

THE AID FOR TRADE DEBATE IN WTO

The development dimension in the multilateral trading system and in the Doha Round Aid for Trade in the current negotiations The basis of the experience The mandate of the Hong Kong conference and the current debate
--

One of the central aims of the accelerated negotiation process of the Doha round, which is currently taking place in WTO, is to tackle the development dimension of the multilateral trading system. Few results have been achieved in relation to this objective, however, since the beginning of these negotiations at the Fourth WTO Ministerial Conference held in Doha at the end of 2001. In this context a new element, or possibly a new approach, has been introduced into the debate and was included in the final declaration of the Sixth Ministerial Conference held in Hong Kong at the end of 2005 (ECLAC, 2006a). This declaration added to the work of this Round a greater commitment to Aid for Trade, which is intended to help developing countries, particularly the least developed countries (LDCs), to build or develop the capacities that will assist them to implement and benefit from WTO agreements.

Aid is not a substitute for other aspects of the development dimension covered by the present Round and in particular for greater market access opportunities for developing countries' exports. This issue is of great interest to the Latin American and Caribbean countries, since they are all developing nations (Haiti alone is in the LDC category), and their trade, economic and social performance has lagged behind that of other economies at a similar level of development.

1. The development dimension in the multilateral trading system and in the Doha Round

The development dimension is not a new concern for the multilateral system, but over time it has acquired different priorities and conceptualizations, which have already been dealt with in previous documents. To sum up, over the time from the inauguration of the Generalized System of Preferences to the introduction of special and differential treatment (as defined and implemented since the Uruguay Round) the emphasis has shifted from demand conditions to the supply restrictions faced by the developing countries. The current version of special and differentiated treatment basically includes some flexibility and differentiated levels for the developing countries in terms of their commitments, as well as longer implementation periods in various agreements and the right to invoke special provisions (enabling clause, balance-of-payments provisions, etc.). LDCs form a special category of developing countries for which the special treatment is expanded or made more flexible. There are also special provisions in particular areas for other groups of developing countries (for example, subsidies for countries with a per capita annual income level of less than US\$ 1,000).

The Doha Round deals with various developing country concerns which have been forthrightly manifested since the WTO Ministerial Conference in Seattle in 1999, and includes the development dimension as a central principle for the set of commitments and provisions on special and differentiated treatment and application of the agreements of the Uruguay Round (see WTO, 2001 and 2005a). The negotiation process, which has continued since 2001, has not yet managed to address or design proposals that generate a true consensus. The Director-General of WTO has noted that there are still imbalances in the multilateral system that penalize developing countries.

In the current Round, work also begins in other areas of interest to developing countries, in order to deal with imbalances in a larger perspective, by analysing the relationship between trade, debt and finance; the relationship between trade and transfer of technology; and the specific characteristics and difficulties of small and vulnerable economies. There are no negotiation commitments for these areas as yet, although increasing attention is being given to a number of demands and proposals, particularly on the latter subjects. There is an active group of 22 countries (mostly from the region, and several of them being islands) working on issues concerning small and vulnerable economies. The group has adopted a two-track approach, by working on development issues while also participating in the specific negotiating bodies, in particular in relation to market access. The landlocked countries have also made suggestions in relation to transaction costs and delays that reduce their competitiveness, as expressed in the Asuncion Platform (WTO: WT/COMTD/SE/3).

In relation to the development dimension concept, greater attention is gradually being given to technical assistance and capacity-building needs in order to deal with adjustment costs and supply-side development. A lot of experience of work in this area has been accumulated over the past decade; in particular through the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries (Integrated Framework, or IF, a joint programme of six multilateral institutions since 1997) and the Joint Integrated Technical Assistance Programme (JITAP) for African countries. The WTO Technical Assistance and Training Plan for the year 2006 made use of this experience, emphasizing the quality aspects of assistance and the specific nature of national needs (see WTO: WT/COMTD/W/142 and ICTSD, 2005). Last, a special turning point in this process has been the strengthening of Aid for Trade and the incorporation of a conditionality principle for developing country commitments, making them subject to the countries' capacity to implement them, as in the case of trade facilitation.

2. Aid for Trade in the current negotiations

The Aid for Trade perspective is that trade and aid are complementary elements rather than alternatives, as they had previously been viewed (Evenett, 2005). That is, aid should be oriented to dealing with the restrictions faced by developing countries so that they can, in turn, contribute at the ambitious level required in the negotiations. If this does not occur, there is the risk that the perception of adjustment costs (normally not included in

the negotiations) will tend to delay liberalization and thus impose restrictions both on potential partners and the countries themselves.

The issue of how to make Aid for Trade operational, as discussed in WTO, is geared to a large extent to helping developing countries address their supply-side constraints in order to improve the conditions and opportunities offered by liberalization, and also to supporting the adjustment processes required in these countries when they adopt new regulations. These needs had become apparent when implementing the Uruguay Round agreements and a somewhat lesser, although different, degree of effort will be required to achieve results in the Doha Round. The needs are accumulating, however, in view of the institutional lags in the developing countries.

In order to meet these objectives, two main categories of aid are required whose costs and requirements are different both in nature and in their time frame, as indicated below (see Phillips and others, 2005; and UNDP, 2006a).

- The first type of support, geared to trade capacity building for development and strengthening of competitiveness, relates to long-term needs which to some extent are independent of the negotiations. In this sense they are similar to those dealt with by official development assistance (ODA), but require additional resources, which can take the form of concessional loans or subsidies for the requesting countries.
- The second and relatively new category of aid, which is intended to meet trade negotiation costs, is a response to short-term needs and is oriented to those countries that are “losers” in the negotiations, which are not always the least developed countries. This category includes, inter alia: effects on fiscal income, preference erosion, effects of the adjustments required (including labour adjustments in connection with restructuring) and agreement implementation costs, in particular in areas such as trade facilitation, intellectual property, standards and rules for services. This type of aid is for a situation where costs are imposed on some countries as a result of reform while there are gains for other countries or overall gains. It is therefore argued that the additional resources required to meet these costs, unlike the first type of aid, should be granted through subsidies.

Opinions differ as to the orientation, scope and modalities of the aid. There are also differences concerning the institutional framework that would be responsible for management, coordination and provision of the aid, and in particular the appropriate role for WTO in this task. Some analysts believe that WTO should participate in both categories of aid, although it is mainly concerned with the second type while the first type should be the task of development financing institutions. There is also debate as to whether these decisions should be part of the single undertaking of the Round.

The challenge of establishing Aid for Trade that can meet the above objectives is not a minor one, for reasons that include the following: (i) the diversity of the restrictions and of the impacts of trade reform on the countries, together with the need to establish needs assessment methods in order to implement the adjustments effectively; (ii) the donors and lending agencies do not wish to consolidate their aid commitments with a mechanism that is binding under WTO, and therefore new mechanisms are needed to avoid reallocation

and to ensure that the funds needed by the developing countries are used effectively, especially funds for development; (iii) although financial aid can be made available more rapidly than other kinds, it may not be sufficient in view of existing needs (see Evenett 2005; Stiglitz and Charlton, 2006).

The trade facilitation negotiations, with preparatory work dating back to 1996, are an illustration of these challenges as they give a central position to the technical assistance and capacity-building elements. The proposals in this area are therefore more detailed in the current negotiations, as in the case of the proposal submitted by 11 of the region's countries for implementing technical assistance in a number of application phases and periods (WTO: TN/TF/W/81). On the basis of the many country contributions to the process of negotiations in this area and considering the need for special and differentiated treatment, there is a broad consensus as to the importance of the factors mentioned for making specific progress in trade facilitation for the developing countries and LDCs. It is also suggested that a central coordinating body is needed within WTO, for all areas relating to the development dimension, financing and country needs; and that the developing countries and LDCs have a very active role to play in carrying out adequate diagnostic studies and in obtaining the necessary aid. Progress in trade facilitation will thus help them to benefit from the expansion of international trade. This issue is receiving increasing attention in ECLAC (see ECLAC 2006b).

As a general proposal, Stiglitz and Charlton indicate that Aid for Trade should focus on three aspects: (i) strengthening of national and regional institutions in relation to development-oriented trade policies and regulations; (ii) helping enterprises to be more competitive, including the facilitating contribution of governments; and (iii) attention to domestic barriers and infrastructure and the border costs, both "behind the border" and external (trade facilitation). At least two aspects of this proposal should be emphasized: the need for linkages between the public and private sectors both for the adjustment tasks and for strengthening supply-side capacity and the attention given to the role of regional institutions in this area.

3. The basis of the experience

The Aid for Trade debate is based on the experience and discussions that have taken place in international organizations, including the World Bank, the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD), and their recommendations (see box 1). Some of these recommendations are supported by a number of organizations, including the need to contribute to the design and implementation of policies that are complementary to trade policies and the challenge of improving the linkages of all policies with a strategy for development. For example, WTO and UNCTAD flagship publications in 2004 referred to the basic financial, macroeconomic, regulatory and competition policies needed in addition to infrastructure and other policies (see WTO, 2004 and UNCTAD, 2004). For its part, the World Bank emphasizes that although strategies with a narrow vision of the key factors in trade's contribution to growth have served well for opening markets, they have not been so effective for stimulating diversification of exports or preventing the erosion of competitiveness (World Bank, 2006). United Nations bodies such as the United Nations

Development Programme (UNDP) and UNCTAD, also emphasize that these strategies should tackle the conditions of poverty and thus promote integral development (UNDP, 2006b; UNCTAD, 2006).

Box 1: Experiences and recommendations of international organizations in relation to Aid for Trade

The conclusions of a recent World Bank study that assesses the support for trade provided by that organization between 1987 and 2004 refer to the interaction that must exist between Aid-for-Trade policies and broad development reforms. The document also refers to the need for complementary measures; that is, competition regulation policies or labour market reforms should accompany the trade reform in order to obtain the potential benefits of liberalization. As in previous evaluations it concludes that the conditionality of loans and aid has probably not contributed to domestic ownership of the reform and has therefore hindered implementation.

Meanwhile, UNDP has given priority to enhancing the trade and development capacities in the developing countries, as its mandate is to promote human development. The lessons learned include the need for the countries to identify with the activities and to have a coherent and well-coordinated national trade strategy that give priority to industrial activities with value added. It also emphasizes the importance of analysing thematic issues, such as the institutional capacity of trade ministries or the impact of pro-poor trade policies, in order to understand better the problems involved in Aid for Trade. It also suggests a more substantial role for the regional banks in trade-capacity building.

The UNCTAD Aid for Trade programmes, and in particular those supporting adjustment to trade reform, include specific areas such as the environment and competition in which policy-making capacity requires strengthening. In relation to support for supply capacity and competitiveness, together with the elements of institutional and physical infrastructure, it includes, inter alia, South-South investments and technology transfer. The goal of these programmes is to build the institutional, human resource, policy-making and infrastructure capacity that the developing countries need or to strengthen their existing capacities. The organization assigns a special role to the private sector in relation to trade facilitation.

Lastly, the Inter-American Development Bank (IDB), with its extensive experience with the countries of the region, points to the urgency of comprehensive strategies that make trade useful to development. The coexistence of preferential agreements with integration schemes draws attention to the complexity of the agenda for these arrangements and thus to the need for trade capacity-building. The following tools can help to deal this complexity: the creation of exchange and cooperation forums or networks among the countries of the region and projects linking trade facilitation and investment in order to contribute to the participation of PYMES in the international arena; the infrastructure initiatives (Regional Infrastructure Integration in South America (IIRSA) and the Puebla-Panama Plan (PPP)) and the strengthening of the private sector.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *Assessing World Bank Support for Trade 1987-2004. An IEG Evaluation*, Washington, D.C., 2006; UNCTAD, *Aid for Trade: An UNCTAD perspective*, 2006; UNDP, *Respuestas al equipo de trabajo sobre la ayuda para el comercio de la OMC (WT/AFT/W/526)*, 2006; IDB, *Aid for Trade in Latin America and the Caribbean: the Inter-American Development Bank's experience (WT/AFT/W/13)*, 2006; and IMF/World Bank, *Doha Development Agenda and Aid for Trade. Development Committee (DC2005-0016)*, September 2005.

In complementary fashion, a number of organizations draw attention to the need for assistance to developing countries for participation in the trade negotiations. A number of agencies concur on the need for a better combination of trade openness, institution-building and measures to alleviate adverse impacts, which requires impact and needs assessments in connection with trade reform and the agreements. Aid for Trade, as currently proposed by a number of international agencies after the assimilation of long experience, expresses a vision of trade and trade policies as part of development strategies.

ECLAC proposals, from the historic to the more recent ones, contain statements that are consistent with this perspective (see ECLAC, 2002 and 2004). It is also found among the conclusions of the document prepared by the United Nations bodies in the region (coordinated by ECLAC), which considered the potential, the progress made and the obstacles in the region in terms of achieving the Millennium Development Goals (especially goal 8 "Develop a global partnership for development"). This document also noted the small share allocated to the trade component within the declining amount of ODA received by the region (United Nations, 2005). In turn, the work carried out by ECLAC in relation to administration and implementation tasks deriving from the signing of free trade agreements is based on the fact that participation in such agreements encourages the countries to review their policies, strategies and institutional framework, especially in relation to issues only partially dealt with by WTO ("WTO-plus" issues) (see: www.eclac.cl/comercio).

For its part, and in line with the emerging views, ECLAC is also advocating the coordination of regulations in a number of areas – including origin, standards and trade facilitation- as well as investment and financing efforts at the regional level, which would stimulate and facilitate trade among the countries. Such trade usually has a higher value added and technological content, which can result in a greater boost for the economies as a whole.

4. The mandate of the Hong Kong conference and the current debate

Together with recognizing and supporting the efforts made in relation to technical assistance and capacity-building, the Hong Kong Conference welcomed the discussions on Aid for Trade, as reflected in paragraph 57 of the Ministerial Declaration. This paragraph indicated that Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they needed to assist them to implement and benefit from WTO Agreements and to expand their trade. Aid for Trade was thus a valuable complement to the Doha Development Agenda. The Conference also defined mandates to extend the work on LDCs, to give priority to technical assistance and capacity-building, and to strengthen the Integrated Framework by providing increased, predictable and additional funding, in-country support and improvement of decision-making and management structure (WTO: WT/MIN(05)/DEC).

In order to respond to this mandate and as a complement to the direct consultations conducted by the Director-General of WTO, in February the Task Force was created as planned. The team consisted of 13 members from developed and developing countries, including the coordinators of the LDC and African, Caribbean and Pacific (ACP) groups, and three countries from the region: Barbados, Brazil and Colombia. As the first element of a twofold approach, the team would provide recommendations to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the Doha Development Agenda. This work includes consultations with members of WTO, multilateral organizations and the regional development banks, in order to expand the resources available for this aid. Issues for debate include the

mechanisms and coverage of a programme for this purpose, taking into account financing, implementation and monitoring. The second element of the approach, consisting of direct consultations by the Director-General, has strengthened the commitment to mobilize additional resources (considerably higher donor commitments) for Aid for Trade.

One novel proposal from the group of LDCs is that value chain analysis could be a useful tool to identify measures needed for enhancing supply-side trade capacity in developing countries (WTO: WT/AFT/W/1). Regional views are expressed in recent communications from the ACP Group (which includes the Caribbean countries), Brazil and three countries of the Andean Community (Colombia, Ecuador and Peru) (WTO: WT/AFT/8, 10 and 12). They mainly focus on the following four issues: a general framework, areas or scope of the aid, implementation and resources.

The general framework includes guidelines for aid and its relationship with the development dimension within the current Round.

Areas or scope of the aid covers: (i) adjustment assistance; (ii) compliance with rules and trade capacity-building; and (iii) development of supply and trade infrastructure (see table 1).

In relation to implementation of the aid, there are various proposals on management/coordination/administration mechanisms, forms (for example, in project form), supply deadlines and their link with transition periods, requirements for analysis with needs assessment, monitoring of implementation, and others. The debate on management mechanisms includes the role of WTO in these tasks and the inclusion of these agreements in the single undertaking of the Round (in this last area the countries of the region have diverging views), as well as regional mechanisms and institutions (including the United Nations regional commissions). Lastly, the Integrated Framework is one of the platforms with the broadest consensus, as a model for drafting the rules which would govern Aid for Trade in this new phase.

Closely linked to the implementation issue are the views on resources, and how to achieve additionality, and specify its nature and the form of allocation (grant or loan), non-conditionality, predictability, timeliness and sustainability of the aid, among other factors. The countries of the Andean Community emphasize the small share of ODA allocated to Aid for Trade, and the low proportion of ODA received by the region. Brazil also emphasizes the need for additional resources that would reverse the declining trend of ODA resources. For its part, ACP proposes that the aid be multilateralized, through existing trust funds (Integrated Framework), with strengthening of bilateral support, and suggests making arrangements for extended aid under certain conditions (multi-year projects) in a timetable that can be adjusted to the transition periods.

Table 1: Categories and orientation of Aid for Trade. Some recommendations supported by countries in the region *

	ACP	BRAZIL	3 countries of the Andean Community
Adjustment costs	Assistance for adjustment to: <ul style="list-style-type: none"> ▪ Preference erosion and termination of textiles and clothing quotas ▪ Lower tariff and export income; and higher prices resulting from agricultural reform ▪ Social costs 	Mechanisms and reforms (short-term) to deal with difficulties arising from: <ul style="list-style-type: none"> ▪ Balance of payments and loss of fiscal income ▪ Social costs (unemployment) ▪ Preference erosion [coordination in IMF]	Deriving from reduction commitments made in the Round
Trade and capacity-building for:	Compliance with commitments and rules of the trading system: <ul style="list-style-type: none"> ▪ Implementation of agreements ▪ Costs arising from regulations on services, regulatory/certification institutions, compliance with trade-related aspects of intellectual property rights (TRIPS) 	<ul style="list-style-type: none"> ▪ Trade policies and negotiations, and implementation of agreements ▪ Technical obstacles, sanitary and phytosanitary measures, provisions for services ▪ Institutional framework for trade policy [coordination in WTO]	<ul style="list-style-type: none"> ▪ Trade policies and regulations, participation in negotiations and implementation of agreements (and their costs) ▪ Institutions that enhance trade capacity (eg centre for legal advisory services)
Supply restrictions and trade infrastructure	Creation of supply capacity: <ul style="list-style-type: none"> ▪ Production capacity and competitiveness ▪ Entry to new markets ▪ Investment incentives, etc. Trade infrastructure: <ul style="list-style-type: none"> ▪ Equipment (transport, services) ▪ Support institutions 	<ul style="list-style-type: none"> ▪ Strengthening of production capacity ▪ Construction or extension of transport infrastructure ▪ Framework for mobilizing migrant resources and development of social infrastructure [coordination in the international banking system]	Improvement of business capacities for capitalizing on market opportunities created by liberalization

* Summary based on the respective communications to WTO (WTO: WT/AFT/8, 10 and 12).

The views expressed by the countries of the region in the contributions mentioned can be seen as part of a broader set of developing country concerns and questions. They include references to the low level of participation in the conceptualization and design of the Aid for Trade initiative; the type and degree of conditionality of the loans; the potential use of this tool as a mechanism to compensate those developing countries that oppose the reforms; the inclusion of Aid for Trade in the single undertaking; the effective provision of additional resources; and an appreciation of the shift in the burden of responsibilities, emphasizing the scale of developing countries' capacities rather than obstacles to market access (UNDP, 2006a).

To sum up, there is a broad consensus as to the importance of Aid for Trade in the Doha Development Round and the need for interaction between trade, aid and broader reforms in the countries. This in turn requires enhanced linkages between the public and private sectors of the economies and improved assessments of developing country needs in connection with development strategies that include a broad range of policies. There is also appreciation of the need to add resources and to increase the level of coordination

among donors. There is a significant debate, however, on the binding nature of the commitments for the donors and the institutional framework required to implement the recommendations (and the role of WTO in this connection). At the same time, the relationship between Aid for Trade and capacity for or conditionality of compliance with commitments for the developing countries is not very clear. Yet there is a growing perception of Aid for Trade as a complement to other elements of the development dimension in the multilateral trading system. In any case, the regional perspective both for the analyses and for the initiatives in this area seems to be gaining ground and as a result there is an expansion of the potential role to be played by various kinds of regional organizations, including ECLAC.

BIBLIOGRAPHY

- ECLAC (Economic Commission for Latin America and the Caribbean) (2006a), *Latin America and the Caribbean in the World Economy, 2005-2006*, Santiago, Chile, forthcoming.
- _____ (2006b), “The Role of Technical Assistance in World Trade Organization (WTO) Trade Facilitation Negotiations”, *FAL Bulletin*, No. 238, Santiago, Chile, June.
- _____ (2004), *Productive Development in Open Economies (LC/G.2234(SES.30/3))*, Santiago, Chile, June.
- _____ (2002), *Globalization and Development (LC/G.2157(SES.29/3))*, Santiago, Chile, April.
- Evenett, Simon J. (2005), “From “Trade versus Aid” to “Aid for Trade”?”, 2 September [online] <http://www.evenett.com/articles/EvenettWTONews2September2005.pdf> .
- IDB (Inter-American Development Bank) (2006), *Aid for Trade in Latin America and the Caribbean: the Inter-American Development Bank's experience (WT/AFT/W/13)*, 24 May.
- ICTSD (International Centre for Trade and Sustainable Development) (2005), *Doha Round Briefing Series. Hong-Kong Updates* [online] http://www.ictsd.org/pubs/dohabriefings/Doha_Hong_Kong_Update.pdf
- IMF/World Bank (2005), *Doha Development Agenda and Aid for Trade. Development Committee (DC2005-0016)*, 12 September.
- Phillips, Lauren, Sheila Page and Dirk Willem te Velde (2005), “Aid for Trade: What does it mean? Why should aid be part of WTO negotiations? And how much might it cost?”, *Opinions*, No. 61, London, Overseas Development Institute.
- Stiglitz, Joseph E. and Andrew Charlton (2006), “Aid for Trade. A report for the Commonwealth Secretariat”, document prepared for the Conference “An Assessment of the Doha Round after Hong Kong”, 2-3 February.
- UNCTAD (United Nations Conference on Trade and Development) (2006), *Aid for Trade: an UNCTAD perspective (WT/AFT/W/11)*, 19 May.
- _____ (2004), *Trade and Development Report, 2004. Policy coherence, development strategies and integration into the world economy (UNCTAD/TDR/2004)*, Geneva. United Nations publication, Sales No. E.04.II.D.29.
- UNDP (United Nations Development Programme) (2006a), “Concept Note on Aid for Trade: Context, Content, Concerns and a Way Forward”, Bureau for Development Policy, New York, January.
- _____ (2006b), *Respuestas al equipo de trabajo sobre la ayuda para el comercio de la OMC (WT/AFT/W/526)*, April.
- United Nations (2005), *The Millennium Development Goals: A Latin American and Caribbean Perspective (LC/G.2331-P)*, J.L. Machinea, A. Bárcena and A. León (coords.), Santiago, Chile, June. United Nations publication, Sales No. E.05.II.G.107

World Bank (2006), *Assessing World Bank Support for Trade 1987-2004: An IEG Evaluation* [online] (<http://www.worldbank.org/ieg/trade/report.html>).

WTO (World Trade Organization) (2005), *Developmental Aspects of the Doha Round of Negotiations*. Note by the Secretariat (WT/COMTD/W/143/Rev.1), November.

_____ (2004), *World Trade Report 2004. Exploring the Linkage between the Domestic Policy Environment and International Trade*.