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**INFORMAL DAC EXPERTS MEETING ON CAPACITY DEVELOPMENT FOR
TRADE**

held on 23-24 November 1998

Classified

This document provides: the summary of the above meeting, incorporating comments by participants; and the final report submitted by Professor John Whalley on "Building Poor Countries' Trade Capacity". The document is circulated for information.

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**INFORMAL DAC EXPERTS MEETING
ON CAPACITY DEVELOPMENT FOR TRADE**

23-24 NOVEMBER 1998

SUMMARY

1. Integrating developing countries in a globalising world economy

Integration in the world economy is vital for development

1. Any dynamic process of economic growth and integration in the world economy must start with appropriate economic, political and social policies at home. In this context, trade can make an important contribution to development. While trade is not an end in itself, trade and trade liberalisation can enhance a country's access to a wider range of goods, services, technologies and to knowledge. It is a potentially important means to stimulate the entrepreneurial activities of the private sector, to attract private capital flows, to increase foreign exchange earnings, and ultimately to generate resources available for sustainable development and for the alleviation of poverty. The risks today lie not so much from greater integration in the world economy, but in being marginalised from it. Marginalisation can result in political instability, environmental degradation and an inability to contribute to regional or global initiatives. It is therefore in the interest of all countries to help developing countries capture and exploit the benefits of trade for sustainable development.

Globalisation strengthens the need for policy coherence

2. The globalising world is characterised by a web of linkages in markets for goods, services, investment and finance. The impact of policies is no longer contained in one sector, one economy or one region, but flows across these linkages, as demonstrated with the Asian financial crisis. Global policy-making and "rules of the game" for the global markets increasingly impose the parameters for domestic policy – witness the progress made on international trade rules, the focus on multilateral agreements on environment and the current debates on revamping the global financial architecture in light of the Asian financial crisis. In such a world, development policy cannot be made in isolation from global market trends and global policy making.

The risk of marginalisation of poor countries is real

3. Developing countries as a whole have made impressive progress integrating themselves into the world economy since the 1970s. The share of the developing countries in world trade has now risen to 30

per cent, compared with less than 20 per cent fifteen years ago. During this time there has also been a significant increase in South-South trade rising from 31 to 37 per cent of total developing country trade.

4. For the least developed countries, however, the situation does not look as bright. The Sub-Saharan African share of OECD imports of the top 30 commodities fell from 21 per cent in the period 1965-67 to 10 per cent in the period 1993-95. The trade of the least developed countries (LLDCs) is limited in scope as well as depth, which increases their vulnerability to external shocks. In most poor countries, the top three export products – usually primary commodities – account for more than 70 per cent of total export sales. An inability to make gains from trade will translate into pressure on incomes, a diminishing ability to sustain imports, reduced faith in the benefits of openness and increased dependence on aid at a time when aid itself is under severe pressure. Revenue from trade will be lost, undermining the capacity of governments to develop the economic and social infrastructure on which sustained reduction in poverty depends.

Capacity development for trade must be driven by the belief that trade can contribute to sustainable development and poverty reduction

5. It has been difficult to establish clear empirical evidence on the links between trade liberalisation and poverty reduction. One very recent study by the World Bank, however, demonstrates a positive correlation between openness to trade and increased growth and poverty reduction. This study found that most sustained periods of growth were accompanied by reductions in poverty. On average, the income of the poor tends to grow proportionately to the average income of the entire population. Greater openness and growth work to reduce inequalities in countries where incomes are initially fairly unequal, whereas the opposite is true in countries where incomes are initially fairly equal.

6. At the same time, it is recognised that trade and investment *per se* are major engines of growth and development and therefore can make a contribution to poverty reduction. Participants indicated that there is substantial evidence of the positive correlation between trade and the human development index. While mainly large firms benefit directly from trade, International Trade Centre (ITC) reports indicate strong employment effects on small component producers in some product areas in Asia. However, making a sharp distinction between inequality between and within countries can be misleading. If you can raise the standard of living relative to other countries, that in itself is a contribution to poverty reduction.

7. The majority of the poor are in rural agricultural areas. Trade expansion in manufactures might contribute indirectly to the standard of living in rural areas. A more important contribution to reducing poverty may be through expanding, diversifying and adding value to agricultural trade. The incentive structures in many developing countries, however, often discourage agricultural innovation and exports, and links between agriculture and industry are inadequate for helping agricultural producers move up the value-added chain. There may be large scope for gains to be made in developing countries through further liberalisation of agricultural trade in OECD countries.

2. Strengthening policy-making capacity

Trade development strategies must be based on improved understanding of the international trading system and capacity for compliance

8. The launching of a new round of trade negotiations is currently high on the international policy agenda. Developed countries have made it clear that they are seeking increased participation and integration of developing countries into the trading system. While developing countries have had a strong

interest in the development of a clear, rules-based multilateral trading system, they have had limited negotiating power so far to affect the evolution of the system, and limited capacity to fully grapple with all the systemic issues with which they are confronted.

9. Many developing countries are still burdened by issues related to implementation of the Uruguay Round Agreements. For example, all WTO Members acceded to the Uruguay Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement). Although developing countries were given ten years to comply with the Agreement, many of them do not yet have an intellectual property regime in their countries. This compounds the problems of compliance with the agreed norms and standards and raises the possibility of trade actions against them in the WTO. As regards the WTO Agreement on Government Procurement, few developing countries have signed on so they have no legal right to demand better treatment or to be included in the bidding process at all. Many developing countries either have inadequate capacity to implement the Agreements, lack understanding of the rules-based system and its implications at the national level, or remain unconvinced of the net gains for them.

10. Some developing countries feel that there has been erosion, not just in the preferences accorded to them, but in the trading system as a whole. Examples given are the special rule regimes in key product areas of interest to them, such as textiles, apparel and agriculture, or voluntary export restraints. They also fear that as the scope for further reductions in trade barriers may be limited, other types of non-trade-related restrictions may emerge such as on labour standards, intellectual property standards and environmental protection. Furthermore, the high tariff barriers on agricultural trade in relation to manufactures trade may shift the focus of future trade negotiations and put into question past strategies for developing countries to try to systematically diversify out of agriculture and into manufactures. All these factors intensify pressures on developing countries to understand, continuously adapt, and take a stronger role in developing international trading rules. They have important implications for the way in which developing countries should design their trade development strategies.

Trade strategies must take account of multilateral, regional and bilateral agreements

11. While developing countries are grappling with the international trading system, they are simultaneously trying to address a multitude of regional and bilateral agreements. For example, Zambia is currently negotiating two regional agreements, renewal of the Lomé Convention, various Uruguay Round Agreements, as well as several bilateral agreements. There is a great need to understand the various objectives that can be achieved through each of these negotiating tracks, the economic implications of these agreements and the ways to ensure that the different negotiations are consistent with one another.

12. In a globalising economy, it is increasingly difficult to distinguish between international and regional policy making on the one hand and domestic policy-making on the other hand. The parameters for much domestic policy are being set in international and regional fora. TRIPS and (Trade-Related Investment Measures (TRIMS) are two notable examples. Developing countries need advice on the technical and crosscutting issues as well as help with formulating a single, long-term trade policy, which determines a country's position in bilateral, regional and multilateral trade negotiations.

13. Regional integration/co-operation can be an important stepping stone to more global integration. It is essential, however, that regional groupings are outward-oriented and that their agreements are compatible with the multilateral trading system. Policy reforms at the national and regional level must be consistent, and intra-regional trade barriers reduced to stimulate trading opportunities. Regional integration and co-operation cannot be a substitute for reforms at the national level. Moreover, if regional integration arrangements are to succeed, top-down approaches, which undermine entrepreneurial responses, must be avoided.

Trade strategies must be informed by longer-term policy considerations

14. From a development perspective, trade strategies tend to be based on short-term considerations and perceived in the narrower context of trade negotiations under the responsibility of the ministries of commerce. The risks with an over-exclusive focus on negotiations *per se* (e.g. Viet Nam) can result in overburdening the limited capacity of government officials to develop negotiating technique rather than to implement longer term policy reforms at the domestic level. These policy reforms will allow developing countries to reap the benefits of those agreements in the longer term. In some cases, the focus is not so much on WTO issues as the regional issues, which may have priority. For instance, the focus for much of Southern Africa tends to be on links with South Africa; for Uganda and Tanzania, it is on Kenya; and for the Caribbean, it is about the Free Trade Agreement of the Americas (FTAA), etc.

3. Enhancing the capacities and competitiveness of the private sector***A dynamic private sector is of central importance for stimulating economic growth and broad-based economic and social development***

15. The private sector must develop sufficient innovative capacity to understand and manage the transition from local, national and regional level to international competition. But private sector development is more than enhancing competitiveness. In addition to economic objectives, it must help to promote an effective social dialogue with civil society, NGOs and trade unions in order to foster a stable environment, which is trade-friendly and capable of attracting foreign investment. It should also aim to promote local economic development through support for small and medium enterprises, for the informal sector, local financial institutions and microfinance, etc. In a similar vein, job creation and poverty reduction are very dependent on investments in education and training.

The private sector must be consulted in the design and implementation of a trade development strategy

16. It is essential that the public and private sectors collaborate in creating an appropriate business climate, that public/private associations be organised around shared objectives, and that the private sector is closely involved in the design and implementation of trade development strategies. Unless the private sector is involved, policy reforms will lack coherence and risk being resisted by large segments of civil society.

Effective participation of private sector actors calls for capacity building and institutional development

17. Private sector actors and professional associations need institutional development to create truly representative intermediary organisations at national, regional and global levels, and to strengthen their capacity to express their needs and to participate in dialogue and policy-making. This is vital to generate a sustainable response from the productive sectors, to provide the services needed by the business sector, and to better articulate their needs to governments. Trade reform without sound and pro-trade financial institutions and services would yield few lasting results. In turn, governments can negotiate more effectively on their behalf in international fora. It is important also that these associations are financed primarily by private sector clients to ensure sustainability.

18. Most exporters in the poorer developing countries still face enormous supply-side constraints such as access to credit, inadequate infrastructure in terms of utilities and road networks, lack of information and lack of institutional and managerial capacity. Private sector networks can be powerful

vehicles for overcoming these obstacles. They can also help develop intra-regional complementarities, improve the sharing of information, and help ensure that private sector views are heard and reflected in appropriate incentive structures, and as a means of gaining access to external markets. Resources and institutions at the regional level should be harnessed to help build the necessary training ground and capacity to adapt to the global marketplace.

19. Diversification away from agriculture to manufacturing has often been seen as the key to gain access to external markets. However, developing countries should not overlook the benefits which they can reap from adding value to agricultural production, and from trade in services, tourism and modern information technologies. Capacity to enter these markets depends to a great extent on collaboration with the private sector in providing and maintaining infrastructure. Electronic commerce, for example, represents an alternative, and in some cases cheaper method of access to new markets, identification of new needs and resources, and provision of services over long distances. The main problem for poor countries to seize these opportunities is their poor connectivity.

4. Promoting comprehensive and integrated approaches to capacity development for trade

20. Development co-operation can play an important role in helping developing countries, both directly and indirectly to unlock their trade potential and promote the kind of economic and political environment necessary to attract investment, enhance competitiveness and mobilise domestic and international resources. It can contribute to developing the capacity necessary in a wide range of areas, which are essential for trade, such as public policy formation and implementation, support for private sector and infrastructure development, good governance and human resource development. These are fundamental elements of development co-operation, which underpin successful integration of developing countries in a highly competitive world economy.

21. Experience has demonstrated that to be effective in this area, development co-operation must take a holistic approach which links macroeconomic and structural reforms more effectively with the private sector, and with human and institutional capacity development in a targeted, coherent and comprehensive manner. Individual measures to create the right policy framework or to build productive capacities or enhancing developing country participation in trade fairs are not in themselves sufficient if taken in isolation. Translating these principles into action has, however, proven to be much more difficult than anticipated, as indicated below.

22. New approaches aim for locally owned, demand-driven and integrated strategies, which respond to the genuine needs of poorer countries and have an impact on poverty. These new approaches are reflected in the *Integrated Framework* and more generally in the *Development Partnership Strategy*.

The Integrated Framework for Trade-related Technical Assistance

23. The initiative for an Integrated Framework (IF) for trade-related technical assistance emerged at the WTO Ministerial Conference of 1996 in Singapore and was subsequently endorsed at the High Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development in October 1997. It was conceived as a partnership among six multilateral agencies – WTO, World Bank, IMF, UNDP, UNCTAD, ITC to respond to the needs of the LLDCs in a co-ordinated manner. Twelve additional multilateral agencies as well as the major bilateral development partners currently participate in the Framework activities.

24. The Integrated Framework endorses many of the principles of the DAC Development Partnership Strategy in terms of promoting demand-driven, locally owned strategies. The WTO as a first step invited

every LLDC to submit a Needs Assessment for trade-related assistance, including physical infrastructure and human and institutional capacity building. Needs assessments are at the heart of the Integrated Framework: they constitute the basis of the integrated response by the multilateral agencies formulated during a series of round tables.

25. On the basis of this assessment the six agencies design and sequence a programme of activities to respond to these needs, according to the respective mandates, expertise and resources. It encompasses a wide range of activities: from institution-building for trade-related policy issues, to the strengthening of export supply capacities, export support services and trade facilitation capabilities. These areas of intervention will require considerable training and human resource development. The IF also seeks to assist in the creation of an adequate regulatory and policy framework to attract investment and stimulate private sector development

26. The aim is to periodically update and rank needs in order of priority and to present these needs at trade-specific donor consultations. For each participating LLDC, these consultations should provide firm pledges for concrete, multi-year programmes of trade-related assistance. So far, only one such consultation has been held in Kampala, Uganda in December 1998. Each country must in turn establish a Steering Committee to represent all the different parts of its administration that deal with trade issues together with representatives of the private sector, civil society, NGOs and interested donors. The main task of the Steering Committee is to establish priorities among the items in the country's Needs Assessment. These priorities should be consistent with their development strategy on the one hand, and with external events on the other hand, e.g. the next WTO round, renegotiation of the Lomé Convention, and other regional/preferential trade agreements.

27. Participation of bilateral donors is a crucial component of the Integrated Framework. Their presence in the Steering committee at its outset guarantees the co-ordination of assistance and the funding of the priorities identified. Circulation of information is provided by the Integrated Framework website www.ldcs.org – which contains basic documents, notice of meetings, Round Tables, and Consultative Group meetings. In the future, it may also be able to function as a source of best practices for the implementation of the Integrated Framework.

South-South co-operation

28. South-South co-operation usually refers to efforts by more advanced developing countries to assist poorer countries to develop. It has the advantages of enabling the transfer of technologies that are better suited to the recipient countries' current stage of development and of broadening the geographical base of aid infrastructures. It may also refer to support for regional development institutions in the developing world.

29. As one example, Japan is involved in South-South co-operation in a variety of ways:
- “third-country training”, i.e. assistance through training programmes run by developing countries that have already fully assimilated Japanese technology for trainees from other developing countries;
 - “third-country experts”, i.e. the sending of experts at Japanese expense, from developing countries that have received Japanese technology for trainees from other developing countries; and

- “Trilateral co-operation,” i.e. arrangements through which Japan and relatively advanced developing countries combine their technological strengths to offer joint technical guidance to other developing countries.

30. From the perspective of partnerships and ownership, this co-operation tries to provide the developing country partners with an environment where co-operation is interactive and horizontal, as opposed to the more traditional relationship between donor and developing country. For example, a training course should enable participants, grouped for geographical or economical reasons, to acquire practical knowledge and skills through exchange of information and by sharing on-going development experiences. Further discussion is needed on ways to set clear and integrated objectives and also on the use of the network of practitioners formed through South-South co-operation. The concrete impact of this co-operation at the ground level has not yet been evaluated in the field of capacity building for trade.

5. Fostering demand-driven, locally-owned and co-ordinated approaches to trade development

31. While genuine efforts are being made to foster partnership approaches in the area of trade, they have proven much more difficult to translate into practice. Greater insight is now needed, not so much on *what* to do but on *how* to support efforts at fostering locally-owned, country-based strategies and avoid duplication of donor activities.

Impediments to enhancing local ownership

- *There is insufficient awareness and understanding of the importance of foreign trade in development and in poverty reduction* and not all countries put the same emphasis on capacity development for trade. Governments may not systematically be aware of, or agree about, the potential benefits of trade and the relative priority that should be given to trade policy and participation in the global trading system. At the same time, they may not be aware of the potential risks of marginalisation and its implications for poverty. Moreover, for many poor countries, the focus of trade policy is not so much on the global setting and WTO but on regional issues where the impacts on national development may be more visible.
- *Public sector consultations with the private sector are increasing in developing countries but still tend to be ad hoc, poorly structured and timed*, particularly in African countries. Public-private sector partnerships have however, proved fruitful in such countries as Mauritius and Uganda. In other countries such as Ethiopia, Chambers of Commerce are considered by some to be more accountable to the government than to their own membership. For a credible and lasting impact of economic reforms, it is essential that the private sector and civil society be involved and understand the thrust and benefits of policy reform programmes. Only in this way can the Government be assured of a strong base of political support and ownership.
- *There are few structured mechanisms which promote trilateral dialogue between donors, the private sector and government*. In order to respond effectively to the genuine trade-related needs of the country, the private sector must participate in the planning, design and implementation of country-based development strategies. Significant progress has been made in Uganda where the business sector is brought into economic policy formulation and project implementation. Several institutions exist, such as the Ugandan Manufacturing Association, which actively participates in economic policy formulation and project implementation. The Integrated Framework is a mechanism which could be further exploited to facilitate trilateral dialogue.

- *The weakness of the private sector and the consequent lack of representation are further obstacles to genuine ownership of development strategies.* In Uganda, the private sector is invited to speak with the government and the donors, but inadequate capacity and resources limit its input and impact. Poor communication channels further undermine the ability of the private sector to develop its role as the engine of growth. The focus of technical co-operation should be on strengthening capacity of developing country negotiators to do things for themselves. Institutional capacity building activities could, in this context, have a powerful impact on trade development.

Impediments to donor co-ordination

- *There is limited scope for co-ordinating trade-related activities in countries where trade and private sector development are not government priorities.* Developing country governments often put the emphasis on other domestic or regional issues which they consider more urgent. Even when they do give priority to trade development, successful co-ordination depends largely on the capacity, willingness and power structures of the responsible ministries and stakeholders. Some of these difficulties have been apparent as developing countries strive to manage the co-ordination and country-led follow-up to the Integrated Framework.
- *Establishing common interests and approaches among the broader donor community has been difficult in the area of capacity development for trade.* The Integrated Framework, described as a “home for dialogue”, provides a potentially effective tool for promoting demand-driven, locally-owned country strategies which address issues of co-ordination and complementarity in donor responses. It seeks to build on comparative strengths and avoid duplication of donor activities in responding to a wide range of trade-related needs. However, increased exchange of information and a closer co-operation among bilateral and multilateral donors in this area will be necessary to make this tool successful in promoting genuinely common approaches.
- *Not all bilateral donors have yet begun to focus on trade development as part of their development co-operation activities.* In many cases they consider it best left to the multilateral donors which specialise in this area and which are not subject to the same pressures from the national trade interest groups. Only a few bilateral donors have designed specific strategies for trade and private sector development. Other bilateral donors may still view trade development in traditional terms of trade promotion, often involving benefits to their own national operators. Such situations may place bilateral donors more in the role of competitors than potential partners. More efforts may be needed nonetheless to maximise synergies between bilateral and multilateral donors in effective implementation of the Integrated Framework.
- *Donor co-ordination in general has not always been optimal.* Many donor field representatives lack trade policy skills and awareness of the WTO and the obligations for implementation. They may also have limited scope for initiative and flexibility to actively participate in new initiatives. Trade and other development activities are often designed in headquarters. In many cases, donor activities are perceived as driven by their own agendas, rather than that of the developing country.

6. Taking the policy coherence agenda forward

32. There is widespread agreement that effective development co-operation requires a more coherent set of policies between the developed countries' trade policies and trade-related assistance. But pursuing coherence is no easy task. It requires a high level of political commitment and a congruence of trade, development and other policy objectives. It must be recognised that stable, orderly and open markets are good for OECD countries as well as for developing countries.

33. There is a need for greater clarity about the meaning of policy coherence and the costs of its absence. It must incorporate the broader context of mutually reinforcing sustainable development at the sectoral, national, regional and international levels. Empowering developing countries through dialogue and technical assistance to set their own agenda, and to adjust their policy frameworks so as to take advantage of the opportunities created by globalisation is an essential component of policy coherence.

34. Trade barriers emerging or being maintained in a complex and changing international trading system need to be analysed for their impact on development. These include anti-dumping actions, government procurement practices, competition policy, rules of origin, environmental policies and labour standards, etc. Non-tariff barriers in access to encryption technology for electronic commerce were mentioned as a new concern of developing countries. Tariff escalation in the area of agriculture and textile quotas may also hinder the efforts of developing countries to move up the value-added chain and compete internationally. Much more effort is required to inform stakeholders about such issues, impacts and possible actions.

35. Policy incoherence in the broader aid system results from a variety of factors. These may include inadequate co-operation and lack of common understanding between multilateral and bilateral agencies in implementing partnership strategies; donor practices which distort the development of markets, including their procurement practices; and excessive bilateral focus on individual partners without taking account of regional dynamics.

36. Examples from the UK and Switzerland may provide inspiration for ways to foster policy coherence in capitals:

Promoting policy coherence in the United Kingdom

34. The change in Government in May 1997 and the creation of the Department for International Development (DFID) provided a strong political impetus to take forward the policy coherence agenda in the UK. The publication of the *Development White Paper* later that year further highlighted the need for policy coherence or consistency vis-à-vis developing countries and set out the main principles. In practice, policy coherence for the UK means:

- ensuring that the broader national policy framework is consistent with development objectives;
- helping developing country partners, through policy dialogue as well as technical assistance, to adjust their policy frameworks so as to take advantage of the opportunities created by globalisation.

At the level of international trade policy, policy coherence for the UK means:

- offering developing country partners effective access to markets for their products and taking account of the prospective trade negotiations;
- helping to develop ‘rules of the game’ that take into account the development strategies of partners, and that are consistent with their institutional, infrastructure and human capacities;
- helping to equip developing country partners to articulate and pursue their interests in the relevant international fora for themselves.

Implementing the agenda at the national level calls for a long-term perspective with the following institutional approaches:

- strengthening internal policy capacity within DFID on relevant issues;
- “joining-up” policy making in London;
- strengthening external links with other EU member-states and donors, and with key multilaterals;
- strengthening support through bilateral programmes.

Promoting policy coherence in Switzerland

35. Policy coherence in Switzerland was first defined officially in a report entitled “Switzerland’s North-South Relations in the 1990s” which was submitted by the government and approved by the parliament in March 1994. The report states that,

Switzerland is confronted with the challenge of rethinking its relations with developing countries in a complex and dynamic environment. What is at stake is no longer merely development co-operation but the whole spectrum of our political, economic and social relations with countries from the South. Traditional dichotomies between environmental policy and economic policy, economic policy and migration policy, between trade policy and development co-operation policy, between domestic and foreign policy are no longer appropriate in the current setting. What is required is a coherent policy toward the South.

36. Following promulgation of the policy, a plan of action was developed for the years 1995-1998 for implementation of the reports, also known as the North-South Guidelines. The plan of action was broken down into 15 objectives, which led to the definition of 47 proposals for action and 150 measures for implementation. The proposals for action were analysed in terms of impact and level of coherence required. The report therefore recognises the potential conflicts of interest between the Swiss development policy objectives and other foreign or domestic policies. At the same time they advocate that such conflicts be identified and mitigated through dialogue.

37. The dialogue takes place at two levels. First, all draft policy has to go through an extensive and formal inter-departmental consultation process with a view to identifying the relevant development impacts. Second, formal consultations are held with the private sector and civil society through three Sub-Commissions, which have been created specifically for this. They deal with (a) issues relating to the Bretton Woods institutions, (b) the WTO, and (c) relations with transition economies. These Sub-Commissions are made up of parliamentarians, NGOs, private enterprises, trade unions, academics and the media. Their task is to advise the government and make recommendations on policies and priorities regarding development co-operation.

Annex 1

English version only

**[ROOM DOCUMENT N° 1 AT THE
DAC INFORMAL EXPERTS' MEETING ON CAPACITY DEVELOPMENT FOR TRADE
23-24 NOVEMBER 1998]**

BUILDING POOR COUNTRIES' TRADE CAPACITY

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November 1998

I. Introduction and Summary

1. This paper discusses technical assistance on trade for the least developed and poorer countries and tries to explore alternative partnership approaches for building new trade capacity. It focuses on trade policy more so than on trade promotion strategies.
2. The paper identifies four different types of technical assistance in the form of support for:
 - Raising the awareness of key policy makers and actors both of how trade policy operates globally, and what the options are.
 - Implementation of multilaterally or regionally agreed trade arrangements.
 - Dealing with export-related impediments in foreign markets.
 - Enhancement of negotiating capability, both multilaterally and regionally.
3. It emphasizes how a ranking across these types of assistance needs to be informed by a sense of the trade situation for these countries, emphasizing that
 - The traditional view of poorer countries is as exporters of basic commodities, which are constrained by domestic bottlenecks and supply factors rather than barriers abroad, and with imports significantly financed by external assistance.
 - The pattern of poorer country trade has been changing in recent years, with sharp export growth in countries such as Bangladesh, and also some African countries (such as Uganda). This is beginning to generate trade conflicts with OECD countries in such areas as textiles and apparel (MFA) and even antidumping.
 - Poorer countries are also increasingly becoming involved in outsourcing trade (relocation of assembly operations to a poorer country by a large OECD company, possibly in an export processing zone); and trade between poorer countries and other developing countries is growing more rapidly.
 - After many years of stagnant trade growth, poorer country trade is now growing at rates which compare to those of all developing countries.
 - Special opportunities seem to be present in services trade (growing globally at rates higher than goods trade), and (in the future) electronic commerce.
 - Despite their lack of leverage in global trade negotiations, poorer countries nonetheless have a strong interest in a strong rule based multilateral trading system, since its rules protect them from bilateral pressure and offer them avenues (via WTO dispute settlement) to enforce their rights under the system.
4. The picture portrayed therefore is one in which access to markets is likely to be more important than in the past for the trade performance of these countries; hence, understanding how trade policy operates globally will grow in importance for country policy makers; and new areas and opportunities

(such as services and electronic commerce) will become increasingly important. In selecting a technical assistance portfolio among the options outlined, the paper offers the following suggestions:

- Assistance must be comprehensive and integrated, to include policy design, implementation, and ongoing execution difficulties, and thus take account of the weakest links in the combined system. Consideration (or even design) of policies which cannot be implemented due to limited capability would obviously be ineffective use of support.
- Political and commercial interests within OECD countries can potentially act against effective delivery of technical assistance for trade. The objectives of companies which have, for example, filed antidumping petitions or who support MFA restrictions, potentially contradict the broader aims of helping poorer countries export trade grow. Technical assistance may, therefore, gravitate more towards helping countries build import capacity rather than in dealing with export impediments in OECD markets. Awareness of this potential tension would seem helpful in assistance design.
- The spin-offs from one form of assistance to other areas of policy can be important. Though small and poorer countries may have limited leverage in multilateral negotiations, the mere experience of this participation can provide critical training to negotiators for later regional negotiations where they do have influence. It can also be a vehicle for learning how the system works, and thereby using it to their advantage (such as in dispute settlement).
- Newer areas, such as services and electronic commerce, could be fruitful areas for assistance, since emerging regimes are still fluid. Helping poorer countries to seize new opportunities will, however, require targeted assistance.
- The payoffs to donors and the tangibility of results from each type of assistance differ greatly. Working with key policy makers may yield impressive, yet hard to measure benefits but their expected value per dollar of aid relative to, for example, installing a new intellectual property regime to meet Uruguay Round commitments may be much higher.
- The overriding considerations in choosing a portfolio across these approaches would seem to be a benefit/cost calculation cost in terms of growth and development benefits to poorer countries per dollar spent. If benefits to OECD countries and companies through improved market access or strengthened legal regimes enter the calculation, they should be flagged as such, and treated in a transparent and explicit way.

II. The poorer and least developed countries and their trade performance

Concepts

5. The term poorer countries is widely used in this paper. Prior to a discussion of their trade performance, it might help to clarify its relationship to the more commonly used, and somewhat narrower term, least developed countries. The least developed countries are a group of countries defined by the UN for statistical purposes. They largely comprise countries with per capita incomes (in 1995) below \$500; even though a number of the smaller countries in the group are above this threshold (Cape Verde at \$858; Guinea at \$550; Maldives at \$1069; Solomon Islands at 882; and Vanuatu at \$1095).¹ The lowest per capita income countries are Mozambique (\$92), Ethiopia (\$96), and Rwanda (\$144). For many years, because of this statistical definition, poorer and least developed countries have been thought of as countries largely concentrated in Africa, with the major exception of Bangladesh. In reality, many of the former Soviet Republics also probably fit within the definition of least developed. The data available for them is poor and statistical definitions are slow to change; included here would likely be Georgia, Turkmenistan, Tajikistan, Albania, Armenia, Moldova, Vietnam, and Romania.

6. With the onset of the recent financial turbulence, even countries such as Indonesia who have suffered large declines in their exchange rate have now also fallen back into the category of least developed from which they had escaped some fifteen or twenty years ago. At current exchange rates, the GDP per capita of Russia could even approach \$500 (presumably temporarily). This is all to indicate that, despite the provision of a UN statistical definition, poorer and least developed countries are in reality a somewhat amorphous and continually changing group of countries which should not really be thought of as completely African-dominated. In what follows, I will use the term in the broad sense indicated above, assuming that its meaning and intent is clear from the context; though it remains a somewhat vague term.

Growth Performance

7. For most of these countries there has been a combination of weak growth and trade performance over long periods of time.² For the majority, their growth performance has been poor and in some periods, as Table 1 indicates, negative growth rates of real GDP per capita have occurred. Some of these countries have at times been afflicted by civil war, domestic political instability and other ills, as well as serious macroeconomic instability. In the last few years, however, as Table 2 highlights, the growth performance of the least developed countries has improved markedly. In 1995 (the latest year's data), the least developed countries experienced growth rates of GDP per capita almost equal to the average of all developing countries; and significantly in excess of those for market developed countries. Table 2 lists eight countries with sharply positive growth, in some cases (such as Bangladesh) sustained over a number of years. While this strong growth performance only holds for the UN definition of the group (including former Soviet Republics would lower the figure sharply), there is nonetheless evidence of considerable recent turnaround in the growth performance of the poorer countries.

¹See "Basic Data on the Least Developed Countries", Table 1, p. 155, UNCTAD (1997).

²The performance of smaller developing countries in the trading system has also recently been discussed by Armstrong and Read (1998).

Table 1

**Growth Rates of The Least Developed Countries
(Annual Average Growth Rates of Per Capita Real GDP)
1980-1990**

Country Groups	1980-1990	1990-1995
All Least Developed (UN Defined)	-0.1	0.9
All Developing Countries	1.2	2.6
Developed Market Economy Countries	2.3	1.0
Countries in Eastern Europe	1.3	-7.8

Source: UNCTAD (1997a), Table 1, p.155.

Table 2

**Recent Growth Performance of Least Developed Countries
(Annual Growth Rates of Real GDP Per Capita)**

Country Groups	1994	1995
All Least Developed (UN)	1.2	2.5
All Developing	2.9	2.9
All Market Developed	2.2	1.4
Eastern Europe	-9.0	-1.8
Countries with Strong Growth		
Uganda	2.8	7.9
Togo	9.7	5.1
Somalia	2.4	5.6
Maldives	3.3	3.9
Lesotho	15.1	7.7
Laos	5.1	4.2
Chad	5.1	2.0
Bangladesh	2.6	2.8

Trade Performance

8. The trade of the least developed countries has not shown the same dynamism as the trade of developing countries as a group. Their exports in 1995, as Table 3 indicates, were only \$18 billion (around 0.35% of world trade), and imports were nearly double exports. The larger import figure occurs because of development assistance which finances nearly one half of their import bill. There are, however, a number of bright spots of late; countries that are beginning to grow and whose trade growth clearly outstrips their

GDP growth. Some of these are also listed in Table 3. One example is Bangladesh for whom trade has been growing rapidly in recent years, with nearly 70% of exports concentrated in textiles and apparel. Within the poorer African countries, one can also find examples of countries, such as Uganda, that have achieved both significant growth in GDP and trade in recent years.³ Table 3 indicates recent export growth figures for Uganda of 62% and 20%. Even countries such as Somalia have experienced strong recent export growth. Among the transition economies there are also counter examples to the often-claimed characterization as poorly performing on the growth and trade front. Vietnam, for instance, has been growing at 8% since the late 1980's and trade has grown correspondingly, with significant increases in their exports of textiles and apparel and footwear to Europe.

9. Table 4 indicates that the exports of the poorer countries are dominated by oil products, gemstones, and copper. These three items made up nearly one third of export earnings. Other commodity or unprocessed food products (e.g. shrimp) are also high on the list. Exports of garments are largely accounted for by Bangladesh. Poorer and least developed country exports thus remain concentrated on basic commodities and raw materials, but the movement at the margin is away from these categories, and especially towards textiles and apparel. Opportunities to diversify and broaden their trade on the export side have long been believed to be limited in the poorer countries, but it is precisely this diversification that the rapidly growing countries who have left this group (Mauritius, for instance) have achieved.

Table 3
Trade Performance of the Least Developed Countries

Exports / Imports	1995 \$billion	As % of World Exports
Exports by Least Developed Countries	\$17.8	0.35%
Imports by Least Developed Countries	\$31.3	0.61%

Growth Rates of Imports and Exports in Selected Countries				
	Imports		Exports	
	1993/94	1994/95	1993/94	1994/95
Bangladesh	17.5	38.2	17.1	19.3
Uganda	19.3	28.7	62.6	20.8
Somalia	-2.4	0.0	2.6	25.8

Source: UNCTAD (1997a), Tables 1.3 and 1.4

³See also Mwega and Muga (1998), who discuss how the global trading system has affected economic performance in Africa, focussing on Kenya.

Table 4**Product Composition of Least Developed Country Exports in 1993/94**

Commodity	\$billion
All Commodity Exports	14.15
Oil/Oil Products	2.79
Pearls/Precious Stones	0.89
Copper	0.88
Cotton	0.75
Shrimp/Molluscs	0.66
Coffee	0.55
Undergarments	0.44
Women's Outer Garments	0.41
Radioactive Materials	0.38
Undergarments, Knitted/Crocheted	0.37
Wood Products	0.37
Metal Ores	0.36
Tobacco	0.33
Men's Outer garments	0.33
Floor Coverings	0.27

Source: UNCTAD Secretariat Computations, reported in UNCTAD (1997b).

10. Table 5 reports country market share characteristics of least developed country trade. The share of least developed country exports to other developing countries is roughly one-third, a little below the all-developing country figure. The share of least developed features is sharply above the share of all-developing countries on the import side. The implications are that the least developed countries seem to offer a growing market to the slightly higher income developing countries close to them (usually geographically), and that developing country markets are of growing significance to the least developed countries on the export side. There is also a sharply varied picture by country. Table 5, for instance, lists three countries for whom developing countries make up the majority of both export markets and import suppliers.

Foreign Investment

11. There has been rapid growth in foreign direct investment in the global economy in recent years and while much of this has involved investment flows to developing countries, relatively little has gone to the poorer and least developed countries (as Table 6 indicates). As a fraction of FDI to all developing countries, the amount going to least developed countries is negligible; but as a share of world totals it is of the same order of magnitude as for exports. What has been invested has been concentrated by country (Cambodia, Angola and Ghana account for over 80% of least developed FDI in 1995).

12. The FDI picture also needs to take account of the clear link between trade and investment for developing countries occurring through outsourcing exports. Outsourcing exports reflect relocation of production (typically by larger) OECD companies, who locate a portion of production in developing countries because of lower labour costs. Outsourcing generates trade, but of a different type from more conventional commodity and other trade. Table 7 indicates that in 1994, over 40% of developing country exports were foreign affiliate sales. These were concentrated in South East Asia, grew sharply for this region over the previous 20 years, but fell (in nominal dollars) in Africa.

Table 5

**Country Market Shares of Least Developed Country
Imports and Exports (1995)**

1. Shares of Exports Shipped To	Developed Market Economies	Developing Countries	Other
All Least Developed (UN)	63.7	34.0	-
All Developing	55.0	38.0	-
<i>Selected Countries</i>			
Djibouti	8.3	41.7	-
Cambodia	18.4	81.6	-
Benin	37.4	62.6	-
2. Shares of Imports From	Developed Market Economies	Developing Countries	Other
All Least Developed (UN)	46.0	50.1	-
All Developing	59.3	34.1	-
<i>Selected Countries</i>			
Cambodia	16.1	88.8	-
Laos	18.9	80.9	-
Togo	32.2	67.4	-

Source: UNCTAD (1997b), Tables 17 and 18.

13. Outsourcing is an area that poorer countries (like other developing countries) are increasingly attracted to in their trade promotion. The amount of outsourcing activity in these countries is quite small, however, because of limited infrastructure and policy framework issues which investing companies look to before making such investments. Outsourcing, in turn, is closely related to the use of export processing zones.⁴ These zones have had somewhat mixed history over the years, being very successful in China and some of the South East Asian economies in generating export growth, but being relatively unsuccessful in India.

⁴In these zones, imports enter free of duty and exports leave untaxed. Companies who operate in the zone usually get tax concessions and regulatory restraints are more limited. These concessions are typically made on the condition that the products which are produced are re-exported rather than sold to the domestic economy.

Commodity Trade

14. Commodities have long been the mainstay of poorer country exports, and back in the 1960's were also the mainstay of developing countries in general. These include such items as rubber, cocoa, coffee, tea and other products which have no direct substitute in production in the developed countries. Table 8 reports data on exports by the African countries of these commodities. These have fallen by nearly fifty percent in nominal terms since the early 1980's, because of price declines. In the 1980's exports of these products accounted for nearly 80% of all developing country exports, but are now down to around 20%, even though for the least developed these basic commodity exports still account for the majority of their trade. Over the years, tariff escalation for commodity exports has created disincentives to engage in value added upgrading of these commodities for export. Table 8 reports estimates of tariff escalation from the WTO Secretariat as they apply to least developed country exports, which suggest that the problem has become less severe over recent years. Supply bottlenecks rather than barriers thus seem to be the central issue for least developed countries in this trade.

Table 6**Foreign Investment Flows to the Least Developed Countries**

	1995 \$billion	As % of World FDI
Foreign Direct Investment Flows to the Developing Countries	96.3	30.4%
Foreign Direct Investment Flows to all Least Developed Countries (UN)	1.02	0.3%
Of Which:		
Cambodia	0.35	
Angola	0.29	
Ghana	0.26	
Uganda	0.14	
Tanzania	0.19	
Myanmar	0.10	

Source: UNCTAD (1997b), Table A5.

Table 7**Outsourcing Exports (Export Processing Zones)**

		As % of Total Developing Country Exports
Value of Exports of Foreign Affiliates Located in Developing Countries ⁵	\$585 billion (1994)	
Foreign Affiliate Export Sales From:	1982 (\$bill)	1994 (\$bill)
Asia	110	431
of which S.E. Asia	95	408
Africa	23	15

Source: UNCTAD (1997c).

Table 8**African Countries Exports of
Commodities and Agricultural Products**

	1980	1994
African ⁶ Exports of Commodities	\$90.4 billion	\$54.4 billion

Tariff Escalation Against Least Developed Commodity Exports	OECD Tariff Rates by Stage of Process	
Raw Materials	0.1	0.0
Semi Finished	6.3	3.5
Finished Goods	6.6	2.6

Source: UNCTAD (1997a), Table A.12
GATT (1994).

⁵These data include countries who are not in the UN group of least developed. There are no data separately available for the least developed countries.

⁶There are no separate figures available for the least developed countries, and Africa here includes some non least developed countries.

Textiles and Apparel Trade

15. Textiles and apparel become important in developing country trade as individual countries begin to grow and industrialize. A common experience is one of surges of exports of labour intensive manufactures, most of which are in textiles and apparel. As these grow, they are accompanied by significant shifts of the labour force out of rural into urban areas. Economies, such as Korea, which grew rapidly in the 1960's passed through a period during which textiles and apparel were over 50% of total exports, reflecting the same pattern seen in some of the OECD countries in their 19th century industrialization. In Korea, these exports subsequently declined as other products (electronics, autos and computer equipment) took over as engines of trade growth. Today, some of the least developed countries, such as Bangladesh and Nepal, receive well over 50% of their export earnings from textiles and apparel; while for most of the African economies the trade shares are small to inconsequential. A related issue for the poorer countries are the bilaterally agreed quotas under the framework of the Multifibre Arrangement (the MFA), which partly explains why African countries have been unable to attract large amounts of inward foreign investment. The expectation is that establishing textile and apparel plants in these countries would rapidly generate trade restrictions abroad on new exports. These country quotas increase over time, so that countries which acceded early to the MFA have accumulated large quotas. For new countries entering this structure, the quota which they are given in the early stages of this process is often small.

Table 9**Textiles and Apparel Trade and the Least Developed Countries**

		As % of All Developing Country Exports of Industrial Products
Exports of Textiles and Apparel by all Developing Countries	\$173.5 bill (1994)	40.1%
Shares of Textiles and Apparel Exports in Total Exports of Key Least Developed Countries (1993/94)		
Nepal (including floor coverings)	83%	
Bangladesh	61%	
Malawi	3.4%	
Myanmar	4.6%	
Togo	1.5%	
Tanzania, Uganda	< 0.5%	

Table 10**Service Exports and Imports, and Tourism Receipts of Least Developed Countries**

Service Exports and Imports of Non-South Africa/Non-Egypt Africa	(1990) 1.3% of World Service Exports (1990) 2.3% of World Service Imports		
	1980	1990	1994
Tourism Receipts of African Countries	\$2.7 bill	\$2.6 bill	\$6.5 bill

Source: WTO (1997)
World Tourism Organization (1997).

16. Vietnam, for instance, received only small quotas for apparel in the EU and North American markets in the early 1990's. Thus, the poorer countries, many of whom have yet to experience growth of labour intensive manufactured exports, face the difficulty of acquiring sufficient quotas to allow them to grow in this way. Textile quota arrangements also involve complex rules and procedures, including sophisticated monitoring of country exports, which is often beyond the capacity of some poorer countries.

17. The Uruguay Round involves a commitment, agreed in 1994, to phase out these quotas by the year 2004.⁷ There have been, however, claims that developed country compliance with the early parts of the three-part, phase-out procedure has only met the letter and not the spirit of the agreement. This, in turn, has led some to question the sincerity of the developed country commitment to eventually eliminate these quotas in a clean way by the year 2004. In the developing world it is now widely believed that the MFA may well disappear by 2004, but will be replaced by a series of other trade restrictions, possibly including substantial increases in antidumping duties. If these fears materialise, the poorer countries will be faced with serious new difficulties in this area.

Services and Electronic Commerce

18. Table 10 also sets out information on a final dimension of developing country trade, namely, trade in services and the related issue of tourism receipts. Service trade relates to trade in banking, insurance, telecommunications, transportation and other intangible items which have been the subject of much discussion in the WTO as to how to liberalize, given existing domestic regulation. Data in this area are unfortunately only fragmentary, and also not fully up to date. The orders of magnitude for the African economies (excluding Egypt and South Africa) reported in Table 10 suggest that services are relatively more important in trade than goods for the poorer African countries. The least developed countries are also significant net importers of services overall.

19. While this picture on service exports largely reflects tourism receipts, service exports also represent an area of opportunity for poorer countries because many of them are labour intensive. Opportunities can lie in such areas as processing of financial records, including credit card information, which is labour intensive and can be relayed by satellite or other telecommunications devices. Another is flight reservation systems for airlines, which can utilize phone attendants from lower wage countries with telecom communication through a home base in high wage countries.

⁷Spinager (1998a) discusses this phaseout in more detail.

20. The area of electronic commerce is a newer area, and has been the subject of substantial discussion. Essentially, the issues being debated mainly involve trade wholly completed by electronic means; and issues of whether tariffs should apply, how taxes can be collected, and other matters. For the poorer and least developed countries, however, both the issues and opportunities are much broader.

21. To the extent that electronic commerce represents an alternative (and for some products, cheaper) method of entry and penetration of markets, if harnessed appropriately, it can yield disproportionate benefits to poorer over other countries (WTO 1998b). One argument is that through electronic commerce it will be easier to enter markets on a national basis rather than on a successive regional or city by city basis via retailing. Thus, if before electronic commerce marketing entry barriers were higher for products from poorer and smaller countries than for products from other countries, then a general lowering of entry costs for all products (via E commerce) would help these countries. Mr. J.F. Rischard, Vice-President of the World Bank, recently highlighted the enormous opportunities which electronic commerce opens up to developing countries. It “enables enterprises to access new markets, identify new needs and resources, and provide services over long distances. This new technology...reduces economic distances between consumer and producer and it reduces the importance of size and location...”. The main problem for developing countries in seizing these opportunities is their poor connectivity. They have few telephones and computers, and their internet penetration is small. (Press Release, 9 November 1998, Partners for Development, Lyon, France, 9-12 November 1998)

Summary

22. Overall then, while for most poorer countries their trade remains based on commodity exports, the trends apparent in higher income developing countries of a move towards manufactured exports are beginning to be seen. These offer opportunities for heightened trade growth in more countries, diversification in trade composition, and ultimately further development. The issues, then, are how best to facilitate future trade growth, how to shape the best policy regime, and how to target technical assistance.

III. Poorer Countries and the Trading System

23. A central consideration in the design of technical assistance packages for poorer countries on trade is the extent both of their interest in the contemporary trading system and their situation within it. The trading system is a term widely used to refer to the set of rules across countries under which international trade is conducted. It encompasses all of the agreements in the WTO and GATT, including the 38 Articles of the GATT, now enshrined in GATT 1994, along with all the decisions of the various negotiating rounds, including the Uruguay Round. But the system also includes the various regional trade arrangements which have spread throughout the system in recent years, including both large country arrangements such as the EU and NAFTA, and small country arrangements both within developing countries and between developing and larger countries. It also includes all of the trade regulations which countries themselves operate.

System Objectives For Poorer Countries

24. It has long been argued that developing countries, and particularly poorer developing countries, have a strong systemic interest in a clear rules based multilateral trading system. This is because with multilateral arrangements with such trade rules as MFN and most favoured nation status, smaller countries have a degree of protection from bilateral pressure from larger countries, and in addition fully participate in any trade liberalization which occurs between larger countries. Generally speaking, over the post war years, the developing countries have seen themselves as having an overriding interest in strong system wide non discriminatory trade rules, but at the same time with limited negotiating power they have, in reality, been able to little affect the evolution of the system. In the 1960's the developing countries argued that they should receive special and differential treatment within this rule structure; special rights to protect their own industries, and preferential terms of access to developed country markets. This was to lead to what is now known as the generalized system of preferences for developing countries under which preferential access to developed country markets operates. However, with progressive reductions in tariff barriers in developed countries, these preferences are now of little significance, and have anyway been further limited by various conditions which have been placed on their applicability.

25. In addition, the trading system over the years has come to embody what many people refer to as "erosion", a trading system which operates increasingly in ways inconsistent with its underlying principles. This erosion is evident in special rule regimes in key product areas of interest to developing countries, such as textiles and apparel and agriculture. It is also manifest in the operation of trade restricting practices quite outside the system of rules, such as voluntary export restraints, and other restrictions on trade which have tended to limit developing countries' export capability. In the Uruguay Round, therefore, developing countries participated in global trade negotiations more actively than at any time in the post war years. Their idea was to strengthen the trading system, particularly consistency of trade practices with underlying basic principles and rules in which they had an interest, such as MFN. In looking at trade assistance packages, this broad systemic picture within which poorer countries operate is crucial to an assessment of the effectiveness of different forms of assistance and what needs to be done within the system to improve their trade performance, some of which lies within the orbit of the OECD countries. This set of considerations is especially important because of the emergence of a likely new round of trade negotiations (the Millennium Round) and a clear indication from the developed countries that they are seeking increased participation and integration in developing countries into the trading system.

The Changing System

26. The difficulty with discussions of poorer country integration into the trading system is that unfortunately the system is not static but is continually changing. This changing nature of the system should also enter any consideration of trade policy assistance to poorer countries. At present, the trade policy environment which poorer countries face within the system is changing in a number of directions, and at some variance with what we have been used to in most of the post war years. For instance, in the 1950's and 1960's, only two countries, Korea and Taiwan, pursued outward oriented trade led growth and were able to be as spectacularly successful as they were, in part because this same strategy was not adopted at that time by other developing countries. Today, following the extensive liberalizations of the late 1980's and early 1990's, we have perhaps one hundred developing countries all simultaneously pursuing this objective. In the minds of some, it has raised the issue of whether there is a fallacy of composition in these strategies; is the absorptive capacity of the developed countries sufficient to allow for rapid and sustained expansion of trade by this number of developing countries? In particular, will it be the case that only a small number of large developing countries would come to dominate this segment of the market? China, for instance, now has well over 60% of all developing country exports of textiles and apparel, and some have suggested that with complete elimination of all textile restrictions globally, this number could eventually jump up into the 90% range.

27. In the post war years, and following the high trade barriers of the 1930's, the negotiating process within the GATT and the WTO has been one which has generally reduced trade barriers through exchanges of concessions among developed countries. These exchanges of concessions have been concentrated on manufactured products, and have led to sharp escalation of global trade in manufactures, even though it is constrained in certain key product areas, such as textiles and apparel. This trade expansion has been fuelled by the underlying real income growth in importing economies, as well as significant reductions in transportation costs, reflecting in part changes in the composition of trade away from heavy basic commodities towards higher valued light items. At the same time it has clearly reflected significant reductions in trade barriers. In 1929 the Smoot-Hawley tariff in the US reached levels of over 50%, whereas today, the average OECD tariff levels on manufactured products are in the region of 2%. The tariff barrier reductions over this period have been so marked that through expectations of continued barrier reductions, they have generated further increases in trade and trade penetration, as investments in new export oriented industries occurred.

28. An obvious question for the next few decades is whether there is room left for significant further reductions in these barriers. There will clearly be a further round of tariff negotiations in the Millennium Round, but the scope which remains for significant reductions in barriers on manufactured products is relatively small. Indeed, some have suggested that the potential is there for increases in barriers, because of the emergence of new trends in trade policy which link trade policy actions to non trade matters, such as compliance with intellectual property norms and standards, or labour standards (core standards defined over various labour related practices). Environmentally linked trade actions also fit within the same category. Thus, poorer countries not only face concerns over a possible fallacy of composition in setting their trade strategies. They also face the risk over the next twenty to thirty years of trade barriers no longer continuing to fall and even potentially rising because of linkage to other non trade related matters.

29. As if these changes in system structure were not enough, there appear to be other new developments underway. In the agricultural area, for instance, OECD countries agreed for the first time in the Uruguay Round to tariff their agricultural restrictions, setting up the real possibility of future reciprocity based liberalization in agriculture. The scope of this tariffication has clearly revealed the prohibitive nature of many of these trade barriers; Japan, for instance, has recently tariffed some of its restrictions on rice at levels of over 1000%. In a Millennium Round it is possible that we could have

significant exchanges and concessions between negotiating parties which were concentrated on agriculture, residual tariffs in textiles and apparels, service related items. The developing countries bound their tariffs at historically low levels in the Uruguay Round of a little below 20%, but still have room for negotiation. Over the next twenty to thirty years, it could be in the agricultural areas where trade has been effectively prohibited through restrictive OECD policies in grains and meats and other products that large trade expansion occurs. If this is the case, the development assistance practices of the last thirty or forty years which have focussed on helping developing countries seeking outward oriented trade growth fuel resources flows out of agriculture and into manufacturing for export of manufactured products could prove to be misguided.

The Post Bretton Woods Architecture and The Poorer Countries

30. Concerns over a changing trade system are also manifest in current debates on the architecture of the Bretton Woods institutions. Our present day global economic institutions were crafted in the 1940's and designed largely to address specific problems of the 1940's. The IMF, through intervention and credit facilities to countries experiencing pressure on exchange rates was to maintain the exchange rate regimes, with a resumption that fixed exchange rates had been set at realistic parities. The World Bank was to generate financing from global capital markets to fund infrastructure development within the developing countries, and the GATT was both to generate a rule system for the conduct of international trade policy and to liberalize international trade through negotiations. The idea was both to prevent a return to the events of the 1930's when trade volumes fell by perhaps 75% in two years, and to also generate forward momentum towards trade liberalization and growth through progressive reductions in trade barriers.

31. Since the 1940's, the institutional form of these agencies has progressively changed. Both the IMF and the World Bank have become increasingly involved with policy related conditional lending, which has moved them significantly away from their original objectives. The IMF, of course, found its mandate greatly changed in 1971 when OECD countries abandoned fixed exchange rate regimes. In the case of the WTO, the spread of the activities of the WTO outside of its original trade mandate, especially in Uruguay Round, have been a source of concern for the developing countries.

32. The financial crises of the last 18 months have prompted much discussion of a potential recasting of Bretton Woods institutions, noting the differences between institutions within and across countries. For instance, there is no global regulation of financial institutions, and had banks been regulated globally in the way they are nationally, many claim that many of the difficulties in the Southeast Asian experience would have been far less severe. Equally, there is no global competition policy, with antitrust statutes administered on a global basis, and countries have no extra territorial reach in their competition policy. The Bretton Woods institutions, as originally conceived, treated countries as only being interlinked through finance and trade not through physical interactions. Hence environmental issues do not enter and recent calls for a World Environmental Organization are a reflection of these concerns.

33. The poorer countries clearly have an interest in these issues, and these in turn affect in fundamental ways, the form of trade strategy from which they are likely to benefit. The feasibility of outward oriented strategies, and the choice of focus on agriculture or manufacturing, where the barriers may be coming down or going up are examples. Whether the rules of the game are likely to change with a global reconfiguration of our institutional structure are further uncertainties. All of these then are factors which potentially affect the poorer countries on trade, and need factoring in to a poorer country trade policy strategy.

IV. Delivering Technical Assistance On Trade

Types of Assistance

34. In light of the above discussion, there are several different types of technical assistance related to policy formulation and overall regime management which could be delivered to the poorer and least developed countries in the trade area with the aim of improving trade performance.

a) *Raising The Level of Awareness of Key Policy Actors to the Overall Policy Framework*

35. The first type of technical assistance aims to raise the level of understanding as to how the global trade policy system operates; to help key actors assess what the risks and opportunities are for individual countries with different strategies.⁸ This type of assistance is especially important given the uncertainties over system evolution highlighted above. The actors involved can be legislators trying to grapple with either domestic trade reforms, or endorsement of multilateral reforms; Ministers and political level actors who initiate policy in the area; or key officials charged with policy implementation and management of trade problems.

36. This type of technical assistance begins from the hypothesis that there is a need to raise awareness among key actors in the policy process, at the legislative, political, and official-technical levels, as to how the whole global system operates, as well as how to deal with particular issues and situations. Improved information flows on trade will hopefully improve decision making and enable opportunities to be seized.

37. Within trade ministries in least developed countries, one often finds only limited awareness of the nuances of trade issues; how, for instance, the operation of such agencies as the WTO, as well as regional trade agreements to which countries have acceded, both impinge on and can be used by the country. By way of example and from personal experience, on a recent visit to Botswana (outside of the group of the least developed countries) there was much discussion of how best to deal with trade conflicts with South Africa. The central issue was South African duties applied against assembled auto units exported from an assembly plant in Botswana operated by a Korean auto manufacturer. Botswana could have pursued dispute settlement procedures under WTO with a reasonable probability of winning, given what seemed to be a violation of Botswana's WTO rights and obligations by the South African side. This had not been pursued by officials in Botswana, however, due to unfamiliarity with the wider trade system. The lesson is that choosing the best mechanism for dealing with any particular trade issue requires in poorer countries familiarity with how the whole global system operates.

38. Help with awareness-raising can involve several elements: seminars and briefings; study tours for officials who can visit the key agencies in the developed world; maintaining rosters of trade experts to whom officials in poorer countries can turn when faced with particular trade problems so as to discuss how to proceed. It can also involve efforts to improve the proficiency of younger officials in trade related matters, although one difficulty is that after such training officials may move on to other ministries and take on non-trade tasks. Within the group of technical assistance possibilities set out here, the budget implications of these efforts seem relatively small compared to more targeted efforts. The payoffs are potentially high, but the benefits are often intangible and have high variance. It may thus be difficult for

⁸See the recent discussion of the contribution the global economy can make to overall economic performance by Richard Blackhurst (1997), a former Director of Research at the WTO.

donor groups to see a clear return for their investment, but it is a form of technical assistance which, from my experience, is sorely needed.

b) Helping implement multilateral or regional agreements

39. Poorer countries can also benefit considerably from help in implementing decisions which they have agreed to multilaterally or regionally. For example, all developing member countries of the WTO acceded to the Uruguay Round agreement on intellectual property, the so-called TRIPS Agreement (Trade Related Aspects of Intellectual Property Rights). Under this agreement, countries become subject to trade actions if they do not bring their intellectual property regimes (covering copyright, patent and trademarks) into compliance with the agreed norms and standards. Such trade actions are not restricted to intellectual property; they could also involve trade retaliation in goods. Although developing countries were given ten years to comply with the TRIPS Agreement, there is no pre-existing intellectual property regime in many poorer countries which compounds the problems of compliance, and results in concerns that they will eventually be subject to trade actions sanctioned by the dispute settlement body of the WTO.

40. Implementing these regimes has attracted substantial interest from donor agencies. Teams of lawyers have travelled to countries, designed new intellectual property regimes and discussed their implementation. The cost of the efforts has typically been high, since not only are design issues involved, but also implementation issues, maintaining registration systems, establishing legal frameworks for the resolution of disputes, achieving international comparability and certification.

41. The implementation of these decisions has also been something that poorer countries have approached with trepidation. However, donor agencies have seemed keen to assist because of the tangibility of the technical assistance, through the enhanced intellectual property protection. The support of commercial interests in the donor countries in strengthening these regimes has been a further factor. While there are benefits to these countries from these strengthened intellectual property regimes insofar as they facilitate the use and dissemination of intellectual property, the payoff in terms of trade and growth performance relative to other forms of technical assistance is unclear, particularly given the large amounts of technical assistance resources which can be involved.

c) Overcoming export related impediments

42. Another type of technical assistance starts from a recognition of the natural tendency for donor driven technical assistance to be more oriented to the import regime rather than to the export problems of poorer countries. There are often quite understandable pressures from interests in the donor countries to seek improvement, via technical assistance, in the access which developed country exporters have even to small developing country markets. In contrast, efforts to assist countries in dealing with their own export related trade impediments, many of which reflect policies in importing countries can involve a degree of conflict with commercial interests in the developed countries which support the policies in place.

43. These tensions, with their clear implications for delivery of assistance for trade, can be seen in a number of areas such as textiles and apparel. Textile and apparel trade arrangements are complex, involving among many other things, rules on trans-shipment and other devices used to circumvent the trade restraints.

44. Thus, under these arrangements, developing countries can be called for consultations to explain their shipments, and can encounter difficulties with the process. Least developed countries may be subject to tight export quotas, and may need help with negotiations. Little or no technical assistance is given to poorer countries in dealing with these matters.

45. Another example is in the antidumping area, where duties can be used where exporting firms are deemed to be selling below cost. Although the rationale for using antidumping duties is a matter outside of the present discussion, many economists argue that there is no efficiency rationale for their use, even to offset predatory pricing. Quite apart from this debate, the use of antidumping has grown in the US and EU to a point that few are able to grasp the precise details of what is involved in dealing with each antidumping action. Rules cover cumulation, (that is the aggregation of one country's exports with another for the determination of injury); constructed cost, (the use of data constructed by the importing country in the event that the exporting country cannot provide information by a specified date and in a specified format, which then is the basis for the margin of dumping to be determined); and other complex matters. Resulting dumping duties against low income countries can be high because of some of these procedures.⁹

46. There are examples of African countries, with no prior experience of or involvement with antidumping duties, finding themselves subject to dumping actions from the re-export of their products from, say, European countries to the United States. Upon initiation of the dumping action, and having decided to fight the action through the US process, they find that they must inevitably hire expensive US legal advice, who, in turn, have difficulty obtaining records from producers in their own country, particularly where agricultural products are involved. There may, for instance, be large numbers of growers who operate on a cash basis and the government finds it difficult to consolidate and provide the information in the format required by importing country agencies for the antidumping case. There are examples of countries who, having done all this, subsequently lose the case, and find that their legal costs are many multiples of the trade involved.

47. These experiences are not only frustrating for countries, but also can use up significant amounts of resources. The processes involved are mysterious to countries until they become involved with them. With limited prior knowledge of what is involved in dealing with dumping actions and little basis on which to make key decisions such as whether they fight the action or whether they try to find other ways to mitigate its damage, they often just react as best they can. Clearly, technical assistance in these areas would be of great value to poorer countries in helping to deal with these situations, even though this may conflict with the interests of affected companies in importing countries.

d) *Enhancing the negotiating capability of least developed countries*

48. Technical assistance can also be aimed at enhancement of trade negotiating capacity. It has traditionally been thought that poorer countries have only limited (even zero) impact on international negotiations. In addition, the cost of maintaining delegations at international fora such as the WTO is prohibitive, both for participating in and following trade negotiations.¹⁰ As a consequence, poorer countries have had limited capacity to participate in international negotiations such as the Uruguay Round. Furthermore, development agencies have been reluctant to respond to developing country needs in this area because of limited negotiating leverage and the costs involved. This reaction may be shortsighted for a number of reasons. First, the main challenge is how to raise awareness and knowledge of the issues rather than whether to maintain delegations in expensive cities such as Geneva, since that awareness determines the ability to participate more than any other factor. In complex negotiations, such as the Uruguay Round,¹¹ individual countries may also have concentrated interests only in a subset of the various negotiating groups. Effective participation in working groups on key topics can still be achieved by visits to the negotiating location without formal maintenance of a delegation with all the attendant costs.

⁹Spinager (1998b) provides data on recent antidumping actions.

¹⁰See also the discussion in Hamilton and Whalley (1996).

¹¹The role and position of the developing countries in the Uruguay Round negotiations is discussed in Whalley (1989). Yeats (1994) provides a quantitative assessment of the impacts on developing countries.

49. Second, participation in negotiations yields information on what is happening, which may be crucial for the ability of individual countries to position themselves in light of emerging decisions. The fine detail in individual agreements can be crucial for specific countries, and participation in negotiations can yield an opportunity to fine tune details in ways which advance country interests. Third, developing negotiating capacity can be a learning process for countries. More active participation in, say, WTO negotiations and trade rounds may enhance capacity to participate in regional trade negotiations. In negotiating smaller regional arrangements the influence of individual countries can be substantial; thanks to the learning gained in larger framework negotiations. Thus, focussed support for participation in international negotiations may be an effective way to help poorer countries build trade capacity and pursue their specific interests in trade, both regionally and internationally.

Considerations In Designing A Technical Assistance Portfolio

50. Having set out these types of technical assistance for poorer countries in the trade area, a number of considerations arise in deciding upon an appropriate balance in the delivery of such technical assistance.

a) Cost Effectiveness and tangibility

51. Donors wish to see tangibility of results and a concrete return for their investment in a cost-effective way. The expected payoff from efforts to raise the awareness of the global policy framework or, to help poorer countries deal better with export related impediments (MFA quotas, antidumping for example), in countries may be substantial, but there can also be variance associated with the outcome. The benefits are often not tangible in the way they are with other forms of technical assistance.

52. Larger scale technical assistance undertakings, such as helping install intellectual property regimes in countries can absorb large fractions of technical assistance budgets. Although there may be tangible benefits, in that documents and new legal regimes are produced, the contribution to the overall economic performance of the country from the effort seems less clear.

b) An Overall Approach

53. One important consideration in gauging the effectiveness of technical assistance is to ask how narrowly focussed assistance efforts interlink with the remainder of the policy formation process. Where are the weakest links? There is little point discussing new policy approaches or sophisticated trade promotion strategies if they cannot be implemented because the structure needed for them is not in place. There is equally little point in designing detailed policy initiatives for a part of a trade regime, if policy makers do not fully grasp the main objectives and directions behind the initiative, and are, hence, unable to generate the political support needed for its implementation. Where the policy implementation structure is weak, it suggests focussing on policy implementation before broader ranging discussions of policy options get underway. The weakest link in the overall policy chain may thus be the area which should be strengthened first in any assistance effort.

c) Improving Export Access

54. Development co-operation must also take account of the relative importance of helping developing countries achieve improved market access abroad, compared to helping them implement more consistent import regimes. It is often argued that poorer countries do not face major problems of market access abroad since their key export commodities are not heavily barrier constrained. It is further argued

that their export performance problems are supply based, and reflect bottlenecks in their production, distribution, and delivery systems. This may still be true for many poorer countries who continue to export a narrow range of commodities, but increasingly these countries are moving into labour intensive manufactures and exploiting possibilities for outsourcing and direct foreign investment. As they do so, they clearly become entangled with export related issues. Antidumping problems now occur in products with relatively low degrees of processing, and for such products as fruit and vegetables (green beans, for example). The payoff to improved trade performance from technical assistance in dealing with export related difficulties seems large.

d) Donor Co-ordination

55. Finally, donor co-ordination and avoidance of duplication is critical to effective development co-operation. Assistance in the area of trade is most effective if it dovetails with the activities of international and other agencies within countries. By way of example, the WTO offers short (two to three week) training programmes every year for young trade officials from developing countries. These take them through the structure of the WTO, the basic WTO articles, dispute settlement and negotiations and other matters. This has also proved to be an effective vehicle for raising the awareness of the global policy framework within countries. Travelling to lower income countries, one often finds junior government officials who are familiar with WTO issues, who are articulate and able to argue a country case, and more often than not have been through this WTO training program. Technical assistance which increased the number of such places, and provides more access to these kinds of programs can be a low cost and beneficial way of enhancing country capability in this area, and flows directly from the need to dovetail with other trade assistance efforts already underway in the poorer countries.

V. What could be DAC's Contribution in fostering further integration of Developing Countries into the Trading System

The Integrated Framework

56. Given the focus above on a portfolio of potential trade assistance activities for poorer countries, it is perhaps worthwhile in closing offering some comments on some possible future directions which could be taken in activities within the DAC on trade and developmental assistance. Much of the focus in the DAC on these matters in recent years has been on the Integrated Framework (from the 1996 WTO Ministerial) towards trade and development involving six agencies; WTO, the World Bank, the IMF, UNCTAD, UNDP and ITC. The Integrated Framework is a demand driven structure in which poorer countries present their needs for trade related assistance, including physical infrastructure, human and institutional capacity building. 40 countries have so far presented their Needs Assessments, and 17 countries are preparing programme implementation.

57. The participatory character of the Integrated Framework is clearly desirable, with its demand driven character. However, problems remain. One is that countries may be slow to participate because in some cases country knowledge of trade issues is limited. A second is that the Integrated Framework is not designed as a response mechanism. The process of implementation of the Framework may lag events. Countries suddenly caught up in an antidumping action, for instance, may not be able to access advice quickly. A third is that the Framework only covers multilateral agencies; activities of bilateral donors are not factored into the Framework.

58. Thus, the DAC can play a useful role in supplementing and broadening activities under the Integrated Framework, as well as providing feed back on how well the Framework is operating. What are the needs that have been identified, and do they realistically mirror professional opinion outside countries as to what is needed? How well can the Integrated Framework respond to some of the broader needs identified above which shape policy responses, such as more awareness among policy makers in countries as to how the trading system actually functions? A couple of country case studies of experience with the Integrated Framework could be illuminating; Uganda, as the first country to implement its multi-year programme of assistance under the Framework could perhaps be the first.

Bilateral/Multilateral Coordination

59. The DAC could also usefully address the issue of how to best focus bilateral assistance, given the existence of the integrated framework. Is bilateral assistance now best channelled through the Framework mechanism, since countries will have identified their needs? Or is diversity in approach valuable and hence bilateral assistance in this area is best targeted by individual donors?

Anti Dumping

60. In particular problem areas, such as anti dumping, it may also make sense to offer quicker and more in-depth assistance than may be feasible through the Integrated Framework with a multi-country process covering many issues and requiring formal submission of needs and response. One idea is for a small support unit (2-3 people) on anti dumping actions to be formed, that countries facing actions could access for guidance and advice. Because time is critical in framing a response, members of a unit could address such concerns as whether the country should contest; if so, how is it done; what (modestly priced) legal advice could they recommend; what parallels are there to earlier cases; how did these work out?

These responses would be given by phone/Email/fax; and as the discussion deepened, officials from the country could visit the unit (at the countries' expense). The idea is for a small, flexible, quick response, low budget operation.

61. Another idea is for a legal defence fund and facility to be established, that countries could access to help with actions. Some scrutiny of fund expenditures would be needed; can the case realistically be fought? What information flows could reduce eventual duties? Is the legal help to be offered realistically priced? There would presumably be an overall limit on the size of the fund and future disbursements to it would depend on how effective its activities were.

Policy Coherence

62. A further possible focus for DAC activities is in the area of policy coherence; the mutual consistency of policy measures in the trade area, such as giving, say, Bangladesh aid for it to grow and develop and at the same time restraining Bangladesh through MFA quotas. The DAC could usefully first document the key areas and extent of such policy incoherence, and then offer suggestions as to what to do about it. As these incoherences are usually known to donor countries, an especially useful contribution would be to inject more transparency into the area. One way would be through a special study to be published. Another, more grandiose idea would be for a World Coherence Report (to mirror the World Bank's World Development Report, and UNCTAD's World Investment Report).

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