POLICY BRIEF

OECD

August 2003

# Trade Capacity Building: Critical for Development



## Introduction

The global annual welfare gains from further multilateral trade liberalisation, involving both tariff reduction and trade facilitation, would be substantial. Recent OECD estimates suggest that they would range, depending on the precise scenario, between US$117 billion and US$173 billion. For individual economies, depending on the region to which they belong, the gains would amount to annual real increases in gross domestic product (GDP) of between 0.2% and 1.8%, the OECD estimates show. These figures are sufficiently impressive to inspire international action. But would the gains be automatic? Would significantly improved market access be enough to stimulate diversification and trade-led growth? And will increased trade necessarily contribute to reducing poverty and achieving the other Millennium Development Goals identified by the international community?

If developing countries are to maximise the benefits from trade liberalisation, then *market access*, which is of critical importance to them, must be complemented by *domestic policy reforms* and *trade capacity building*. This Policy Brief looks at what trade capacity building is and why support from the international community is so important. Developing countries urgently need to diversify and add value to their production chains and export baskets. This requires, among other things, raising quality standards and certification requirements, improving infrastructure, rationalising transportation systems and simplifying customs procedures. This Policy Brief reviews progress to date and sets out the remaining challenges for the trade and development communities. It concludes by showing what the OECD can do to help support international initiatives on trade capacity building. ■

oecd Observer

© OECD 2003

## What is trade capacity building?

Trade capacity building, according to a broad definition provided by the OECD Development Assistance Committee (DAC, grouping the world's major bilateral aid donors) in its Guidelines on Strengthening Trade Capacity for Development, enhances the ability of policymakers, enterprises and civil society in developing countries to:

- Collaborate in formulating and implementing a trade development strategy embedded in a broader national development strategy. This means establishing a trade policy process with broad stakeholder participation that can set agendas and identify clear objectives.
- Increase the volume and value-added of exports, diversify export products and markets and increase foreign investment to generate jobs and exports. This involves strengthening trade policy institutions as well as raising the potential of enterprises to seize trading opportunities as they emerge.
- Participate in – and benefit from – the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce. This requires active participation in the WTO and other trade negotiation forums to promote the country's own trade interests. ■

## Why is it so important for developing countries?

The importance of a holistic approach to trade development is now widely recognised: individual measures focusing on overseas marketing or on trade reforms alone are important, but not sufficient to strengthen a country's capacity to trade. And despite major efforts at reform and market-opening initiatives, many of the world's poorest countries have not been able to take advantage of global trading opportunities, and hence participate in the growth-inducing and poverty-reducing benefits of trade. There are many reasons for this, including the difficulty of tackling comprehensively the inter-linkages of multiple trade challenges, such as the need to import essential materials at world prices to expand exports, the need to enhance the ability of firms to meet the price and quality requirements of global supply chains, the need to build the legal and physical infrastructures conducive to international business development, and so on.

Exploiting opportunities to produce competitively and to export the resulting goods and services into OECD markets requires knowledge, skills and access to finance. The increasing focus on "behind the border" measures, such as sanitary and phytosanitary regulations and other technical barriers to trade, in multilateral trade negotiations represents another challenge. Rather than simply having to lower tariffs, the new requirements have potentially far-reaching implications for domestic institutions and policy reform. If they cannot reap the full benefits of enhanced market access in terms of increased exports to the OECD market or in terms of a more diversified export base, many of the world's least developed countries remain extremely vulnerable. Trade capacity building is an essential tool for helping them to reduce this vulnerability.

The table below illustrates the problem by presenting a regional overview of commodity dependence and export performance of 93 low-income and other developing countries. In this table, OECD import statistics are used to compare the export structure and performance of partner countries. One problem for developing countries is the continuing effect of the dependence on commodity exports that was a widespread phenomenon in all developing regions at the end of the 1960s. Broad primary products still constitute the majority of merchandise exports in all developing regions except Asia. Most notably, these products still account for more than 90% of merchandise exports in the majority of countries in Sub-Saharan Africa; this suggests that very little change in trade structure has taken place there. By contrast, major structural transformation has occurred in Asia and, to a lesser extent, in the Middle East and North Africa as well as in Latin America and the Caribbean.

As the table makes clear, Asia is the only region where export diversification was accompanied by a corresponding rise in its market share in the high-income OECD countries: all the other regions lost share between the 1960s and the end of the century. The situation is particularly worrisome for Africa. In fact, with a

**Commodity Dependence by Region, 1966-1970 and 1996-2000**

Share of broad primary products in total exports (five-year, simple averages: percentage)

| | | Mean | Median | Minimum | Maximum | Market share |
|---|---|---|---|---|---|---|
| Asia (19) | 1966-1970<br>1996-2000 | 76<br>22 | 86<br>14 | 5<br>4 | 99<br>64 | 4.5<br>13.4 |
| Latin America and Caribbean (26) | 1966-1970<br>1996-2000 | 92<br>63 | 96<br>61 | 71<br>15 | 99<br>96 | 6.6<br>5.8 |
| Middle East and North Africa (10) | 1966-1970<br>1996-2000 | 85<br>51 | 91<br>44 | 32<br>4 | 98<br>95 | 2.1<br>1.0 |
| Sub-Saharan Africa (38) | 1966-1970<br>1996-2000 | 97<br>86 | 99<br>92 | 86<br>29 | 100<br>100 | 3.9<br>1.5 |
| Overall (93) | 1966-1970<br>1996-2000 | 90<br>63 | 97<br>73 | 5<br>4 | 100<br>100 | 17.1<br>21.8 |
| Low Income (47) | 1966-1970<br>1996-2000 | 93<br>74 | 98<br>88 | 46<br>4 | 100<br>100 | 4.7<br>3.0 |

*Note:* The number of countries analysed in each region is given in parentheses. "Market share" is the cumulative share of the 23 high-income OECD countries' imports from the countries belonging to the specified region or group in proportion to their imports from the world. Five low-income countries are excluded from this table, due to the lack of trade data between 1966 and 1970 (Central African Republic, Comoros, Lesotho, Nepal and Papua New Guinea).

*Source:* For further details and data source, see Bonaglia, F. and K. Fukasaku (2003), "Export Diversification in Low-Income Countries: An International Challenge after Doha", Technical Paper No. 209, OECD Development Centre, 2003.

combined population of almost 650 million, the 38 Sub-Saharan Africa countries between them account for only 1.5% of imports into high-income OECD countries – about the same amount as Malaysia and less than half the market share claimed by the region three decades ago. As a result, the aggregate market share of all 93 developing countries increased only moderately to 22% in 1996-2000, just 5 percentage points higher than the 1966-1970 level.

Yet there are many possibilities for low-income, commodity-dependent countries to diversify. One such option is to increase the efficiency of agro-business firms, freeing up capital and labour that can be used to develop non-traditional exports. In addition, significant technological advances in packaging and transport and huge changes in food consumption patterns in OECD countries over the past two decades have opened up new opportunities for agricultural trade, with fresh food products becoming a significant part of the global agro-food trade. The processing of primary commodities and the production of new types of commodities, such as off-season and speciality fresh vegetables or cut flowers, have already generated some success stories in African countries with low labour costs and appropriate agro-ecological conditions.

But to take advantage of such opportunities in primary commodity production, the commodity-dependent countries will need to implement a comprehensive long-term diversification strategy, backed up by support from the international community in the form of well-targeted, sustainably-financed trade capacity building activities. ■

## Trade capacity building at Doha

Development concerns, particularly trade capacity building, were at the very heart of the deliberations surrounding the launch of a new round of multilateral trade negotiations under the auspices of the World Trade Organization (WTO) in late 2001. At a ministerial meeting in Doha, WTO members confirmed that technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system. They also recognised that the integration of the world's least developed countries into the multilateral trading system requires meaningful market access, support for the diversification of their production and export bases, and trade-related technical assistance and capacity building.

The Doha Declaration issued by WTO ministers in November 2001 contained important initiatives of particular significance for developing countries. Perhaps most importantly, it identified trade capacity building as a critical element of the development dimension of the multilateral trading system. At the same time, by highlighting the importance of mainstreaming trade into development and poverty reduction plans, particularly for the least developed countries, the Declaration recognised that trade is not an end in itself but rather a means to achieving broader development. And it recognised that no single agency or donor can meet the multiple trade-related needs of developing countries, so additional partners would have to be brought on board to help the WTO provide trade capacity building. The Doha Declaration also spelled out the DAC's role, referring to 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". ■

## What has been achieved since Doha?

A great deal has been achieved in direct response to Doha. Most donors and trade capacity building agencies, both bilateral and multilateral, have substantially scaled up the quantity and monetary value of their trade capacity building activities. In addition to increasing their bilateral activities, donors have also contributed to multilateral funds such as the Doha Development Agenda Global Trust Fund, the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries and the Joint Integrated Technical Assistance Programme.

The WTO and the OECD also created a joint database to monitor support for trade capacity building in the context of the Doha negotiations and the Millennium Development Goals, which will help to ensure better co-ordination. The *Second Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building* indicates that 39 bilateral donor countries and multilateral agencies provided nearly 8 000 distinct activities in 2001, 2002, and early 2003. The report points out that in 2001-2002, commitments of aid for trade-related technical assistance and capacity building, were equivalent to 4.8% of total aid commitments. There was an annual average of commitments to some 1 665 projects totalling US$719 million, to activities covering all aspects of trade policy and regulations identified in the Doha Declaration, and an average of a further 1 860 commitments, amounting to US$1.408 billion, to activities in trade development. In addition to these activities, an average of US$8.1 billion per year was committed to economic infrastructure during 2000 and 2001 (20% of all aid), thereby helping to build the transport, energy and communications networks essential for international trade.

Progress has also been made in raising awareness within the development community of the importance of trade for development and poverty reduction. As a result, a large number of OECD countries now have a dedicated strategy to expand their activities in trade capacity building. At least thirteen bilateral or multilateral donors have prepared or are in the process of preparing specific trade capacity building strategy papers and programmes. A survey of DAC members' strategies shows that the Doha ministerial meeting had a significant impact on shifting the focus of development co-operation towards a growth agenda focused on reducing poverty and which includes trade and investment as the key engines of development. The importance that bilateral and multilateral agencies accord to trade capacity building and to effective co-ordination among themselves is further evidenced by their enhanced participation in the Integrated Framework (through for example, taking lead roles in particular least developed countries) and efforts to strengthen the dialogue between the trade and development communities, such as a high-level meeting on trade and development organised by the Danish government in May 2003 on *Making Trade Work for The Poor*. ■

## Key challenges ahead

While considerable progress has been made, a number of challenges remain, particularly with regard to the effective implementation of trade capacity building. In order to maintain the momentum, it is important that these challenges be addressed jointly by the trade and development communities in both developed and developing countries. The challenges include:

***For OECD governments***

- *Coherence and neutrality:* Trade capacity building often involves a complex partnership between the Ministry of Development Co-operation and/or the Trade Promotion Agency, as well as sometimes a specialised agency such as Customs Authority or the private sector on the one side and the Ministry of Trade or Foreign Affairs on the other. Each of these actors has different priorities, operating arrangements, timeframes and resources. There is a delicate balance to be established between the donor country's own trade policy agenda and the developing country's needs – and between the provision of short-term negotiating capacity and support for longer-term development activities. Ensuring frequent information exchange and dialogue between these two communities in capitals is an important step towards greater policy coherence.
- *Harmonisation and simplification of procedures:* Donors and agencies should work together as much as possible to avoid duplication and to maximise the efficient use of the resources going to any particular country. Complicated reporting requirements and other administrative procedures can overload the capacity of developing countries. All efforts to streamline procedures and provide joint funding arrangements are to be encouraged, especially as there is at present a substantial supply of funds available yet only limited absorptive capacity in developing countries. Effective communication between aid agencies and other assistance providers is an essential element of good co-ordination.

***For developing countries***

- *Ownership of the implementation process:* Ensuring local ownership of trade and development strategies is a key objective of trade capacity building. Therefore, it is the developing countries themselves who should take responsibility for defining their needs and implementing trade capacity building. This requires strong government commitment as well as national consensus about the role of trade in development. Achieving this consensus is an ongoing process involving active dialogue among a large number of stakeholders including the public authorities, the private sector, academia and civil society as well as external partners.
- *Mainstreaming:* For trade reforms to be meaningful, they must be an integral part of a broader development and poverty reduction strategy. This requires that adequate attention be paid to ensuring that they are sequenced and coordinated with industrial and private sector development policies. It also requires complementary policies, such as social safety nets, domestic tax reform to compensate for the loss of tariff revenues and measures to increase the supply of skilled labour. The main vehicles for mainstreaming trade are the Poverty Reduction Strategy Papers (PRSP) and Associated Country Action Plans. The Integrated Framework is a tool to facilitate and accelerate the elaboration of a trade strategy and its mainstreaming and implementation. ■

## What can the OECD do to support the process?

The OECD can help to take forward the international initiatives on trade capacity building in several ways. A key role is to share information and monitor progress. The *Second Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building,* prepared for the WTO ministerial meeting in Cancun in September 2003, draws on the joint database launched in November 2002 in response to the Doha Ministerial Declaration. The OECD will now work with the WTO and its reporting partners to expand and improve this database and seek ways to enhance the national and regional relevance of this tool.

But while the database provides comprehensive information on the scope and type of trade capacity building activities, there is very little case material from countries from which to draw conclusions about good practice and aid effectiveness. A next step for the OECD is to bring together practitioners of trade capacity building in order to identify good practices and agree on a set of indicators for assessing effectiveness in this area.

The OECD can also help meet the need for more country-specific research and comparative analysis of the impact of trade capacity building initiatives. This will improve understanding of the main bottlenecks to productivity growth in different groups of developing countries. The OECD will work with other international organisations, as well as local and regional institutions, in this area.

By working closely with DAC member states, facilitating dialogue and organising meetings between the trade and development communities at the OECD and in developing countries, and by participating actively in the Integrated Framework Working Group, the OECD can help to raise awareness of trade policy issues and trade capacity building challenges in the development co-operation community. It can also ensure that trade capacity building challenges are integrated into national development and poverty reduction strategies instead of being treated in isolation. ■

## For further information

For more information on this subject, please contact:
Ebba Dohlman, Tel.: (33-1) 45 24 98 48
(email: *ebba.dohlman@oecd.org),* or
Kiichiro Fukasaku, Tel.: (33-1) 45 24 94 99
(email: *kiichiro.fukasaku@oecd.org*).

Or visit the trade capacity building website at: *www.oecd.org/dac/trade*

## For further reading


- **The DAC Guidelines: Strengthening Trade Capacity for Development** (2001).
- **The DAC Journal: Development Co-operation**, 2002 Report (2003, Vol. 4, No. 1).
- **The Second Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building** (forthcoming).
- Bonaglia, F. and K. Fukasaku (2003), **Export Diversification in Low-Income Countries: An International Challenge after Doha**, Development Centre, Technical Paper No. 209, OECD (June 2003).
- Bonaglia, F. and K. Fukasaku (2002), **Trading Competitively: Trade Capacity Building in Sub-Saharan Africa***,* Development Centre Studies, OECD (November 2002).
- **Building Trade Policy Capacity in Developing Countries and Transition Economies – A Practical Guide to Planning Technical Co-operation Programmes** (DFID, March 2001).
- Visit the OECD/WTO joint database on trade capacity building at: *http://tcbdb.wto.org*

**OECD publications can be securely purchased from the OECD Online Bookshop**
*www.oecd.org/bookshop*

**OECD publications and statistical databases are also available via our online library**
*www.SourceOECD.org*

The OECD Policy Briefs are prepared by the Public Affairs Division,
Public Affairs and Communications Directorate.
They are published under the responsibility of the Secretary-General.

## Where to contact us?

**FRANCE**
OECD Headquarters
2, rue André-Pascal
75775 PARIS Cedex 16
Tel.: 33 (0) 1 45 24 81 81
Fax: 33 (0) 1 45 24 19 50
E-mail: sales@oecd.org
Internet: *www.oecd.org*

**GERMANY**
OECD BERLIN Centre
Albrechtstrasse 9/10
D-10117 BERLIN
Tel.: (49-30) 2888353
Fax: (49-30) 28883545
E-mail:
berlin.contact@oecd.org
Internet:
*www.oecd.org/deutschland*

**JAPAN**
OECD TOKYO Centre
Nippon Press Center Bldg
2-2-1 Uchisaiwaicho,
Chiyoda-ku
TOKYO 100-0011
Tel.: (81-3) 5532 0021
Fax: (81-3) 5532 0036/0035
E-mail: center@oecdtokyo.org
Internet: *www.oecdtokyo.org*

**MEXICO**
OECD MEXICO Centre
Av. Presidente Mazaryk 526
Colonia: Polanco
C.P. 11560
MEXICO, D.F
Tel.: (00.52.55) 5281 3810
Fax: (00.52.55) 5280 0480
E-mail:
mexico.contact@oecd.org
Internet: *www.rtn.net.mx/ocde*

**UNITED STATES**
OECD WASHINGTON Center
2001 L Street N.W.,
Suite 650
WASHINGTON D.C. 20036-4922
Tel.: (1-202) 785 6323
Fax: (1-202) 785 0350
E-mail:
washington.contact@oecd.org
Internet: *www.oecdwash.org*
Toll free: (1-800) 456 6323

00 2003 1Z 1

**The OECD Policy Briefs are available on the OECD's Internet site**

*www.oecd.org/publications/Pol_brief*