



Trade and Development in the New Global Context – The Capacity Dimension

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Introduction

Developing countries want to join in the globalisation process and they are making major efforts to take forward their policy reforms. They realise increasingly that beneficial integration in the world economy starts with appropriate policies at home – social, economic, environmental and political policies – and that these reform efforts can enable trade to contribute to development. But despite major efforts, many of the poorest countries have not yet been able to integrate successfully into global markets, and hence to participate in the growth-inducing and poverty-reducing benefits of trade.

Trade is not an end in itself. But trade can enhance a country's access to a wider range of goods, services, technologies and knowledge. It stimulates the entrepreneurial activities of the private sector. It creates jobs. It fosters vital "learning" processes. It attracts private capital. It increases foreign exchange earnings. Above all, it contributes to generating the resources for sustainable development and the alleviation of poverty.

The High Level Meeting of the OECD's Development Assistance Committee in April 2001 endorsed the Guidelines on capacity development for trade in the new global context. ■

This Policy Brief sets out why enhancing trade capacity in developing countries must complement further domestic reforms and greater access to markets in order to support their integration into the global economy. It also explains what we mean by capacity building and how the international community can contribute to these efforts in less advanced developing countries..

Can trade and trade policy contribute to poverty reduction?

Ensuring that the multilateral trading system (MTS) is beneficial to the poor is one of the key concerns in current international debates. Although there is consensus that the MTS and national trade policies should be conducive to maximising the benefits and minimising the negative impacts to the poor, there is no clear-cut policy prescription for how to do this.

The links between trade policy and poverty are complex and sometimes quite indirect. Because trade policy is only one of many factors affecting long-term growth and poverty, and trade policy reforms are undertaken at the same time as other major macro or structural reforms, it is often difficult to isolate and trace its impact. But research is starting to produce some conclusions – which need to be confirmed by more detailed country analyses.

The main conclusion for the longer term is that open economies are conducive to growth – and that overall economic growth is a necessary condition and very closely linked to income growth for the poor. For the short term, trade liberalisation may increase or decrease the welfare of the poor, depending on the protection in individual countries and the sources of income and patterns of consumption of the poor. But in most instances, the short-term effects are small. If there are mutually supportive policies, adequate infrastructure and sound institutions, trade and its liberalisation are more likely to promote growth and poverty reduction. That points to the importance of build-

ing human and institutional capacity to accompany trade reforms – and of putting effective safety nets in place. ■

Why help develop capacity to trade?

Developing countries face enormous new challenges with limited institutional and human resource capacities. Governments and the private sector have to overcome these capacity gaps as they seek to manage their integration into the global economy. Implementation of the World Trade Organisation (WTO) agreements and obligations is far more demanding of the institutional and human capacities of developing countries than is tariff liberalisation. Access to key export markets can be constrained due to lack of information on import requirements and inadequate technical and financial resources to comply with them.

There is also a strong link between the trade capacities of developing countries and the sound functioning of the MTS. An inability to reap benefits from trade can translate into reduced capacity to sustain imports, less faith in the benefits of openness and continued dependence on foreign aid. Overcoming capacity gaps will help developing countries become more effective and reliable negotiators, better able to implement multilateral and regional agreements and meet continuing obligations under those agreements. They will also be more likely to mobilise support domestically for their trade policy reform efforts, experience fewer policy reversals and have the tools and means to raise labour and environmental standards. So it is clearly in

the interest of all countries to help developing countries enhance their capacities to capture and exploit the benefits of trade for sustainable development. ■

Why guidelines?

Many OECD countries are committed in their assistance programmes to helping developing countries integrate into the world economy. This commitment reflects the widely held view that expanded trade and investment can be critical engines of growth – and that development co-operation can spur the private sector development on which trade and investment depend. Many donors have already devoted substantial resources to private sector development initiatives over the past few decades, some of which have helped also to generate exports and investment. But the marginalisation of the Least Developed Countries (LDCs), the growing complexity of the MTS, and the competing demands of regional and bilateral trade initiatives suggest that a more ambitious response is needed. The equitable integration of developing countries into the global economy may require new forms of trade-related development co-operation.

The guidelines on capacity development are the product of extensive consultations with a wide range of stakeholders on how the international community can work together to help developing countries increase their trade performance and participation in international rule-making and institutional processes. They are not intended to be prescriptive but to provide a common reference point for the aid, trade and finance com-

munities. Their purpose is to help to situate trade capacity building in the context of comprehensive approaches to development and poverty reduction. They review and analyse the strategic importance of trade capacity development. And they identify key principles and processes that shape the design and delivery of trade capacity building activities. ■

What is capacity building?

For a long time, capacity building was synonymous with institution building, or technical assistance, with a focus on one institution or a few individuals. Today it is synonymous with building systems or networks – across institutions and individuals, often across borders, to achieve common objectives. The network promotes a critical mass of human and institutional resources that can overcome the limits inherent in the old approach. A key role for donors in capacity development is to facilitate the processes and mobilise indigenous resources that contribute to this critical mass.

Findings from evaluations suggest that past efforts in trade-related activities have been insufficient and too dispersed or isolated to help the developing countries benefit from new trade and investment opportunities. Technical co-operation, often based on outside expertise, has frequently involved costly overheads, limited local ownership and paid insufficient attention to the macro-economic environment. There is a strong and growing demand for more comprehensive (but well-targeted) assistance in the area of capacity development for trade.

Capacity development for trade today is about mobilising participatory approaches to deal with complex trade agendas. Trade capacity building enhances the ability of partner country policy-makers, enterprises and civil society actors to:

- Collaborate in formulating and implementing a trade development strategy that is embedded in a broader national development strategy.
- Strengthen trade policy and institutions as a basis for reforming import regimes, increasing the volume and value-added of exports, diversifying export products and markets and increasing foreign investment to generate jobs and exports.
- Participate in – and benefit from – the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce. ■

What needs to be done to build trade capacity?

Capacity gaps need to be addressed in a wide range of areas from policy-making and implementation to supply side responses. Stakeholders need to be engaged from both the public and private sector, as well as academia and civil society. The breadth, complexity and continuing evolution of trade development challenges have led towards a consensus that a key objective of trade capacity building is to help developing countries put in place a trade policy framework and sustainable consultation processes. The record suggests that no country has been

able to achieve substantial gains in trade without an effective trade policy framework. The collective efforts of donors and developing countries should be guided by a vision of a trade policy process capable of implementing a trade development strategy rooted in an overall national development and poverty reduction strategy.

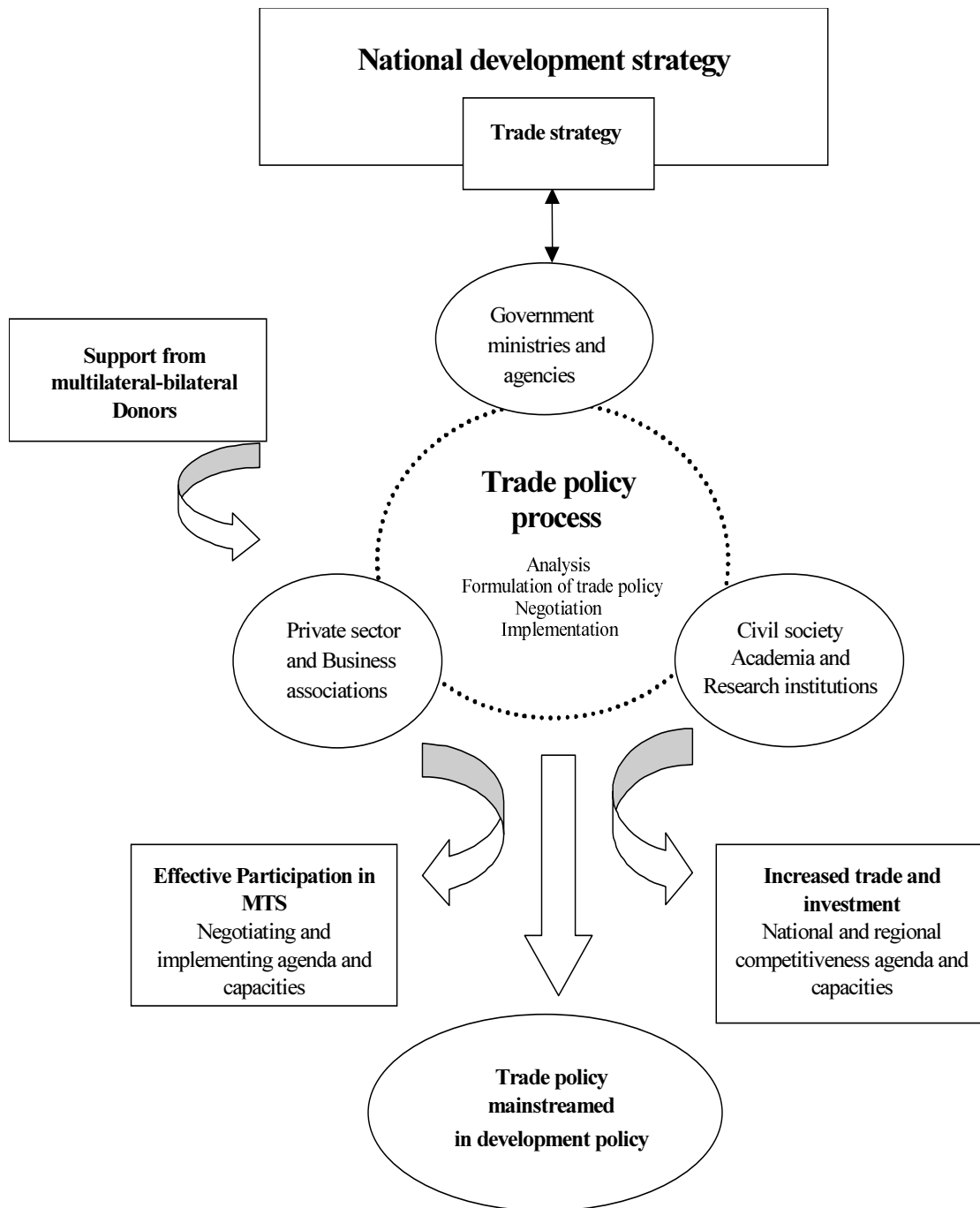
This approach has several things to commend it. A sound trade policy framework will:

- help developing countries address a wide range of trade-related challenges and opportunities – including those that cannot be anticipated – over an extended period
- facilitate genuine local “ownership” of trade development efforts
- reduce the risk that the trade policy priorities of donors will influence developing country trade policies; and enable developing countries to sustain and upgrade trade-related capacities after donors have departed. ■

What are the elements of an effective trade policy process?

Although it is not possible to recommend a single policy framework that is ideally suited to promoting trade, recent capacity-building efforts point to several features or arrangements that have been successful. Donors and developing countries should seek to construct trade policy frameworks with, inter alia, the following elements:

National Development Strategy and The Trade Policy Process



- A coherent trade strategy that is closely integrated with a country's overall development strategy.
- Effective mechanisms for consultation within and among three key sets of stakeholders; government, the enterprise sector, and civil society.
- A strategy for the enhanced collection, dissemination and analysis of trade-related information.
- Trade policy networks, supported by indigenous research institutions, and trade support institutions.
- Outward-oriented regional strategies.

An important first step for developing countries is to integrate their trade strategies into the broader framework of national development and poverty reduction strategies. The priority that each country accords to trade depends on the conditions specific to the economy and should come about through a national dialogue over development priorities and appropriate responses.

The participatory character of effective trade policy-making will help

strengthen local capacities, as stakeholders “learn by doing” and learn from each other. By helping developing countries build such a process, donors will take a major step toward ensuring that development co-operation initiatives are locally-owned and driven by demand. ■

What donor initiatives exist to help build capacity for trade?

A number of bilateral donors have programmes to build trade capacity. One multilateral initiative that has successfully brought key stakeholders together through donor support is the Joint Integrated Technical Assistance Programme (JITAP) in eight African countries managed by the WTO, ITC and UNCTAD (www.jitap.org/). A key component of this programme is the development of national networks of persons having substantive knowledge of MTS issues.

Another instrument to address the needs of the LDCs is the Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries (IF). The IF (www.ldc.org) was originally estab-

lished in 1996 (by WTO, UNCTAD, ITC, World Bank, IMF and UNDP) to increase the effectiveness and efficiency of trade-related technical assistance, in part by strengthening the co-ordination of participating agencies and ensuring that technical assistance is demand-driven. Its success will depend on a sustained commitment of all its stakeholders including bilateral and multilateral donors.

Both the IF and JITAP serve as models for trade capacity building through their emphasis on local ownership and on comprehensive and integrated approaches. Assembling viable trade policy frameworks will require action in many areas and efforts in one area must complement efforts in others. That will help partner countries to assess priority needs – and donors to identify and co-ordinate policy interventions. The challenges are beyond the means of any single donor. The complexity of the agenda demands a significant measure of donor agreement on objectives, sequencing of activities, a division of labour and sharing of information. ■



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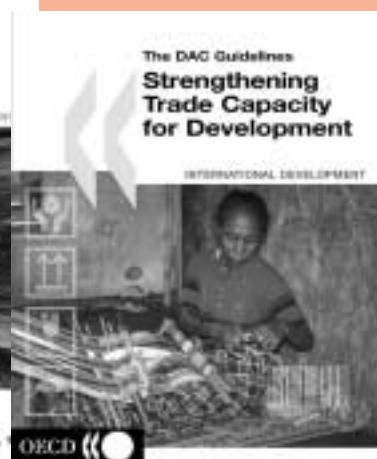
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For further reading

- **The DAC Guidelines: Strengthening Trade Capacity for Development**, 2001
ISBN: 92-64-19504-1, Euros20, 62p.
- **Trade, Investment and Development: Policy Coherence Matters**, 1999
ISBN: 92-64-17112-6, Euros19, 84p.
- **Building Trade Policy Capacity in Developing Countries and Transition Economies - A Practical Guide to Planning Technical Co-operation Programmes**, DFID, United Kingdom, 2001
Available on the OECD online Bookshop at: www.oecd.org/bookshop
- **Trade, Investment and Development: Reaping the Full Benefits of Open Markets**, 1999
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