

OECD POLICY DIALOGUE ON AID FOR TRADE: FROM POLICY TO PRACTICE

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RAPPORTEUR'S REPORT

Aid for Trade--Anything New?

Before introducing the speakers in this session the Chair, Ambassador Mia Horn af Rantzien from Sweden, noted that on 10 October 2006 the WTO General Council had endorsed the Task Force's recommendations on Aid for Trade. She noted that many contributed to the Task Force, which she also chaired, and that it was now time to take this initiative forward to implementation. She argued that effective implementation would require many people to work together.

The first speaker in this session was a Deputy Director-General of the WTO. She noted that, with the suspension of the DDA, this was a challenging time for the multilateral trading system. The proposals advanced in the DDA made it the most ambitious round ever, she claimed, with between two to three times as many cuts in trade barriers envisaged now than those that resulted from the Uruguay Round agreements. The poor, it was argued, would only be helped by an ambitious outcome to the round, cutting trade impediments to goods and services while preserving some flexibilities for developing countries. The suspension of the Round had given WTO Members time to think through how to break the deadlock. The United States, the European Union, and India held the keys to making progress with the DDA, she said.

With respect to the Aid for Trade initiative, this speaker stressed that the role of the WTO was strictly one of advocacy and monitoring. The WTO was not a donor agency. Instead, it saw its role as working closely with recipient countries, donors, and the private sector. As far as monitoring is concerned, the WTO could check whether any commitments on aid had been met and whether additional funds were actually made available for Aid for Trade. Moreover, the WTO could examine whether the goals for this initiative, as enunciated in the Hong Kong WTO Ministerial Declaration, had been met. For their part, developing countries might better integrate their trade policies into decision-making on national development plans and poverty reduction strategies. This speaker concluded her remarks by noting that, although implementing the Aid for Trade Framework could yield considerable payoffs on its own, its reach and potential impact could be much enhanced by the successful completion of the DDA.

The second presentation in this session was given by a senior minister from a small African island country. The speaker noted that in recent years his country's economy had been buffeted by three shocks: the phase-out of the Multi-Fibre Arrangement (MFA) in January 2005, the oil price increases of recent years, and the impending 36 percent cut in the guaranteed minimum sugar price announced by the European Union as part of its new sugar regime (adopted in February 2006). These shocks had led to a substantial deterioration in the terms of trade and in sizeable job losses. These shocks, he argued, had also persuaded the government that growth based on trade preferences was no longer viable.

The speaker argued that his country's government had formulated a reform programme that sought to improve the investment climate, bolster competitiveness, consolidate the public finances, while strengthening social protection and cohesion. A ten-year package of measures was put together with the

International Monetary Fund and the World Bank's assistance and EUR 4 billion in outlays are envisaged. His government is seeking half of this sum, principally front-loaded over the ten-year period, in Aid for Trade-related support.

In addition to discussing his own country's circumstances, the Minister articulated a set of criteria that eligible countries should meet if they are to receive Aid for Trade support. These criteria include.

- A detailed reform strategy with clear objectives,
- A costing of the reform plan prepared with the international financial institutions to give the plan added credibility,
- A financing plan that outlines efforts to raise funds from domestic sources and the amount of concessional finance sought, and,
- A set of deliverables and targets so as to take full ownership of the formulation and implementation of the programme.

Concerning the eligibility for Aid for Trade the Minister argued that it should meet all the relevant needs of developing country Members of the WTO with priority given to the following three groups: the LDCs, Small Vulnerable Economies, and small developing countries that have acceded to the WTO. Moreover, he argued that Aid for Trade should be made available through general budget support, with appropriate mechanisms for monitoring etc. It should be possible to finance infrastructure projects through the Aid for Trade Framework, he said. Since there are a number of potential donors for Aid for Trade, in his view each should use their existing financing instruments; however, where possible, donor programmes should be harmonised with each recipient country's economic programme. Regional funds could also be established. Finally, he argued that mechanisms for the enhancement of private sector capabilities should be part of the implementation of the Aid for Trade Framework. In short, this speaker outlined his position on the eligibility for Aid for Trade, instruments and mechanisms for disbursement, and the structuring of donor-recipient relations. He emphasised the need to learn from past mistakes in disbursing aid and to apply Aid for Trade flexibly.

A senior minister from a LDC made the next presentation in this session. In common with many other LDCs, this speaker noted that his country's economy had difficulties diversifying production, developing supply side capacities, building infrastructure, and faced heavy costs of adjustment. That is not to say that faced with these daunting circumstances his colleagues in government have been inactive. To the contrary, customs procedures were simplified in recent years and a one-stop shop for foreign investments established. However, much more needed to be done as had been revealed by a standard diagnostic analysis of his country's economy. On their side coordination among ministries could be improved. Likewise, there was room for strengthening coordination among donors, potentially through a mechanism like the Integrated Framework (IF). The Paris Declaration was a good model to follow, especially as it relates to accountability.

More generally, this speaker argued, LDCs need Aid for Trade for a variety of reasons including to adjust to the erosion of trade preferences granted by trading partners. The conditions attached to such aid should be limited in his view. Moreover, implementation of the Aid for Trade initiative should begin now and should not wait for the conclusion of the DDA, the former not being part of the Single Undertaking of the latter.

A senior administrator of a leading industrialised country's aid agency was the fourth speaker in this session. This speaker restated his country's commitment to the Aid for Trade initiative and to completing

the DDA negotiations. With respect to the novelty of Aid for Trade, it was argued that although trade-related infrastructure had been supported before, the heightened emphasis on the relationship between trade policy-making and supply-side constraints and on the need for cooperation between trade and finance ministries were novel and welcome.

He went on to describe a number of programmes that his agency supports on Aid for Trade. Particular emphasis was given to bilateral and regional measures to simplify customs procedures, steps which encourage the creation of sub-regional and regional markets, allowing firms to exploit economies of scale. In one project in sub-Saharan Africa trade quadrupled once a corridor was established with streamlined customs regulations. In other projects his agency has worked with local business associations and with the World Bank. He noted that his country had set up a fund to help countries with a track record of good governance. Interestingly, the 10 recipients of the latter have been chosen to use 60 percent of the allocated funds on Aid for Trade projects, which is one of many indications of the demand for such initiatives.

The experiences of a multilateral development institution in implementing Aid for Trade projects were recounted by an official. He noted that since 2003 financial support for Aid for Trade-related projects had grown markedly, especially for those concerning trade facilitation measures. Projects involving more than one country in a region had received more support and examples were given from Central, Eastern, and Western Africa. When many parties are involved coordination becomes important and he argued that in this regard the Integrated Framework had been helpful and had received less credit than it deserved. This Framework helped focus attention and revisit matters that had been dropped or overlooked. He argued that the IF positively influenced outcomes without necessarily being instrumental in every case.

This speaker made the point that what was novel about Aid for Trade was the resurgence of interest in programmatic approaches to trade projects. Developing countries recognise the importance of allocating budgetary resources to strengthening firm competitiveness, not just for international trade but more generally. Coordination between ministries had improved, again in recognition of the wide-ranging nature of the challenge. In his estimation, demands for Aid for Trade would increase further should the DDA be successfully completed.

The final speaker in this session was a senior executive of a leading Asian company with commercial operations in a number of South-East Asian countries. Drawing on his experience in the agro-food sector, he argued that developing supply-side capacities required a partnership between governments (which provide the incentives), farmers (who need access to markets), and business (who sells seeds and provide technical support to farmers). The combination of market potential, technical competence, and managerial skills were needed to develop businesses successfully, and he illustrated his argument with references to crop-rearing in Thailand. He noted that the so-called connectivity of the Mekong region, a reference to the roads and telecommunications infrastructure in that region, was helping to forge a single market for crops which, in turn, was attracting multinational businesses. More generally, he noted that foreign companies were important contributors to the development of the agricultural private sector and that initiatives to promote firm performance should be encouraged as well as improvements in trade facilitation.

After these presentations a number of participants offered their own observations. One Ambassador to the WTO from a LDC stressed the importance that LDCs attached to the Aid for Trade initiative and the expectation that additional funds would be allocated to it. Infrastructure projects should, it was argued, be eligible for Aid for Trade funds as they were often related to developing supply-side capacities. The most important ingredient in his view was political will and he urged that implementation of the Aid for Trade Initiative would begin immediately. One participant from an industrialised region noted that the thoroughness with which the Mauritius had prepared its proposed Aid for Trade package was commendable and that donors had been attracted to it. One participant from an industrialised country in Asia broke down international commercial transactions into three distinct tasks, namely, produce, sell, and

buy and argued that Aid for Trade should target each of these. This view was endorsed by the Chair as she concluded the session.