMs), which at first sight might not appear to be trade policy measures (e.g. measures related to health, the environment and certification) but which can still exert powerful trade effects. At the same time, the absence of a precise aid-for-trade definition has complicated global and local debates on the effectiveness of aid for trade. In this regard, the TFA provides a specific focal point, both in a narrow sense of border modernisation efforts and in a broader sense of the complementary investments in network and transport infrastructure that are needed to maximise the benefits of the agreement.
- **Targeting the needs of MICs and LDCs** – Despite the obvious needs of least developed countries (LDCs), two-thirds of the aid-for-trade funds are destined for middle income countries (MICs), with an additional nine-tenths of trade-related to OOF. Assuming that donors are aligning their support, this distribution reflects that LDCs have other more pressing development priorities for which they want support from external development finance. It may also point to their difficulties in formulating bankable projects for trade-related assistance – a key constraint the Enhanced Integrated Framework is helping with. By the same token, with South-South trade being the most dynamic segment of global trade, improving the economic growth prospects of MICs also helps LDCs on the condition that MIC markets are open to LDC exports. Indeed, it may in fact be easier for LDCs to meet the import requirements of MICs – particularly with regards to NTMs – rather than those of high income countries.

- **Enhancing effectiveness** – Only USD 7 billion is committed to regional and global aid-for-trade programmes. However, these programmes are often more effective in reducing trade-related binding constraints, especially for landlocked countries where transport corridors are lifelines for trade. Global and regional programmes are also particularly effective in helping countries comply with standards in highly technical policy areas, such as sanitary and phytosanitary measures. Such support requires scarce technical expertise. While global and regional programmes offer great potential as a catalyst for growth, development and poverty reduction, they face many practical implementation challenges that necessitate better advocacy, careful project formulation and prioritisation on the part of policy makers.
- **Expanding partnerships** – Although the Aid-for-Trade Initiative is inclusive and encompasses a broad coalition of stakeholders from the public sector, providers of South-South trade-related assistance are only slowly becoming more engaged in the initiative despite their increasing financial support to build trade capacities. Further work is needed to nurture their emerging engagement, especially at the country level. The main omission though is that of the private sector. So far, its involvement tends to be mainly issue driven. Yet the private sector should be a key advocate of aid for trade and a principal dialogue partner. Outreach with different business groups, such as the International Chamber of Commerce and the World Economic Forum, needs to be stepped up and made more consistent and structured. But these efforts should not only target global business groups alone. They also need to involve business groups in developing countries – the key beneficiaries of the initiative. The growing emphasis on the private sector in development policy and programming offers a window of opportunity in this regard.
- **Ensuring poverty impact** – Keeping global markets open is a necessary precondition for progress on poverty. An open trading system and trade-led growth has helped contribute to the attainment of the Millennium Development Goal of halving the number of those living in extreme poverty by 2015. The emerging post-2015 development agenda has placed the elimination of extreme poverty as a core objective. Development organisations are likely to follow the lead of the World Bank and place this target at the core of their programming. Trade and the multilateral trading system have a major contribution to make – and one that extends to financing for development. The challenge is that much of the aid-for-trade activities are aimed at creating a favourable environment for private sector-led economic growth (i.e. getting the business, investment and regulatory climates right). This is both time-consuming and may not be a linear process, with direct links between inputs, outputs, outcomes and impacts.
- **Scaling up** – Impact assessment and other evaluation tools are allowing a better understanding of results at the project level. This should translate into better policy. The challenge is to ensure that the research results are shared among a community of people involved with projects on the ground and do not remain an exclusive academic topic. A higher level risk is the focus on micro-results and attribution jeopardises the importance of macro trends at the level of the regional or global economy. This in turn carries the danger that an absence of micro-level results leads to neglecting the all-important macro-economic enabling measures. A focus on gender might offer a way out of this conundrum. Research in the nascent, but rapidly expanding, field of gender and trade is unambiguous in pointing to the positive effects achieved by increasing women's participation in markets at all levels of the economy. The disproportionate burden of poverty carried by women and girls in the developing world means successful aid-for-trade interventions, be they micro-interventions or actions to improve the macro-enabling environment are likely to have positive empowerment effects too.

- **Ensuring sustainability** – Research on aid-for-trade financing highlights that a growing share is also contributing to the sustainable component of the SDGs. Assuming a positive outcome of the 21st Session Conference of the Parties to the United Nations Framework Convention on Climate Change, this proportion is set to rise further. This presents an opportunity for the Aid-for-Trade Initiative and should contribute to greening aid for trade. However, the objective has consistently been ranked low in partner countries surveys on the future of the initiative. Other objectives, notably investing in trade-related infrastructure, building productive capacity and trade facilitation have consistently outranked green growth. In practice though, these objectives should be pursued together rather than in isolation. Far from being incompatible, the SDGs and aid for trade should be seen as mutually reinforcing.
- **Guaranteeing policy coherence for development** – An important perspective emerging from the universal and transformative post-2015 development agenda is that it could lead to a potential increase in the number and range of NTMs. Research suggests that the burden of NTM compliance falls most heavily on SMEs and on LDCs. Efforts to support compliance and reduce the burden may need to be expanded if the desired transformation is to be both smooth and not engender important adjustment costs for exporters in developing and, in particular, LDCs.

STRENGTHENING THE INITIATIVE

The starting premise of the Aid-for-Trade Initiative was that enshrining market access in trade agreements is an essential, but not a sufficient step, to achieving market presence – other factors need be addressed too. Past global reviews and publications have sought to galvanise attention and action on this issue. This report underlines that this strategy is working, but that high trade costs remain a significant impediment for developing countries. In the worst cases, prohibitive trade costs can price the poorest countries out of global markets altogether, leaving them locked into low-value regional trade where growth possibilities are stymied. At the factory or farm-gate level, products can be competitively priced but still fail in export markets due to excessive trade costs – and also in domestic markets too if domestic trade costs are too high. High trade costs effectively nullify comparative advantage by rendering exports uncompetitive. High trade costs deny firms access to technology and intermediate inputs, preventing their entry into, or movement up, global value chains (GVCs). High trade costs also erode consumer welfare, narrowing the range of good and services on offer and pushing up prices. While trade costs do not alone explain the development pathways of economies, they are a major factor in explaining why some countries are unable to grow and diversify. The same is also true for many often disadvantaged regions within countries.

Embedding a trade cost perspective at the centre of the Aid-for-Trade Initiative would provide an operational focal point for action among a broad collation of stakeholders. Advantages of a trade-cost reduction target are that lowering trade costs is neutral in the sense of benefiting not just exporters but also importers and households. It should be left to governments in dialogue with stakeholders to identify which costs are most distorting, how best to reduce them, and how to use the varied forms of development finance provided by different providers. Such an approach would also allow for a critical assessment of the domestic regulatory framework, which often stifles growth of the service sector. Finally, such an action-focused approach would allow for greater accountability of outcomes and even the introduction of innovative donor approaches, such as cash-on-delivery and other forms of impact programming.

The emerging development paradigm in the proposed post-2015 development agenda will require aid for trade to adopt an integrated approach to ensure that aid for trade achieves inclusive and sustainable development outcomes. More importantly, the processes for achieving the expected outcomes – i.e. the design and the implementation framework of projects – should be inclusive in that they engage economically disadvantaged groups and sustainable in that they encourage climate-adaptation and mitigation activities.

The Aid for Trade Initiative is an essential component of the post-2015 development policy agenda. This report has highlighted that this would be further advanced – and namely the goal of eradicating extreme poverty would be attained – through a better understanding of how high trade costs undermine connectivity and hamper economic growth and development. Well-designed aid-for-trade interventions can be effective in reducing trade costs in areas partner countries and donors prioritise, such as infrastructure, trade facilitation and non-tariff measures like product standards. Furthermore, this need not contradict with overarching green-growth objectives; on the contrary, aid-for-trade may actually promote these objectives. There are positive reasons to believe that developing countries and their partners are taking trade costs seriously, that action in this area builds from solid practical and theoretical foundations and, most importantly, that it will be of service to attaining the proposed SDGs.

REFERENCE

WTO (2006), "Recommendations of the task force on aid for trade", WT/AFT/1, WTO, Geneva.

