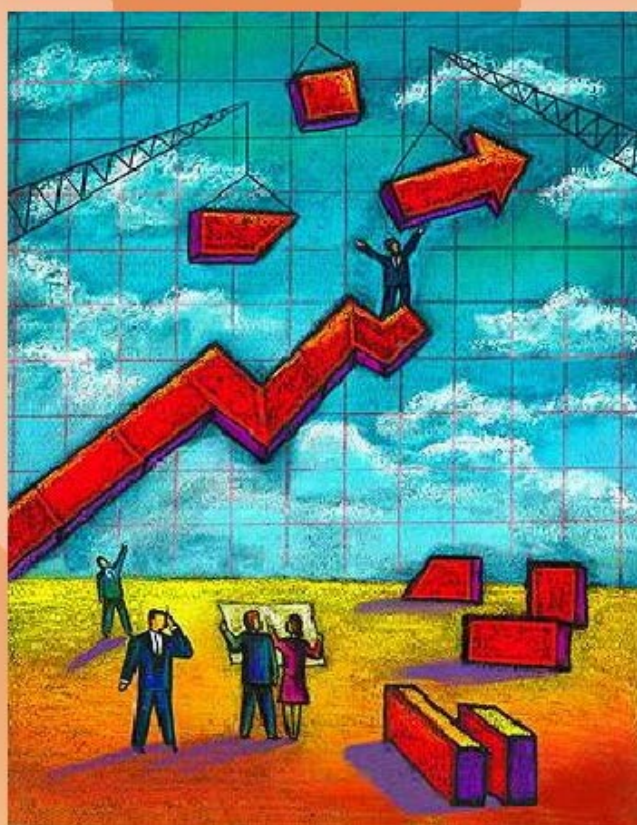


# ABC of Aid for Trade



**CUTS**  
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Trade, Economics & Environment  
**CUTS CITEE** 

Monographs on Globalisation and India –  
*Myths and Realities*, #12

# 0702

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**Published by**

**CUTS**  
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CUTS Centre for International Trade, Economics & Environment  
D-217, Bhaskar Marg, Bani Park  
Jaipur 302 016, India  
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**Printed by**

Jaipur Printers P. Ltd.  
Jaipur 302 001

**ISBN 978-81-8257-081-8**

**Citation: CUTS (2007)**

ABC of Aid for Trade, Monograph, CUTS CITEE, Jaipur

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#0702 SUGGESTED CONTRIBUTION Rs.50/\$10

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## *Preface*

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Active participation in the creation of a better and more equitable trade environment depends on the knowledge and understanding of crucial economic issues. Equally important is the value added information dissemination to the poorer countries and their people – policy makers, government officials and civil society – on those crucial issues, thereby making them healthy partners in global trading system.

Since 2001, CUTS International has been offering reader-friendly information solution to complex issues on global trade through the concise yet comprehensive publications: briefing papers and monographs.

This monograph is about Aid for Trade (A4T), while others have embraced a wide range of economic issues in general and WTO issues in particular such as trade facilitation, the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Intellectual Property Rights (TRIPs). The main objectives of bringing out these publications are to create awareness among diverse stakeholders – from civil society representatives to government officials – and to provide the necessary information to facilitate their understanding and work.

Progress in multilateral trade negotiations is essential as developing countries are much more vulnerable while opening up their trade regime through bilateral agreements than the multilateral regime. Moreover, many developing countries face specific constraints and barriers to achieve benefits of liberalisation. A4T, as a win-win policy prescription, can help identify and remove those barriers by improving trade-related infrastructure and capacity constraints, and moderating adjustment costs. If increased market access is the best development promise the Doha Round holds for developing countries, then A4T is the essential complement to it in order to enable them to seize the new economic opportunities as well as to mitigate the negative impacts of liberalisation. In addition, A4T can assist developing countries to participate dynamically in the international trade system and use trade as a tool against their poverty reduction strategies.

This monograph attempts to give concise answers to the fundamental questions concerning A4T – from identifying needs and potential beneficiaries to the concerns of diverse stakeholders. A brief description of the evolution of trade-related assistance towards A4T as well as the latest trends therein offer some important insights into a better understanding of the major difficulties faced by developing countries amidst liberalisation and the call for complementary measures. While depicting the implementation challenges of A4T, this monograph discusses a number of reasons why market access is insufficient on its own to guarantee increased growth and trade.

In principle, A4T is not a new concept, albeit it has recently been benefited from a more comprehensive approach through the focused attention held out by the international community during WTO trade negotiations. However, many questions are still open about the exact structure and realisation of A4T. In this perspective, the construction of a participatory and fair multilateral trading system requires well-informed participants in order to ensure the identification of opportunities to be promoted and constraints to be addressed. It is, therefore, crucial to make sure that the sort of information offered in this document is made available to the many. This monograph has the ambition to become an economic literacy tool to assist stakeholders in participating in an enlightened debate on how to implement A4T.

**Jaipur**  
**March 2007**

**Pradeep S Mehta**  
**Secretary General**

# 1



## What does Aid for Trade mean?

---

Aid for Trade (A4T) is a part of overall aid to development with the specific objective of helping developing countries, in particular least developed countries (LDCs), to play an active role in the international trading system and to use trade as an instrument for poverty alleviation.

Trade is a key factor for economic growth, which, in turn, is crucial for poverty reduction. Since its inception in 2001, the Doha Round of trade negotiations has emphasised the importance of trade for development policy to lead to an accelerated rate of growth that would help developing countries achieve their development objectives such as the Millennium Development Goals (MDGs) initiated by the United Nations.

Various research studies have predicted a significant increase in economic welfare for developed and developing countries alike as a result of the successful completion of the Doha Round and thanks to the new market opportunities brought by further liberalisation (see Box 1).

However, market access on its own is not sufficient to bring about the benefits of trade to developing countries or to reverse their marginalisation in the world trade system. The international community has acknowledged that many internal constraints prevent developing countries from taking advantage of new international market access opportunities and thus to realise the promised economic gains. The necessity of complementary measures to reduce internal barriers to trade and to address adjustment costs has been recognised by the World Trade Organisation (WTO) members.



<b>Box 1: Summary of Benefits and Costs of Liberalising Subsidies and Trade Barriers</b>			
<i>(2002 US\$ bn)</i>			
<b>Opportunity</b>	<b>Benefit (net present value in 2005)</b>	<b>Cost (net present value in 2005)</b>	<b>Benefit/cost ratio</b>
<b>Successful Doha:</b> 50 percent liberalisation of trade barriers and agricultural subsidies.	23,040	947	24.3
<b>Full reform:</b> 100 percent liberalisation of trade barriers and agricultural subsidies.	46,080	2,104	21.9
<b>Pessimistic Doha:</b> 25 percent liberalisation of trade barriers and agricultural subsidies.	11,520	395	29.2

*Source: Prowse, Susan. "Aid for Trade" - Increasing Support for Trade Adjustment and Integration - A Proposal. May 2005*

A4T has the potential to create effective market access for developing countries by enabling them to increase and improve their supply-side capacity by means of:

- tackling the lack of trade surplus;
- expanding and diversifying the exports of goods and services;
- enhancing competitiveness;
- improving trade-related infrastructure; and
- creating an adequate environment for business and development.

<b>Box 2: Volume of A4T</b>
In 2004, trade-related development assistance reached nearly US\$23bn of which US\$2.5bn was for trade-related technical assistance (TRTA) and capacity building, US\$12.9bn for infrastructure building and US\$7.3bn to promote productive capacity. This amount represents a combined share of over 24 percent of total Official Development Assistance (ODA) excluding debt relief. In fact, since the Uruguay Round, the share of A4T in ODA has averaged around 24 percent of the total ODA.

New financial pledges have been dedicated to the creation and implementation of an A4T agenda as an essential part of the Doha Round of trade negotiations. At the Hong Kong WTO Ministerial, Japan announced a new pledge for trade-related infrastructure of US\$10bn over three years, the US A4T promised grants of US\$2.7bn a year by 2010, and the European Union (EU) declared its trade-related development assistance spending would reach €2bn (US\$2.6bn) per year by 2010.

*Source: OECD. Aid for Trade: Making it Effective. 2006 / WTO. Recommendations of the Task Force on Aid for Trade. 2006*

Furthermore, A4T can assist the integration of developing countries into the multilateral trading system (MTS) by bolstering their capacity to participate actively in trade negotiations and by easing the costs of implementing WTO agreements. Investments to execute WTO agreements are indeed particularly large for developing countries while their human, financial and institutional capacities to meet those agreements are relatively limited.

A successful outcome of the Doha Round of negotiations will itself generate new A4T needs for developing countries to reap the benefits of trade liberalisation and to mitigate the detrimental effects of trade reforms. A4T is therefore, considered a crucial complement to the potential success of the Doha Round of negotiations while increased market access remains the best contribution to the development dimension of the Doha Round.

The global costs and benefits of increased liberalisation are not equally distributed among countries. In absolute terms, developed countries will gain more than developing countries. Through the A4T initiative, the international community has demonstrated that it is in the interest of those who will benefit more from a multilateral tariff reduction to facilitate a fair and equitable trading system. Under the development perspective of the Doha Round, A4T can contribute to enhanced growth prospects and enable developing countries to use trade benefits for their specific strategy of poverty reduction.

## 2



### **How has A4T come on the WTO agenda?**

---

Albeit the hope that market access by itself would almost automatically spur foreign direct investments (FDI) and lead to increased rate of growth in developing countries has been repeatedly deceived in the last decades, it has not failed to produce new initiatives along the way with the same means and objectives, and for the most part with the same relatively disappointing results for poor countries.

As early as 1968, the United Nations Conference on Trade and Development (UNCTAD) established the Generalised System of Preferences (GSP), which granted preferential tariff rate on a generalised, non-reciprocal and non-discriminatory basis to selected products originating in developing countries, particularly in LDCs. The overall objectives of GSP were: to increase the export earnings of those countries; to promote their industrialisation; and to accelerate their rate of economic growth.

With time, the role of trade as the engine of growth and development has attracted increasing attention. During the Uruguay Round of negotiations, the voices of many developed countries became louder and dominant claiming “Trade not Aid” would actually bring forward development. Nevertheless, the promises of the Uruguay Round did often not materialise for developing countries. For example, UNCTAD showed that the share of manufactures in the total imports of developed countries from LDCs fell from 23.2 percent in 1990 to 9.9 percent in 2004.

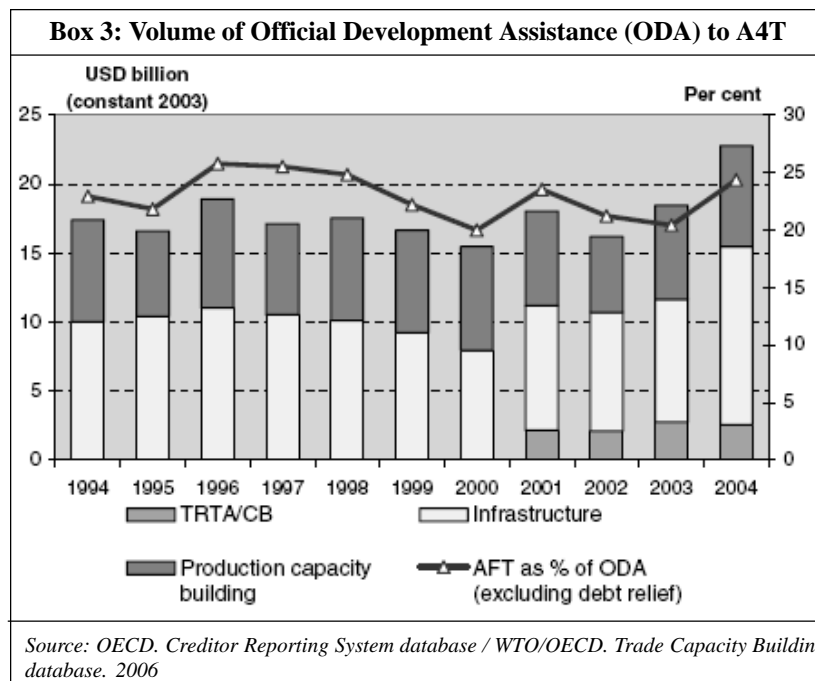
However, following the signing of the Uruguay Round agreements, the international community acknowledged some constraints faced by developing countries such as their limited experience in trade negotiations and therefore limited participation. To strengthen the trade capacity of developing countries, the WTO, UNCTAD and the International Trade Centre (ITC) announced a unified commitment for a Joint Integrated Technical Assistance Programme in 1996; and in 1997, WTO members adopted a new initiative called the Integrated Framework (IF) for TRTA to LDCs.

Further initiatives were launched to offer new market opportunities for developing countries and give them an incentive to increase their exports as well as integrate their economies into the world trading system. In 2000, the US initiated the African Growth and Opportunity Act (AGOA), which increased the duty-free access to US market to more products from African countries. A year later, the EU's Everything but Arms (EBA) initiative offered a complete duty free and quota free access to the European market for all products originating in LDCs except arms.

Despite improved market access developing countries, especially LDCs have experienced little increase of exports. On the contrary, LDCs' share of world trade has declined during the last few decades. Successive liberalisation efforts highlighted the difficulties of many developing countries to seize the benefits of new opportunities. The majority has faced very similar barriers such as the lack of exportable surplus, of exporting infrastructure and of capacity to comply with standards.

Since the launch of the Doha Round of negotiations in 2001, these barriers and other constraints, including development concerns, have directly been addressed within the MTS. Though TRTA and capacity building have considerably increased, the need for a broader agenda and additional trade-related assistance soon became evident, which gave way to the A4T initiative.

Trade-related aid is not a new concept and has been implemented by various multilateral as well as bilateral donors for a long time and with a broad agenda reaching from technical assistance to competitiveness enhancement. Still, an increased aid disbursement and a more comprehensive agenda for trade-related issues were encouraged by the international community: the UN Conference on financing development in Monterrey (Mexico) in 2002 emphasised the value of fostering the private sector for development; the G-8 meeting in Gleneagles (Scotland) in 2005 as well as the Millennium Project Report 2005 stressed the importance of A4T; and UNCTAD particularly sensitised A4T in a report



published shortly before the WTO Hong Kong Ministerial meeting “Towards a New Trade Marshall Plan for LDCs”

Decision-makers of developed and developing countries reacted to these calls. In February 2005, the G-7 Ministers asked the World Bank (WB) and the International Monetary Fund (IMF) to develop proposals for additional assistance with the aim of facilitating the necessary adjustments to increased trade liberalisation. In July 2005, the G-8 meeting in Gleneagles committed to increased assistance for building the trade-related physical, human and institutional capacities of developing countries. Finally, in December 2005, at the Sixth WTO Ministerial of the Doha Round in Hong Kong, the Ministerial Declaration announced the necessity of an A4T initiative to help developing countries implement and benefit from the WTO agreements, and hence expand their trade (see Box 1). The EU, US and Japan declared that they would significantly increase their A4T funding. Furthermore, the Ministerial Declaration asked for the creation of a Task Force to provide recommendations on how to operationalise A4T and consult with WTO members, international organisations and development banks on mechanisms to secure financial resources.

**Box 4: Hong Kong WTO Ministerial Declaration  
(Paragraph 57 on A4T)**

*“Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda (DDA), particularly on market access. However, it can be a valuable complement to the DDA”.*

### 3



## **What broad A4T need does exist and what is the scope and coverage of A4T?**

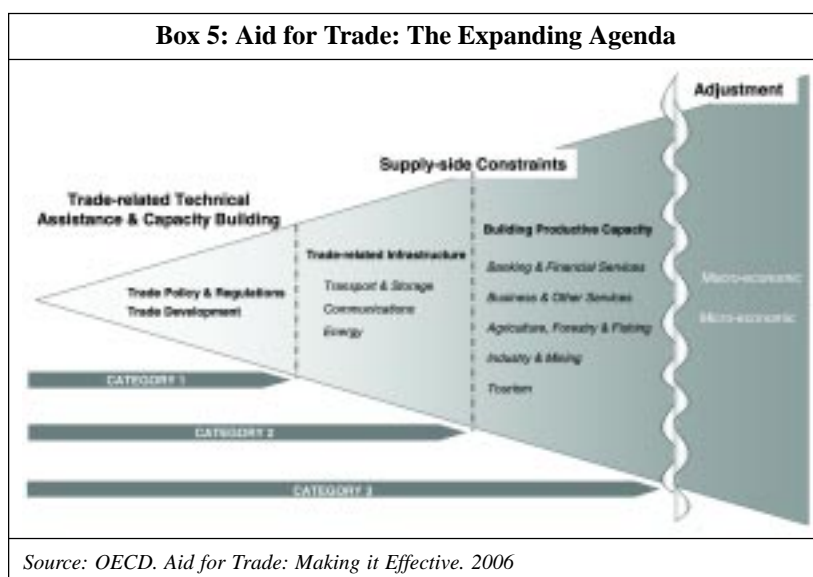
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A wide range of A4T support schemes are needed to ensure that the benefits of increased liberalisation could reach all countries and outweigh the costs brought on by trade reforms and more open markets.

Clearly, the main difficulties addressed by A4T are supply side and trade-related infrastructure constraints. Many developing countries do not have tradable surplus to export; others rely too heavily on a small number of export commodities. A4T supports diversification of production with the objective of increasing exports as well as exports added value. This will allow the beneficiary countries to enter new markets and bring to a close the dependency on fluctuating world prices of only a few commodities while the benefits of economies of scale will also be within reach. Moreover, A4T aims at boosting developing countries' export competitiveness by improving productivity and costs of production, and financing the much needed infrastructure. These improvements will seek to attract FDI that in turn can generate jobs and exports.

The fact that trade has often been hampered by complicated, lengthy and costly cross-borders transaction mechanisms, especially in developing countries, represents another barrier to the benefits of liberalisation that A4T can help to remove. A4T can foster the necessary regulatory and institutional reforms for an efficient and well-functioning system in which transit and borders crossing are short and inexpensive, and customs delays as well as delivery uncertainties non-existent or minimum. A4T for trade facilitation is essential to provide a fertile business environment where the transparency, simplification, standardisation and harmonisation of procedures promote entrepreneurship.

Although the ultimate objective of trade-related assistance is to enhance the trade capacity of the private sector in order to spur economic growth, the real needs of the private sector have too often been overlooked and aid is mainly targeted at the public sector. A4T can help stimulate a healthy dialogue and encourage partnerships between public and private sectors. For this purpose, national consultations organised through the Integrated Framework aspire to be highly participatory for the design of national strategies. During these consultations, the private sector can expose its own A4T priorities which could include the lack of access to capital, finance and risk mitigation for export promotion, and the lack of reliable access to utilities. Besides, A4T can assist the private sector in capitalising on new market opportunities.



In an attempt to synthesise A4T needs, the Task Force mandated by WTO to present recommendations on how to operationalise A4T has proposed the following categorisation for A4T coverage:

- Trade policy and regulations:** Many developing countries simply lack the human and financial capacities to design adequate trade policy and regulations, or to present appropriately and actively their interests in international trade negotiations. A4T can assist with capacity building such as the training of trade officials and support for national stakeholders to help them articulate trade interests. Further, technical A4T assistance will, for example, involve the analysis of trade proposals and their potential impact, the facilitation of trade policy mainstreaming, the compliance with



trade standards, the implementation of trade agreements, and research and development in trade issues.

- **Trade development:** A4T can help improve the business climate and foster private sector development, for example, by promoting investments and exports, encouraging public-private networking, advancing better access to finance and insurance, and enhancing business support services.
- **Trade-related infrastructure:** This part of A4T focuses on infrastructure constraints, which hold back the supply of goods and services such as poor transport, inadequate energy supply, substandard communications and poor storage facilities.
- **Building productive capacity:** In this category of A4T, supply-side constraints are addressed in order to boost the productivity of a country.
- **Trade-related adjustments:** A4T can support developing countries to put in place accompanying measures that assist them to benefit from liberalised trade.

#### **Box 6: A Tentative list of the A4T Agenda**

##### *Aid for Trade Agenda*

#### **1. Trade-related Technical Assistance and Capacity Building**

- *Trade Policy and Regulations*
  - Trade mainstreaming in poverty reduction strategy papers (PRSPs) /development plans
  - Technical barriers to trade (TBT)
  - Sanitary and phytosanitary measures (SPS)
  - Trade facilitation procedures
  - Customs valuation
  - Tariff reforms
  - Regional trade agreements (RTAs)
  - Accession
  - Dispute settlement
  - Trade-related aspects of intellectual property rights (TRIPs)
  - Agriculture
  - Services
  - Tariff negotiations – non-agricultural market access (NAMA)
  - Rules
  - Training in trade negotiation techniques
  - Trade and environment
  - Trade and competition
  - Trade and investment
  - Transparency in government procurement
  - Trade education/training

- *Trade Development*
  - Business support services and institutions
  - Public-private sector networking
  - E-commerce
  - Banking and financial services
  - Agriculture
  - Forestry
  - Fishing
  - Industry
  - Mineral resources and mining
  - Tourism

## **2. Infrastructure**

- *Transport and storage*
- *Communications*
- *Energy generation and supply*

## **3. Building Production Capacity**

- *Banking and financial services*
- *Business and other services*
- *Agriculture*
- *Forestry*
- *Fishing*
- *Industry*
- *Mineral resources and mining*
- *Tourism*

*Source: OECD. Reporting Directives for the Credit Reporting System / Joint WTO/OECD Report on TRTA/CB. 2005*

Despite such clear categories, a fundamental difficulty appears when unambiguous boundaries are to be drawn between specific A4T projects and other development projects. In theory, any project related to trade could apply to A4T funding. In practice, it is often impossible to draw a line between trade-related and general economic development agenda, especially regarding the construction and rehabilitation of infrastructure. If taken to an extreme, supply-side capacity building could include education, health and environment projects as they play a role to enhance a country's competitiveness. Concrete decisions to distinguish A4T projects from other development projects might remain relatively arbitrary in many cases.

# 4



## **What has been the recent trend in A4T?**

---

Although the suspension of the Doha Round of trade negotiations in July 2006 seemed for a moment to endanger the progress of A4T, the initiative still enjoys enough political momentum to continue to be discussed and developed by various stakeholders. In addition, A4T is increasingly considered to be an enterprise worth the mobilisation of financial and political efforts on its own, i.e. independent of the conclusion of the Doha Round.

In October 2006, the General Council of WTO endorsed the recommendations of the Task Force on A4T, which were submitted to the WTO members in July 2006. The Council also agreed on the necessary next steps proposed in the recommendations.

To ensure an optimal impact of A4T, the Task Force has recommended the overarching guiding principles of the new aid framework offered by the Paris Declaration on Aid Effectiveness in 2005. These principles and best practices aspire to become the foundations of any development initiative for a better delivery of aid.

### Box 7: The Paris Declaration Principles

- **Ownership:** The recipient country has the responsibility and leadership of its national development strategy. Donors need to be responsive to the priorities identified by the country itself.
- **Alignment:** Aid has to be aligned with a country's national development strategy and coherent with national priorities and policies. Donors will progressively rely on the country's own systems and institutions.
- **Harmonisation:** In order to ease the pressure on a recipient country's capacity, donors' procedures need to be harmonised and simplified. Information sharing needs to be optimised. Better coordination between donors' initiatives and best practices will additionally bring lower costs of aid delivery by avoiding the duplication of efforts.
- **Managing for results:** Results-oriented strategies should guide the planning, implementation and evaluation stages of any development initiative.
- **Mutual accountability:** All stakeholders, recipient countries and donors, are committed to transparent and participatory processes.

Further recommendations were divided into three main plans of action:

#### 1) Strengthening the “demand side”

Commitment to country ownership and country-driven approaches is an essential condition for successful A4T. The government's ability to mainstream trade into its national development strategies will be strengthened through technical assistance and capacity building. Moreover, national consultation and dialogue with relevant stakeholders, including the private sector, will be encouraged to identify the specific challenges faced by the country's trade sector.

#### 2) Strengthening donor “response”

Donors should integrate trade and growth more effectively into their aid programming and strengthen their trade expertise in the field as well as at headquarters. Donor response should be tailored to the priorities and needs identified by the recipient country itself.

### **3) Strengthening the bridge between “demand” and “response”**

Too often results from trade-related diagnostics are not adequately linked to donors’ resources and therefore do not easily find their way towards implementation. At the country level, matching demands for A4T and donor response is critical. This matching exercise and the mainstreaming of trade into national development strategies will require a coherent collaboration among many different stakeholders, as well as enhanced South-South cooperation and the full involvement of the private sector. At the global level, some tasks such as data collection and knowledge creation and sharing, which heavily rely on efficient coordination, need to be reinforced to optimise the impact of A4T.

Despite the uncertainty over a successful conclusion of the Doha Round, discussions have been launched and are still going on at different levels – from policy to grassroots and among different stakeholders – to give a concrete direction to A4T. These dialogues have the potential of fostering deeper partnerships between donors and recipients countries in the A4T context even if a precise inventory of the possible A4T activities is yet to be agreed upon. In any case, agreement on an exact list of activities eligible for A4T might not be desirable, as it would run the risk of failing specific country priorities. Certain is that in the discourse of international affairs, A4T increasingly is gaining in importance to support many developing countries that have continued their efforts to mainstream trade into their development strategies.

# 5



## **Which countries are the A4T funds likely to be directed to?**

During the emergence of A4T into the international stage of trade negotiations, emphasis has mainly been on the fair redistribution of the benefits gained from further liberalisation between developed and developing countries. Voices claiming the necessity of sharing costs and benefits in a more equitable manner joined in those of fierce advocates for a fully liberalised MTS and together put forward the A4T initiative. Yet, the international discourse about A4T focusing on the actual share of the costs among developing countries and the necessity to decide on a prioritisation of A4T needs has now grown in depth and strength.

The Task Force on A4T has recognised three broad categories that A4T has to consider:

### **1) LDCs' Needs**

Most LDCs have certain common characteristics that have often drawn them into the focus of trade-related assistance and now make them the primary beneficiaries of A4T. In most LDCs, poverty is prevalent and their terms of trade have been deteriorating during the last few decades, because many LDCs rely on one or two export commodities only. Moreover, the private sector is dominated by under-capitalised small and medium enterprises (SMEs) without any link to international trade while the financial sector and public infrastructure are extremely weak.

The Task Force has recommended enhancing the Integrated Framework for LDCs (see Box 2). A4T can help strengthen LDCs' trade capacity, increase their competitiveness and integrate their economies into the MTS, thus helping them to reach the benefits of freer markets.

## 2) Non-LDCs' Needs

The Task Force has recognised that many non-LDCs also need A4T support to mainstream trade into their national development strategies and ensure that relevant stakeholders such as the private sector and civil society actively participate to national consultations and the identification of challenges specific to the country. Besides, the Task Force has suggested exploring the necessity of establishing an in-country-process, similar to the one existing for LDCs, for countries recipient of International Development Assistance but which do not belong to LDCs if such mechanisms are not already available or can be improved upon.

## 3) Regional Needs

Some of the constraints developing countries face to seize trade opportunities cannot be solved nationally because they involve cross-border, sub-regional or regional issues. For example, investments in cross-border infrastructure are required to establish an efficient regional trade corridor, to facilitate cross-border transit or to manage the use of an asset common to several countries such as a river running through different countries. Such necessary investments are often overlooked, as they do not correspond to country-based investments. A4T can support increased regional trade policy cooperation.

### **Box 8: The Integrated Framework (IF)**

The Integrated Framework for TRTA to LDCs was officially launched in 1997 at a high-level meeting organised by the WTO in recognition of the supply constraints faced by LDCs. The six founder agencies (IMF, ITC, UNCTAD, UNDP, WB and WTO) have used this cooperative mechanism to coordinate trade-related assistance and ensure coherence with the country priorities and poverty reduction strategies. Through the preparation of a Diagnostic for a Trade Integration Strategy (DTIS), strengths and weaknesses of the country trade policy are observed and recommendations are presented to the stakeholders.

IF was mainly established for the following purposes:

- to support LDC governments in trade capacity building and integrating trade issues into national development strategies;
- to continue to respond to trade development needs;
- to ensure maximised use of scarce resources in support of enabling LDCs to be full and active players and beneficiaries of the MTS; and
- to coordinate donors response.

IF has been relatively successful in advising trade policy in many LDCs and in bringing better coherence in donors' trade-related activities. However, IF might not have the necessary structure to manage increased A4T nor to ensure the implementation of the recommended interventions. The Task Force on A4T has therefore advocated for an Enhanced Integrated Framework.

Deeper analysis of the distribution of A4T needs brings practical issues into the discussion. Certain adjustment costs have been commonly acknowledged, for example, the loss of preference margin created by the EU and to a smaller extent by the US for the benefit of many developing countries. This margin is reduced by every decision of greater liberalisation. However, only a few countries did manage to benefit from preferential access and these countries were not necessarily the poorest or the most vulnerable. Targeting those countries might not ensure to reach the countries most in need of A4T and whose competitiveness needs the most improvement.

In practice, the difficult question of an equitable repartition of A4T funds between developing countries and LDCs as well as the tricky necessity of prioritisation among A4T needs have not found a workable solution yet. The guidelines to first direct A4T funds to countries with the largest adjustments costs, and which are the most adversely affected by trade liberalisation, do not offer any clarification on the measurement of those costs.



## 6



### **How will A4T benefit the poor countries?**

---

A4T benefits for poor countries are potentially manifold. First, returns will directly flow from the projects funded by A4T. Infrastructure improvement and trade facilitation will install a better business climate not only for export producers but also to a certain extent for small and medium producers in the domestic market. Productivity will improve, exports will increase and jobs will be created. Moreover, TRTA has so far managed relatively successfully to increase the awareness and understanding of developing countries on the importance of trade in their development strategies. A4T will increase people's capacity to take advantage of trade opportunities and thus stimulate economic growth.

Secondly, all this will allow developing countries to become better trading partners and to participate more actively in a more equitable MTS. In fact, A4T is not a substitute for the benefits of a successful conclusion of the Doha Round. Increased market access and the removal of market distorting subsidies are still the best contribution this Round of trade negotiations can make to development. A4T is the necessary complement to these new economic opportunities not only for the anticipated results of the Doha Round but also because A4T can help developing countries seize the opportunities created by previous rounds of negotiations. The advantages A4T brings are therefore not conditional upon the Doha Round completion.



A4T can attenuate the negative effects of trade liberalisation and can also enable the developing countries to seize the benefits. It can, for instance, help LDCs evade marginalisation and at the same time, increase developing countries' ability to exploit global markets opportunities by improving their competitiveness and allowing them to reach for economies of scale. A4T can mitigate the end of trade distortions such as preferential market access by helping the affected countries with the adjustment costs without creating new distortions, thus letting the way free towards a non-discriminatory trading system.

Of course, sustainable growth can only be achieved if trade is not considered an end in itself but an instrument to realise a range of development objectives, which will in turn ensure long-term growth. A difficult balance is needed to avoid, on one side, the growth-first perspective, which might soon encounter supply constraints such as the lack of qualified labour or reliable infrastructure, and the development-first perspective, which might soon be restrained by the limited development budget available in an economy with restricted growth, on the other.

This balance is possible if A4T is appropriately linked to the overarching development strategies of the recipient countries and does not replace other development priorities but complement activities already in place. Under a development perspective, increased growth is needed to improve people's lives

by providing them increased welfare and widen their choices by giving them tools to seize opportunities. To ensure durable competitiveness and sustainable growth, A4T has to accompany other development efforts since equitable long-term economic success also depends on an effective education system, a wide-reaching health system, an efficient transport system and an impartial judicial system. This is the reason why reallocating development resources towards A4T would be misleading. A4T and national policies focused on equity, pro-poor growth and development must go hand in hand.

If A4T has a role to play in assisting developing countries with adjustment costs generated by further liberalisation, it is not to be considered as a compensation for the loss of past exports or past government revenue, but has to be seen as an instrument to promote future exports and new revenue sources. A4T coupled with national development strategies is an investment in the economic future of developing countries. A4T can help identify key economic sectors having a long-term potential in international markets, rich synergic possibilities with other sectors and large spillovers onto the rest of the economy.

Finally, A4T can help implement the aid framework suggested by the Paris Declaration and hence offers better coherence to the pursuit of development goals and the mainstreaming of trade, consolidate country-driven approaches, and confirms a country's ownership and leadership over its own development strategies. Simultaneously, A4T can foster participative processes that will strengthen the social consensus needed for development changes.

How far in reality all these A4T benefits will reach developing countries certainly depends on the level of funding and financing mechanisms which will be agreed upon by developed nations as well as on the comprehensiveness of A4T priorities.

# 7



## How will the need of the countries for A4T be addressed?

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The Task Force on A4T has recommended donors to assess A4T needs through existing systems or to establish A4T needs assessments if these are not already in place in order to evaluate priorities and plan A4T accordingly. In the LDCs where it has been operating, the Integrated Framework has instituted DTIS in order to identify the specific challenges of each country. However, such a homogeneous mechanism is mostly not available in non-LDCs. With or without DTIS, A4T encourages national consultations where all relevant stakeholders can participate in the identification of A4T needs and ensure that A4T is a demand-driven process.

One of the main purposes of A4T being to attenuate the negative effects of liberalisation, diverse adjustment costs created by the new trade framework are being discussed for A4T funding. The most vibrant claim for A4T concerns the erosion of preferential market access. Some developed countries have offered non-reciprocal preferential market access for certain goods originating in LDCs by reducing tariffs rates below the Most-Favoured-Nation (MFN) rate. Preference dependent countries fear that every step towards greater liberalisation erodes this preference margin. The higher the dependency on trade preferences of a particular country, the greater potential loss it has to face. However, the maintenance of this margin has large distorting effects on the trading system. On the contrary, A4T can help protect critical industries in vulnerable countries dependent on preferences while avoiding the discrimination against other countries not benefiting from preferences.

Following are other important adjustment costs that A4T needs to address:

- Net food importing developing countries fear rising food prices. After further liberalisation and the removal of domestic agriculture subsidies, as international prices might be higher than the prices of previously protected products.
- Some LDCs are facing adverse terms of trade shocks. After the end of the Textiles and Clothing Quotas Agreement. A4T can help them remain competitive in that sector or re-define their priority economic sectors.
- Many developing countries' revenues depend up to a very high percentage on taxes from international trade. The losses of these tariffs revenues will make it difficult for those countries to fund public expenditure.
- The costs of compliance to product standards and the implementation costs of WTO agreements are generally much higher for developing countries as it usually requires large regulatory reforms and puts pressure on already weak institutions.
- Due to changes in trade patterns and in particular to contractions of the import-competing sectors, the government needs more resources to face the social costs for the loss of livelihoods activities and for increased unemployment if the labour market is not flexible enough to reallocate workers to more productive sectors.

However, as mentioned earlier, A4T should not be considered as a compensation for losses created through liberalisation, but an investment in the future welfare of developing countries through their dynamic participation in the global trading system. A thorough analysis of a country's economic structure will allow A4T to support the development of potentially international competitive industries that will be able to meet the required quality standards in a reliable way.

Keeping A4T very flexible will allow donors to address specific needs. However, the tasks of anticipating the degree of risk *vis-à-vis* welfare loss as well as of determining whether a project is related to international trade or not bring many difficulties and controversies. Countries have certainly different perspectives on fairness and the necessity for A4T to intervene. The required calculation of the amount of A4T needed to, for instance, moderate erosion losses or social costs will inevitably lead to disagreements. This reinforces the argument for an A4T needs assessment focused on future gains and not on lost past gains. Over time, a consistent A4T monitoring and evaluation system will lead to a better needs analysis.

Most importantly, to address the real A4T needs of poor countries, it is crucial for A4T to remain a reliable link between trade and development objectives.

**Box 10: Magnitude of Adjustment Costs: Some Examples**

- For LDCs that have been benefiting from preferential market access to the EU, US and Japan, the potential aggregate export revenue loss due to a 40 percent cut in MFN tariffs is estimated to be US\$530mn a year.
- Due to possible rising food prices after further liberalisation, the WB has estimated that net food importing developing countries will likely be confronted with losses between US\$300mn and US\$1.2bn a year.
- Taxes from international trade account for around 30 percent in LDCs government revenues and leave a few revenue alternatives of that size.
- A developing country faces an average cost of US\$150mn to implement just three of six Uruguay Round agreements: TRIPs, Agreement on SPS Measures and Customs Reforms.

*Source: Stiglitz, Joseph and Andrew Charlton. Aid for Trade. A report for the Commonwealth Secretariat. March 2006*

## 8



### **How can the financing mechanism of the A4T be designed?**

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At the WTO Hong Kong Ministerial Conference, WTO Director-General was mandated to consult on appropriate mechanisms to secure additional financial resources for A4T. The Task Force on A4T has urged the Director-General to fulfill his mandate and stated that A4T indeed requires the substantial additional resources pledged at the Hong Kong Conference. Although the WTO has been an ideal forum to acknowledge and address developing countries' A4T needs, it is not and has no intention to become a development agency managing funds for A4T projects.

An adequate disbursing channel is still under discussion. At least two options have been suggested, of which the first one is mostly preferred by donors:

- 1) There is no need for a new mechanism as the existing mechanisms fulfill their role. These are among others: IMF's Trade Integration Mechanism; bilateral A4T programmes; certain WB programmes; the Integrated Framework for Technical Assistance to LDCs; and trade-related investments by development banks. However, with this option, a good monitoring system of the overall A4T funds needs to be established to follow the diverse disbursements. Furthermore, a better harmonisation of procedures among donors has to be put in place.
- 2) A new stand-alone fund such as a Global Facility for Trade Fund can be established, for example, within the WTO. Specialised agencies and funds have the advantage of attracting additional funds and of sending clearer messages as well as enhancing the credibility of donors. However, such an

option might be costly and expose A4T to even more coherence problems with existing efforts. Moreover, global funds are often weak and slow in disbursing.

**Box 11: Grant versus Loan**

Well before the actual funding disbursement, an area of uncertainties remains the correct mixture of grants and loans in order to optimise A4T.

On one hand, developing countries with good development policies and higher absorption capacity could benefit more from loans since loans will release more resources at once and thus foster faster growth. On the other hand, developing countries with an already high level of debt and high poverty rate, as well as maybe with weak development policies and little absorption capacity, could do better with grants even if the released resources are smaller.

It has, however, been argued that efficiency and concessionality are negatively correlated meaning that the easier it is to obtain a grant or a loan, the less efficient the funded project will be. It has often proven true that high concessionality for loans can lead to unsustainable debt levels. Yet in the specific context of A4T, loans should not be shunned, as they will be used to finance a country's trade capacity with the aim of generating gains that will easily service the debts.

At the country level, appropriate A4T financing mechanisms have to help maintain a stable macroeconomic framework. The perspective of scaling up aid has sometimes awakened the fear of provoking a Dutch disease in some developing countries' economies. This phenomenon appears if sudden increased aid leads to the real exchange rate appreciation of the country currency making the recipient country's exports less competitive on international markets. This could cancel out A4T positive effects. Yet despite this danger, the only possible policy response is to increase aid in order to boost competitiveness and exports to compensate for the currency appreciation and bring higher productivity that in turn will strengthen the country's aid absorption capacity.

Despite some uncertainties, a relative consensus has been reached for some further characteristics of A4T financing. First, A4T has to be additional to and not at the expenses of aid to development. Additionality is crucial to allow A4T to complement other development priorities. Yet, it is also a particularity difficult to assess for several reasons. In the past, some apparent increases in



development aid were in reality due to exchange rate changes or intended to the debt relief of only a few countries. The open question on a clear dividing line between A4T and general aid for development expenditures can also complicate the monitoring of additionality.

Secondly, A4T should also have predictable financing mechanisms. Many aid commitments of the past have not materialised leaving developing countries sceptical about new commitments. Besides, financing should be stable, sustainable and represent long-term commitments in order to enable developing countries to plan their development strategies. Importantly, A4T financing should not create new unsustainable debts. Finally, as a general rule, efficient financing mechanisms should reinforce the transparency, accountability, coherence and coordination of donors' efforts on A4T.

# 9



## **What are the apprehensions and concerns of the poor countries on A4T?**

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The nature of the developing countries' concerns on A4T is not a homogeneous entity, as each country fears its own specific needs could be bypassed by A4T. Nevertheless, poor countries mostly share common apprehensions and certain scepticism about the credibility of donors' commitment that for many seems to have been eroded along the years.

Despite the rhetoric of the international discourse on the need for prioritising A4T, funds actually allocated to A4T are as for now insufficient to have a significant impact and fall short of the Doha Round development ambitions. The flows of A4T resources are inadequate to support competitiveness building and moderate welfare loss in such a number of recipient countries. A proper needs assessment is required to expose the real needs figures and the growing demand for A4T to meet the high aspirations announced by WTO members. Moreover, many fear that A4T money could in reality be funds reallocated from the development budget.

**Box 12: A4T is Not a Substitute for the Liberalisation Benefits**

On a more political level of negotiations, fears have been expressed that developed countries attempt to buy progress in the Doha Round by offering A4T. In this view, A4T would thus be put forward as a substitute for a real non-discriminatory trading system. But the reduction of subsidies and lowering of tariffs remain the best outcome for the development dimension of this round of trade negotiations and developing countries will not accept an unfair deal where A4T is misused as an incentive for agreement. A4T impact would, for instance, be reduced by the maintenance of some large distorting policies by the developed countries such as the agriculture subsidies. A4T commitments have therefore to be made binding so that they cannot be withdrawn and so that no pressure can be put on the developing countries' decisions during negotiations.

Concerns have also been articulated about possible conditionalities attached to A4T. Even if conditions do not consist in macroeconomic adjustments as it has been in the past, A4T should not be conditional on the recipient country's political position in international nor domestic matters. Many developing countries have stated their apprehension concerning the possible bias of A4T towards donors' interests and priorities when, for example, certain industries in the value chain are promoted more than others while that might only have weak linkages to the national development plans. A4T success runs the risk to be measured on the simple basis of the integration level of developing countries into the MTS whereas the ultimate measure of success needs to be the impact on poverty reduction and other development strategies.

Although A4T encourages developing countries' ownership over their own development as well as the regular organisation of national dialogues to facilitate the identification of the specific A4T needs to avoid the "one size fits all" trap, practice has often shown, rightly or not, that many developing countries lack the necessary technical trade capacity and understanding to fulfill those objectives. As a reaction, decision-makers and donors too often over rely on external consultants leaving little space for local input and hence an A4T response tailored on the particular situation. More emphasis needs to be placed on capacity building and on phasing out parallel programmes run by donors and a particular government in order to gradually facilitate effective ownership.

Of course, as mentioned above, different countries have different concerns, sometimes very antagonistic. While developing countries benefiting from preferences are worried that A4T might not moderate in any significant manner

the erosion of preferences, countries excluded from such preferential access worry that A4T might reinforce discrimination by supporting the countries whose privilege is now getting to an end.

One final common concern however is about the time framework for A4T. Adjustment costs are considered transitional per definition and political commitment of the international community has proven volatile for the least. Yet developing countries need long-term A4T planning to be able to build a strong competitiveness in key sectors and to achieve sustainable growth.



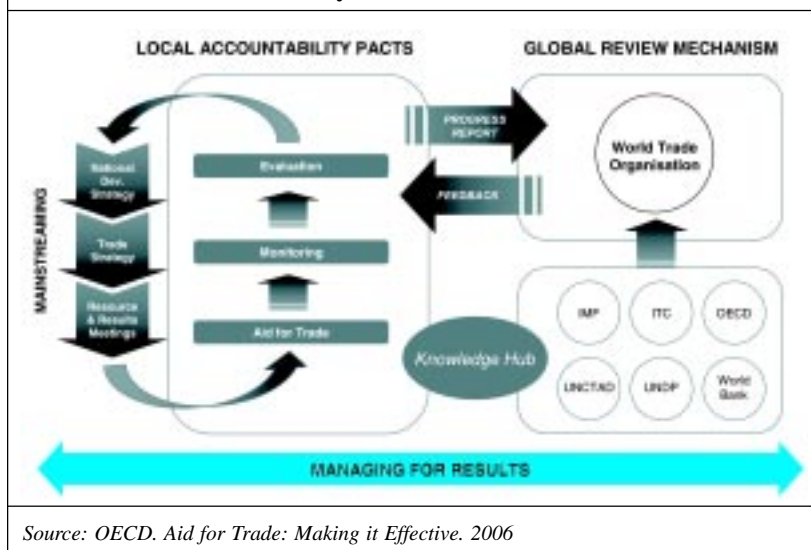
## **What initiatives need to be taken to implement the concept of A4T?**

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In order to consolidate A4T structures, an authoritative description of A4T has to be recognised by all stakeholders. Although the WTO Council has endorsed the recommendations of the Task Force on A4T, many important implementation particulars such as the financing mechanisms and the needs to be covered have remained uncertain. While an A4T description should not offer an exhaustive list of A4T needs, it would serve as guidelines to maximise A4T impact. The enhanced role of the Integrated Framework also needs to be reviewed in each country to offer a better bridge between policy advice and implementation. The need for more concrete and pragmatic progress is strong, as implementation of A4T and the Task Force recommendations remain the key issue.

To strengthen the credibility and accountability of donors' commitment as well as to ensure compliance with A4T principles, a legal and institutional framework is required. Funding commitment should be made binding under the Doha Round agreements. Some enforcement mechanisms must be put in place possibly within the WTO. Up till now, the Dispute Settlement System that WTO members can use when they feel their right has been disregarded exclusively concerns the enforcement of rules of liberalisation.

**Box 13: Local Accountability and Global Review for an Effective A4T**



Finally, a reliable global monitoring and evaluation system has to be established to ensure accurate implementation and accounting, and to assess A4T impact. For that purpose, clearly defined indicators, as well as consistent data collection and analysis, are needed at different levels of investigation. Local accountability mechanisms have to be linked to global review instruments (see Box 13). Too often the focus has been on the inputs of A4T but managing for results will change the focus onto outputs. The dissemination of the results must be systematic and regular to allow for adjustments in the field and ensure that progress to quality A4T is constant.



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