



# AID-FOR-TRADE: CASE STORY

WORLD TRADE ORGANIZATION



## THE WTO TRADE POLICY REVIEW MECHANISM: AID FOR TRADE



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### **THE WTO TRADE POLICY REVIEW MECHANISM: AID FOR TRADE**

#### **Executive summary**

The Director General's Task Force on Aid for Trade recommended that an 'assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews'. This was further reinforced by the agreement at the December 2006 General Council that a general assessment of Aid for Trade should be included in future Trade Policy Reviews. The Aid-for-Trade Work Programme for 2010-2011 sought to operationalize these recommendations and proposed that steps would be taken to 'systematically integrate an analysis of national Aid for-Trade strategies and experience as part of the Trade Policy Review (TPR) process'. It was further agreed that there would be a series of pilot TPRs and these outcomes would support further consideration being given to 'including an Aid for Trade analysis in future TPRs'.

Six pilot TPRs have been completed and aid for trade has now been broadly “mainstreamed” into TPRs. The process has been welcomed by WTO Members, especially by developing countries who consider that an inclusion of Aid for Trade brings additional value to the TPR process. It is clear that the process has led to additional internal coordination on Aid for Trade issues in middle income developing countries and LDCs.

This case story examines the experiences gained from the six pilot countries, specifically on the value added at the local level for countries and of the follow-up process. It concludes with a clear picture of the usefulness of an Aid-for-Trade assessment in the TPR but recommends that Members give further thought to putting in place a more systemic follow-up mechanism where the country under review and its development partners can have a dedicated focus on Aid for Trade. The experience of the Inter-American Development Bank's activities in Belize in using the preparations and conclusions of the TPR to support the development of a national Aid for Trade strategy and dialogue is proposed as a framework.

#### **Purpose of the Trade Policy Review Mechanism**

1. Annex 3 of the Marrakesh Decision (1994) sets out the purpose of, and legal basis for, the Trade Policy Review Mechanism ("TPRM"): to examine the impact of Members' trade policies and practices on the functioning of the multilateral trading system. Through greater transparency in, and understanding of, the trade policies and practices of Members, the TPRM aims to contribute to improved adherence by all Members to WTO rules, and hence to the smoother functioning of the multilateral trading system. The TPRM is not intended to serve as a basis for the enforcement of specific obligations under WTO Agreements, for dispute settlement procedures, or to impose new policy commitments on Members.
2. The paramount concern of the TPRM is the smooth functioning of the multilateral trading system. It contributes to this objective in two main ways:
  - through regular collective appreciation and evaluation of the full range of Members' trade policies and practices; and
  - through an annual overview of developments in the international trading environment impacting on the multilateral trading system.
3. In response to the threat posed by the global economic downturn to the smooth functioning of the multilateral trading system, reporting of developments in the international trading environment is taking place on a semi-annual basis. The transparency achieved by the TPRM in Members' trade

policies and practices has proved a bulwark against protectionist tendencies and so helped ensure the smooth functioning of the multilateral trading system.

4. Trade policy reviews describe the trade policies and practices pursued by the Member or Members concerned, based on an agreed format. This format considers the background of each Member's wider economic and developmental needs, policies and objectives, as well as of its external environment. However, the focus is firmly on the impact which a Member's or Members' trade policies and practices have on the multilateral trading system.

#### **Aid for Trade in the TPRM**

5. Prior to the 2005 Hong Kong Ministerial Declaration, the TPRM considered the economic and development needs of Members, but looked at the response to those needs primarily through the lens of the support offered to developing countries to adhere to WTO rules, and the work of the Integrated Framework in Least Developed Countries. The Recommendations of the Task Force on Aid for Trade<sup>1</sup> indicated that an 'assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews' and this was further reiterated at the December 2006 General Council where it was agreed that a general assessment of Aid for Trade would be included in future Trade Policy Reviews.

6. In the discussions with Member States for the development of the 2010-2011 Aid-for-Trade Work Programme, there was interest amongst members in taking forward the Task Force recommendation on the TPRM and Aid for Trade. It was agreed that the TPRs provided 'a useful mechanism to examine the mainstreaming process' and that steps would be taken to 'systematically integrate an analysis of national Aid for-Trade strategies and experience as part of the Trade Policy Review (TPR) process'. It was further agreed that there would be a series of pilot TPRs (Belize, China, Honduras, Malawi, the United States and the joint review of Benin, Burkina Faso and Mali), and these outcomes would support further consideration being given to 'including an Aid for Trade analysis in future TPRs'. Partner organizations were encouraged to participate, 'notably by using TPR reports to support national and regional mainstreaming processes'.<sup>2</sup>

7. The dedicated section on AfT would seek to position the demand and supply of Aid for Trade as a component of a Member's development policy and examine the mainstreaming, priority setting, delivery and implementation of Aid for Trade within the economy. For developed countries the aim would be to examine their overall policy framework for delivering AfT rather than seeking to review programmes in partner countries. As such, the main question to be examined was the extent trade had been mainstreamed as a policy and operational objective into existing aid delivery mechanisms and an overview of how this translated into AfT spending.

8. There was a similar focus on mainstreaming in the TPRs of developing members albeit from the perspective of the role of trade policy in national development plans and in institutional dialogues. This in turn was thought to determine the extent to which trade-needs formed a part of the dialogue with development partners. Such an analysis requires more in-depth assessment of AfT needs in the context of trade-related technical assistance and supply-side and trade-related infrastructure constraints and the extent to which these are reflected in national development strategies. For LDCs, this also meant examining the work of the Enhanced Integrated Framework. In addition to looking at the demand side, the analysis was also designed to review the response of development partners to the AfT needs expressed by developing countries. For this purpose, statistical information from the OECD Creditor Reporting System database and other secondary sources, such as country strategies and evaluations, were utilized.

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<sup>1</sup> Recommendation of the Task Force on Aid for Trade, WT/AFT/1, 27 July 2006

<sup>2</sup> Aid-for-Trade Work Programme, 2010-2011, WT/COMTD/AFT/W/16, 27 November 2009

9. The rest of the analysis in this case story focuses on the experience gained from the 6 pilot countries. It clusters the analysis looking at China and the US together, Belize and Honduras and Malawi and the joint TPR of Benin, Burkina Faso and Mali.

**(i) China and the US**

10. The AfT section of China's TPR illustrated the complexities of assessing a country which is both the world's largest developing country and also a growing provider of South-South trade-related technical assistance and capacity-building. As such, China's TPR Secretariat report examined this issue from both standpoints. The analysis noted that of the US\$1.4 billion in ODA commitments made in development assistance to China in 2008 approximately US\$335 million was in categories within the scope of the definition of aid for trade given by the WTO Aid-for-Trade Task Force. It was further noted that China, as a major provider of assistance to other developing countries, provided more than Y 210 billion in the form of grants and interest-free loans by the end of 2009 to more than 120 developing countries. A significant proportion of these activities may also fall within the scope of the Task Force definition of aid for trade.

11. The Government's report to the TPR included a reference to Aid for Trade. It focused on China's continued commitment to the initiative and information on China's assistance under South-South Co-operation, specifically under its bilateral, regional and global cooperation framework. China's assistance for infrastructure, renewable energy, agriculture and human resource development and the duty-free treatment and debt exemption granted to LDCs were seen as having a key role in improving the trade capacities of developing countries. The activities discussed were broader than AfT with examples provided of China's assistance in the area of food aid and assistance to the social sectors.

12. The AfT component of the Secretariat's report of the United States focused on the policy framework, the main national agencies responsible for delivering trade-related technical assistance and capacity building and the AfT commitments of the government. The aim was to review how AfT was positioned within the US's foreign assistance strategy and the regional breakdown of this assistance.

13. The US Government's report to the TPR addressed AfT within the context of trade-related capacity building initiatives and the synergies between trade policy and development assistance as tools to alleviate poverty and improve opportunities. The US addressed both its bilateral and multilateral trade-related assistance and focused on the work of the Millennium Challenge Co-operation and the US's support to the EIF, the WTO Global Trust Fund, and trade facilitation and accession activities under the WTO. The United States also reiterated its commitment to the initiative.

14. Although WTO Members welcomed the inclusion of Aid for Trade in the TPRs of China and the United States, there were few questions asked by Members on AfT in the TPR meetings. This was particularly the case for the China TPR. Of the more than one thousand questions submitted to China by Members, only a couple of them related to Aid for Trade. The same pattern was repeated for the US TPR, with very few questions posed. Instead Members focused their analysis on more specific trade policy issues.

**(ii) Belize and Honduras**

15. Belize and Honduras provided an opportunity for an assessment of Aid for Trade in two middle-income developing countries, identified as small and vulnerable (SVEs) in the WTO context. The AfT sections of these TPRs examined the institutional mechanisms for identifying, prioritising, mainstreaming, implementing and evaluating Aid for Trade and identified areas where Aid for Trade could be better mainstreamed and made more effective. There was an assessment of the processes and procedures of all critical aspects of the AfT framework, as well as the relationships with their development partners.

16. The AfT section of Belize examined bottlenecks and constraints to export performance as well as the on-going efforts by the Government to mainstream trade into its national and sectoral development plans. The overarching scenario in Belize was governed by the difficulty which it had, as a middle income country, in accessing grant level funding at the international level. Therefore the focus of Belize's priorities was on developing a framework that would allow it to more effectively access AfT funds and to use these funds to leverage additional sources of financing and investment. The Government report did not include a separate section on Aid for Trade but instead integrated its trade-related capacity building needs into the sector specific sections of the text and included a separate segment on mainstreaming.

17. In tandem with the TPR, Belize, in collaboration with the Inter-American Development Bank developed a national AfT strategy using the TPR consultations and process as a mechanism to also consult on the needs and priorities of the national stakeholders. Not only did this prove to be an effective use of financial and human resources, but it strengthened the national interest in the TPR process and ensured complementarity between the views expressed in the TPR and in the AfT strategy. Hence, the bottlenecks identified in the TPR context were elaborated upon in the development of the AfT strategy.

18. The outcome of Belize's TPR informed the finalisation of its national AfT strategy. Critical to the success of this process was the ownership of the Belizean government which was intimately involved in all aspects of the identification, drafting and validation of the strategy. The financial and advisory support of the IaDB was essential in helping Belize to use the TPR process, and in particular the inclusion of a dedicated reference to AfT, to develop their own mechanisms for identification of priorities, possible development partners, and timelines for implementation.

19. The approach to the AfT section of the Honduras TPR was similar to that of Belize. The main trade-related bottlenecks and constraints were examined as well as an assessment of the trade mainstreaming efforts undertaken by the Government of Honduras. In particular it was noted that the effectiveness of AfT would be largely dependent on complementary national policies such as mainstreaming, and prioritization of supply side limitations and trade related infrastructure constraints in its development needs.

20. Honduras specifically referenced Aid for Trade in its Government report, recognizing the role that it can play in assisting Honduras's development. It further called for AfT to be predictable and effective in order to support the country's integration into international trade, promote dialogue between its public and private sectors, and strengthen its trade capacities. The Government report does incorporate many AfT-related aspects dealing with infrastructure-related needs, national development strategies and regional integration but in separate sections throughout the document. The Inter-American Development Bank also supported Honduras in preparing for its TPR and discussions are on-going as to how assistance can be rendered to assist in the development of a national AfT strategy.

21. Interest in the AfT sections of the TPRs of Belize and Honduras was high, especially amongst non-LDC Members at similar levels of development. The focus on how countries, with clear needs and expressed vulnerabilities can seek to promote their priorities, in the absence of access to substantial grant-based AfT funding, is an issue that Small, Vulnerable Economies and other middle and upper- income developing countries are keen to explore.

**(iii) Malawi and Benin, Burkina Faso, Mali**

22. The TPR for Malawi and the joint TPR for Benin, Burkina Faso and Mali illustrated the utility of incorporating a dedicated assessment of Aid for Trade in LDC TPRs. The inclusion of the AfT section in the Secretariat report was accompanied by an attendant analysis in the government

reports. This focus supported the internal national process of examining how AfT was working and how it could be improved when evaluated against the country priorities.

23. The Secretariat report on Malawi focused on the mainstreaming efforts undertaken to further position trade as a fundamental tool for economic growth and achievement of the MDGs. The work of the EIF was seen as particularly key in assisting Malawi to mainstream trade, coordinate the delivery of trade-related assistance in response to the country's priorities and assist the country in identifying and addressing its supply-side constraints. The analysis of the trade-related bottlenecks identified trade-related infrastructure, implementation of regulatory systems and competitiveness as key areas that required continued AfT assistance. Malawi's landlocked status made assistance for regional initiatives and for trade and transport corridors critical. On-going assistance, including that provided for infrastructure and regional integration from the AfDB, from the 10th EDF and under the North-South Corridor project, was profiled. In the Government report, Malawi underscored the potential of AfT to allow it to improve on its trade-related infrastructure, specifically in the energy, water, transport and telecommunications sectors. SPS compliance and trade facilitation were also positioned as key country-priorities.

24. The Aid-for-Trade assessment of Benin, Burkina Faso and Mali in the joint TPR allowed for a critical examination of Aid for Trade in a group of politically and geographically contiguous Least Developed Countries. The three countries all benefited from the coordinating function of the EIF and it was clear that the assistance of the EIF in developing the DTIS and action matrix was essential in allowing a more evidence-based determination of their AfT needs. The AfT needs of the three countries confirmed the similar nature of the trade-related constraints and bottlenecks which exists. Export diversification and competitiveness, trade-related infrastructure especially in terms of energy, water, network and trade facilitation, and regulatory reforms were priorities shared by all three countries. Support for the cotton sector also featured in all three narratives.

25. The important role which trade mainstreaming plays in articulating priorities and supporting donor attention is clearly evident. The interaction between the more macro long-term development strategies, the poverty reduction strategies and the DTISs was an essential ingredient in ensuring that priorities are consistent and have mutually supporting goals. This is key given the overarching development aim in all three economies to reduce poverty.

26. 26. There was interest in the AfT section of the TPRs of the four LDCs.. The specific discussions surrounding AfT, both in the preparatory stage of the TPR and post the TPRB meeting allowed for a greater focus on how the four countries assessed the role of AfT in their economic development. The important role which the EIF plays in these LDCs and the key facilitating function of effective mainstreaming of trade and coordination amongst various national development strategies was a clear message which many countries at similar levels of development culled from the discussions. It also allowed the countries to effectively profile what they considered to be their most pressing trade-related bottlenecks and the effectiveness or lack of effectiveness of the development aid they had received. The discourse on AfT provided a platform to showcase priorities, express conceptual and implementation-related concerns and allow for an informed dialogue on how the international trade and development community may be able to enhance the effectiveness of the assistance it was providing. As a tool to showcase lessons learned and best practices, the inclusion of a dedicated AfT section proved a success.

### **On-going TPRs**

27. Given the positive feedback from Members regarding the usefulness of including a dedicated section of Aid for Trade in the TPRs, this has been expanded beyond the six pilot TPRs and incorporated in the TPRs of a number of developing countries, including LDCs. The Inter-American Development Bank has continued to support the process by working with countries such as Jamaica and Paraguay on Aid for Trade needs and priorities. A national Aid-for-Trade strategy is near

completion for Jamaica and there has been demand from other countries in Latin America and the Caribbean for similar support.

28. The TPRs undertaken for the LDCs have showcased the critical role which the EIF can continue to play in ensuring that mainstreaming of trade-related needs continues to occur and that there is a clear articulation of these priorities to development partners. Engagement on the AfT sections of the TPRs for LDC and middle income developing countries continue to be useful sources of information, lessons and analyses for the WTO membership and the wider trade and development community. For countries undergoing the TPRs, it provides a multilateral platform for articulation of needs and allows for more focused internal planning on trade-related policies and creates an important basis for follow up with regional partners such as Regional Development Banks and Regional Economic Communities. The IaDB's follow up work in Latin America and the Caribbean is a successful example in this regard as is the role which UNECA envisages playing in taking forward the conclusions from the TPRs in the African region.

### **Conclusions**

Members have welcomed the inclusion of a dedicated analysis of Aid for Trade within the pilot country TPRs. Aid for Trade is now being systematically addressed in the Secretariat reports. Questions have been posed on Aid for Trade during the TPRMs and some countries, especially the middle income developing countries and the LDCs, have used the TPR process to enhance internal coordination on Aid-for-Trade needs and priorities and to collaborate with regional institutions to take forward the recommendations from the TPRB.

For developing countries, especially the low and middle income ones, there seems to be value addition in maintaining a dedicated assessment of Aid for Trade in their TPRs. In a number of cases it has led to the development of national Aid for Trade strategies and to enhanced internal coordination with the private sector and development partners on AfT needs and identification of trade-related bottlenecks. A key element in this has been the willingness of regional institutions, such as the Inter-American Development Bank in the Latin America and the Caribbean region, to take the outcomes and recommendations of the TPR forward and partner with countries to address Aid for Trade priorities. This is a framework that other Regional Development Banks and regional institutions may wish to consider undertaking with countries undergoing TPRs from their respective regions.

The central value of including Aid for Trade in the TPR process is that it provides an opportunity for developing countries, especially LDCs, to situate their Aid-for-Trade needs, priorities and trade-related bottlenecks within a wider trade and development policy context. There is a need to further refine this policy link in future TPRs to ensure that Aid for Trade is effectively positioned as a critical and integral component of a country's growth and development landscape. Greater efforts should be made to showcase and publicise the main findings of the LDC assessments amongst major bilateral and multilateral trading and development partners and to mobilize public and private investment towards the main AfT constraints which have been identified.