Can Aid Fix Trade?

Assessing the WTO's Aid for Trade Agenda

20 years

Institute for Agriculture and Trade Policy
Trade and Global Governance Program

The Institute for Agriculture and Trade Policy
promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

2105 First Avenue South
Minneapolis, Minnesota 55404 USA
Tel.: (612) 870-0453
Fax: (612) 870-4846
iatp@iatp.org
iatp.org

About this publication

Can Aid Fix Trade?: Assessing the WTO's Aid for Trade Agenda

Written by Carin Smaller
Director, Trade Information Project

Published September 2006

Summary

The debate about Aid for Trade is important because it firmly places questions about aid—how much, to whom, and for what purpose—within the context of the WTO. There is a risk that Aid for Trade will distort multilateral trade negotiations and further complicate already delicate relations between developed and developing countries. Important questions still need to be answered before WTO members decide to go forward with this agenda. Is Aid for Trade a consolation prize for a failed Doha Agenda? Will Aid for Trade be used to pressure developing countries to open markets more than they otherwise would? Are donors serious about embracing Aid for Trade according to recipients' needs? Will there be enough money? And is the WTO the best forum to operationalize Aid for Trade?

What is Aid for Trade?

The proposal that WTO governments develop an Aid for Trade package arose in the context of negotiations on the Doha Agenda.[1] Aid for Trade was officially put on the WTO agenda at the 6th Ministerial Conference in Hong Kong in December 2005. The Hong Kong mandate is "to help developing countries, particularly least-developed countries (LDCs), to build the supply-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."[2] Aid for Trade remains vaguely defined. Developed and developing countries have differing views on what the package should encompass. Many developing countries, for example, argue that building supply-capacity and trade-related infrastructure includes activities such as improving the productive capacity of agriculture and manufacturing sectors, building roads to link local, regional and international markets, and supporting the development of small and medium enterprises.

Aid for Trade is also expected to assist developing countries in trade policy reform. This includes, for example, training trade negotiators, improving customs procedures and ensuring countries implement laws to comply with the Trade-Related Intellectual Property Rights (TRIPs) Agreement. The Aid for Trade Task Force, established in 2006 by WTO Director-General Pascal Lamy, recommended in July the inclusion of assistance to deal with the negative consequences (or adjustment costs) of trade policy reform. This could include finance for lost tariff revenues from reducing tariffs, higher food import bills that result from the reduction of concessional food sales on world markets after subsidy reform, and social safety nets for people who lose their jobs to more competitive imports.

Assistance for trade policy reform and adjustment costs are not directly related to building the supply-capacity or trade-related infrastructure of developing countries but nevertheless are important. The implementation of WTO agreements imposes a significant financial burden on poor countries. It costs, for example, an estimated US$150 million per country just for the implementation of three WTO agreements: TRIPs, the Sanitary and Phytosanitary Standards (SPS) Agreement and the Agreement on Customs Valuation.[3] Were the Doha Agenda to be implemented as it stands, it is predicted it will cost Latin America and the Caribbean together US$10 billion, and sub-Saharan Africa US$1.7 billion in lost tariff revenues.[4]

Why Aid for Trade?

Since the Uruguay Round, which established the WTO, was concluded in 1994, WTO members have increasingly accepted the need for trade-related technical assistance to help developing countries with the implementation of WTO commitments and associated adjustment costs. To date, however, the various initiatives have had limited success and insufficient funds.

A specific Decision on net-food importing developing countries (NFIDCs) was included as part of the Uruguay Round.[5] The Decision provided for compensation for least-developed countries (LDCs) and NFIDCs should they be hurt by higher food prices or reduced food aid following implementation of the Agreement on Agriculture (AoA). The Decision was never properly implemented. The FAO says there is: "frustration among potential beneficiaries, over the slow pace of implementation of the *Decision*. […] it represents a promise for assistance and is not legally binding. Moreover, […] the monitoring of the implementation of the *Decision* is fraught with difficulties."[6]

Several other technical assistance measures have been established to help build the trade capacities of developing and least developed countries. The most comprehensive is the *Integrated Framework for Trade-Related Technical Assistance to the LDCs* (IF), set up in 1997 to assist LDCs in identifying their trade needs. The two objectives of the IF are (1) to mainstream trade into national development strategies such as the World Banks' Poverty Reduction Strategy Papers (PRSPs) and (2) to coordinate trade-related aid. To date, the IF has had very limited success. The IF itself says the main problem lies in poor implementation at the country level. A June 2006 report from the IF Task Force found significant shortcomings including a lack of financial and human resources, low levels of implementation, disjointed governance structures, inadequate donor responses and very weak country ownership.[7]

Another initiative is the Joint Integrated Technical Assistance Programme (JITAP), which helps African members participate in the WTO and the International Monetary Fund's (IMF) Trade Integration Mechanism (TIM)—a policy to make it easier for countries to access IMF funds to help with problems arising from multilateral trade liberalization. To date, only two countries, Bangladesh and the Dominican Republic, have made use of the TIM.

Evaluations of existing trade-related technical assistance programs have highlighted serious weaknesses including unsystematic or incomplete needs assessments; weak project management; fragmented technical assistance interventions with insufficient linkages to broader development programs; and weak linkages to poverty reduction.[8]

Despite the range of existing programs, many developing countries and particularly LDCs have not had the help they need. Existing programs fail to address some of the most urgent challenges facing developing countries, especially those related to development objectives, including the need to increase productivity in their agriculture, manufacturing and services sectors and to increase employment.

Aid for Trade should learn from the failures of existing initiatives. The new aid package should be designed and implemented to expand the scope of trade-related technical assistance and focus on the more fundamental concerns of developing countries, including the need to overcome supply-side constraints, to strengthen trade-related infrastructure and to finance adjustment costs. Traditional forms of aid are still important but the agenda needs a fundamental shift in focus.

Aid for Trade: the main components

At the Hong Kong Ministerial Conference, WTO members instructed the WTO Director-General, Pascal Lamy, to set up a Task Force to provide recommendations on how to operationalize Aid for Trade. The first set of recommendations was submitted to WTO members on July 27, 2006.[9]

The Task Force recommended that Aid for Trade cover six broad categories:

(a) Trade Policy and Regulations: which includes training trade officials, helping governments implement trade agreements, and complying with rules and standards.

(b) Trade Development: which includes providing support services for business, promoting finance and investment, conducting market analysis and e-commerce.

(c) Trade-related Infrastructure: which includes building roads and ports.

(d) Building Productive Capacity: improving the capacity of a country to produce goods and services.[10]

(e) Trade-related Adjustment: which includes financial assistance to meet adjustment costs from trade policy reform, including balance of payment problems resulting from lost tariff revenues or from the erosion of preferential market access.

(f) Other Trade-related Needs

Categories (a) and (b) cover the traditional forms of aid, namely, trade-related technical assistance and capacity building. Categories (c) – (f) expand the Aid for Trade agenda.

The Task Force recommended that Aid for Trade build on existing trade-related assistance mechanisms, for example the IF and the JITAP, as well as use existing guidelines for aid delivery, in particular, the Paris Declaration on Aid Effectiveness.[11]

The Task Force recommended several additional guidelines for the implementation of Aid for Trade. They include: (1) strengthening country ownership of aid programs and country-based formulation of trade-related needs and priorities; (2) strengthening the donor response to trade-related needs and priorities; (3) strengthening the bridge between country demands and donor responses at the country, region and global level; and, (4) strengthening monitoring and evaluation.

The Task Force also recommended the establishment of various structures to facilitate the implementation of Aid for Trade. These include a system of data collection and analysis at the country level, national and/or regional Aid for Trade Committees, and a global periodic review of Aid for Trade by WTO members.

The Task Force made no recommendations about how much money is needed, where the money should come from or how it should be prioritized. The recommendations do not set out any mandatory obligations or responsibilities on the part of donor countries. Nothing in the recommendations precludes a donor country from giving out money in whatever way it wants to whomever it wants. The recommendations only highlight "good practices" in aid delivery. It is therefore important to examine different government positions on Aid for Trade to see how the recommendations are likely to be interpreted and implemented.

What are governments saying about Aid for Trade?

The LDCs[12] say Aid for Trade should focus on enhancing "competitiveness, diversifying agricultural, industrial and services capabilities, improving infrastructure and strengthening supply-side capacity." The LDCs argue that the money for Aid for Trade should be additional and that resources should not be reallocated from other sectors such as education or health.

The African Group[13] says Aid for Trade should consist of three pillars: (1) capacity building to address supply constraints (including building productive capacities and infrastructure); (2) meeting trade system costs including adjustment and implementation; and, (3) support for trade policy development and participation in rules making. The African Group says that Aid for Trade should primarily target supply-side constraints. The Group also insists that the aid should not be repackaged from existing initiatives but should be additional. The African Group says Aid for Trade should not be subject to conditionalities.

The ACP Group[14] says Aid for Trade must provide support for trade-related economic adjustments, technical assistance and supply-side capacity. They identify adjustment costs as those relating to preference erosion, the end of the textiles and clothing quotas, loss of tariff revenues, rising food prices, export earnings shortfalls and social costs (including loss of jobs).

The European Union (EU) says Aid for Trade must help developing countries build the capacity to trade to take advantage of market openings. In 2005, the EU said it was "committed to providing trade-related assistance to help developing countries participate in the negotiations, implement the DDA [Doha Development Agenda] conclusions and build up their trade capacity." [15] These forms of assistance only cover the traditional forms of trade-related technical assistance and not the expanded Aid for Trade agenda. In the period 2001-2004, the EU committed €3,3 billion for trade-related assistance (roughly €0.8 billion per year). The President of the European Commission (E.C.), José Manuel Barroso, pledged at the G8 summit in Gleneagles in 2005 to increase E.C. funding to €1 billion per year. At the Hong Kong Ministerial Conference, the EU said they were committed to increase spending on Aid for Trade to €2 billion by 2010.

The U.S. says it spends US$1.34 billion per year on trade-related assistance for physical infrastructure and trade facilitation.[16] The U.S. pledged in Hong Kong to increase spending to US$2.7 billion per year, by 2010.

Japan pledged in Hong Kong US$10 billion over three years for "trade, production and distribution infrastructure." Japan is interested to help, particularly LDCs, build infrastructure such as roads and ports, as well as to revamp their customs systems.[17]

How much money are we talking about?[18]

Funding for Aid for Trade is not yet secured. Pledges to increase Aid for Trade were made at the Hong Kong WTO Ministerial Conference and the G8 Summits in Gleneagles (in 2005) and St. Petersburg (in 2006). In Hong Kong, Japan pledged US$10 billion over three years, the U.S. pledged $2.7 billion a year by 2010, and the EU pledged €2 billion (US$2.6 billion) a year by 2010.[19] In St. Petersburg, G8 leaders said they expected spending on Aid for Trade to increase to a total of US$4 billion.[20]

It is not clear what the US$4 billion refers to, since existing pledges from the Hong Kong Ministerial Conference already exceeded this amount. In 2002, the WTO and OECD created a database to monitor trade-related technical assistance. This database only includes activities related to traditional trade-related technical assistance—categories (a) *trade policy and regulations* and (b) *trade development* of Aid for Trade in the list above. In 2004, donors spent US$2.5 billion on these two areas. The US$4 billion pledged in St. Petersburg is most likely a new pledge based on the figure from 2004.

Yet Aid for Trade is much broader than these two categories. In fact, the mandate of aid for trade is to "build the supply-capacity and trade-related infrastructure." Since 1994, aid for economic infrastructure has fluctuated between US$8-11 billion per year (except for 2004 where US$13 billion was spent, mainly for reconstruction in Afghanistan and Iraq). Aid for building productive capacities was US$7.3 billion in 2004 and US$6.8 billion in 2003. There is no data available for how much, or even if, money was spent on adjustment costs related to implementing WTO trade agreements (which the Aid for Trade Task Force says should be included under Aid for Trade). In other words, the total amount of money spent on programs that can now be described as Aid for Trade, (excluding adjustment costs) was US$18.5 billion in 2003 and US$22.8 billion in 2004.

WTO members have asked the WTO Director-General to consult with members, the World Bank, the IMF, relevant international organizations and regional development banks to find appropriate mechanisms to secure additional financial resources for Aid for Trade.[21]

What additional financial resources means, however, is unclear and highly contentious among WTO members. To a number of developing countries, particularly the LDCs, the African Group and the African, Caribbean and Pacific (ACP) Group, additional means new money over and above the levels that have been projected and pledged for 2010. The OECD says prospects for additional money is unlikely. OECD members have already made their official development assistance (ODA) commitments until 2010.

The OECD says it is more probable that "additional" will be interpreted either as "additional" because ODA pledges have increased since 2005, or "additional" because an increasing share of ODA will be spent on Aid for Trade (and therefore not on other aid priorities).

What Does It All Add Up To?

The concept of Aid for Trade is now firmly established in the WTO. However, a number of questions should be answered before WTO members decide to implement Aid for Trade because there is a risk that Aid for Trade will disrupt trade negotiations, further complicating already delicate relations between North and South.

Important questions still to be answered include: Is Aid for Trade a consolation prize for a failed Doha Agenda? Will Aid for Trade be used to pressure developing countries to open markets more than they otherwise would? What are other potential risks of bringing Aid for Trade into the WTO? Are donors serious about embracing the expanded Aid for Trade agenda? Will there be enough money? Is the WTO the best forum to operationalize Aid for Trade?

Is Aid for Trade a consolation prize for a failed Doha Agenda? The Doha Agenda collapsed because the framework is unable to address fundamental development issues that all countries struggle with, including the need to generate sufficient, stable, well-paying jobs; to ensure access for all to adequate and affordable food; and to diversify sources of foreign exchange. In fact, recent projections and research by the World Bank, the UN and a variety of independent think tanks confirm that the poorest countries would be the biggest losers if the current proposals for the Doha Agenda were adopted.[22]

Aid for Trade is a miserable consolation prize for the losses the poorest countries are expected to sustain from the Doha Agenda. Aid for Trade should not be used to divert attention away from urgently needed reform to the existing trade system. To work, Aid for Trade must complement a reformed multilateral trading system that meets diverse and diverging interests, and that responds to each country's development and employment objectives.

Will Aid for Trade be used to pressure developing countries to open their markets more than they otherwise would? WTO members stated in the Hong Kong Ministerial Declaration: "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." Yet many developing countries are strongly resisting the push to open their markets under the Doha Agenda and increasingly question whether the Agenda serves their development needs.

However regretful, promises of aid are used to pressure developing countries to accept greater commitments in the WTO. In the agriculture negotiations, net-food importing developing countries have been assured that assistance will be provided in the event of rising food import bills (which sidesteps the question of why already poor and economically vulnerable countries should increase their dependence on foreign aid through multilateral trade agreements). In the non-agricultural market access (NAMA or industrial tariff) negotiations, the IMF assures many developing countries there will be suitable mechanisms to address any balance of payment problems that may arise from lost tariff revenues. Countries that benefit from preferential market access to developed country markets are told a solution will be found to the erosion of preferences. In the trade facilitation negotiations, which include improving customs procedures, developing countries are assured that assistance will be available to implement their obligations.

Aid for Trade should not be used to pressure developing countries to accept trade agreements that they otherwise would reject. It is essential to consider how to compensate losers, which any trade agreement will create. But when losers are whole national economies, and not just specific sub-sectors, aid should not be used to distract from pushing for better trade rules in the first place.

What are other potential consequences of bringing Aid for Trade into the WTO? Offering aid to developing countries reduces pressure on richer countries to address more fundamental problems in the multilateral trading system. Introducing aid also complicates developing countries' negotiating strategies, as the money is so necessary it could distract countries from insisting on what is for them the best outcome in terms of trade rules. There should be no link between Aid for Trade and countries' positions. Yet developed countries consistently use their aid budgets to pressure developing countries to move closer to developed countries' trade negotiating positions. Aid for Trade increases the risk of such pressure arising.

Furthermore, the Aid for Trade Task Force consumes time and resources from developing countries, leaving them with less capacity to engage in the trade negotiations.

Are donors serious about embracing the expanded Aid for Trade agenda? The current pledges for Aid for Trade and the positions of donor governments raise concerns about whether donor governments are prepared to tackle the expanded Aid for Trade agenda.

To date, donors have limited their support to traditional trade-related assistance, rather than tackling the broader and more pressing constraints faced by developing countries, particularly strengthening productive capacities, building trade-related infrastructure and financing adjustment costs. The E.C. has indicated that its pledges are to fund trade-related technical assistance and capacity building; the U.S. has been slightly more open, indicating it will also cover some infrastructure costs; and Japan is even more open, saying its pledge can be used for trade, production and distribution infrastructure. The World Bank puts an emphasis under the IF to assist LDCs in the implementation of WTO agreements.[23] Yet no donor has proposed paying for adjustment costs. All donors maintain a preference for the traditional trade-related assistance, despite both the mandate of Aid for Trade, development priorities and stated positions on Aid for Trade from the recipient countries.

This mismatch of priorities between donors and recipients conflicts with the recommendation from the Aid for Trade Task Force that there be stronger country ownership of Aid for Trade programs, better donor responses to needs identified by recipient countries and a stronger link between recipient country demands and donor responses.

The LDC, African Group and ACP countries want to increase their productive capacities, build infrastructure and finance adjustment costs. As UNCTAD's *Least Developed Countries Report 2006* states, "in general, national and international policies do not adequately address the challenge of developing productive capacities in the LDCs. There is a need for a paradigm shift which places the development of productive capacities at the heart of national and international policies to promote development and poverty reduction in the LDCs."[24] This is where donor priorities should be focused.

Unless there are binding obligations on the part of donor countries, neither the positions of recipient countries nor the recommendations of the Task Force, are likely to effect any change in the status quo in aid delivery.

If Aid for Trade spending is focused only on technical assistance and capacity building, the money will exacerbate the negative effects of existing trade rules on developing countries. The existing agreements, and many of the proposals in the Doha Agenda, favor developed countries and marginalize the poorest countries. Aid to support the implementation of these bad rules is contrary to the mandate of Aid for Trade and should be rejected.

Will there be enough money? The money pledged to date for Aid for Trade is insufficient to cover the proposed agenda. The current pledges stand somewhere between US$4-8.6 billion. Yet the estimated costs, according to OECD calculations (and excluding adjustment costs), stood at US$22.8 billion in 2004.[25] The Aid for Trade Task Force recommendations do not propose any institutional framework to ensure, inter alia, the "additionality" of finds or that the flow of aid satisfies certain criteria. The Task Force must first clarify how much money is being pledged. Second, the Task Force must clarify which programs the Aid for Trade money will prioritize, if the full agenda proves too big (as looks likely).

Is the WTO the best forum to operationalize Aid for Trade? The WTO, in close collaboration with the World Bank and IMF, is the focal point of the Aid for Trade agenda at the international level. There has been limited consultation with other agencies, such as UNCTAD, the Food and Agriculture Organisation (FAO) or the UN Development Programme (UNDP). At the national level, Trade Ministries have assumed the main responsibility for Aid for Trade. This puts a very trade-driven focus to the agenda. If WTO members are serious about tackling weaknesses in productive capacities and infrastructure in developing and least developed countries, it will require a much broader and more integrated approach that actively involves other stakeholders, other national Ministries and the wider multilateral system, including UN special agencies.

UNCTAD's 2006 LDC Report highlights this point calling for a new policy orientation that, "would entail a production- and employment-oriented approach to poverty reduction which would encompass […] increasing social sector spending and achieving human development targets. It would also entail a development-driven approach to trade rather than a trade-driven-approach to development."[26] This paradigm shift requires other Ministries, for example, Ministries of development, agriculture, employment, environment and industry to be more actively involved in identifying and articulating how best to formulate and implement the Aid for Trade agenda.

The Aid for Trade Task Force recommended that the WTO should convene a global periodic review of Aid for Trade. Yet the WTO lacks the necessary expertise to assess aid delivery and effectiveness and so will not be able to effectively evaluate Aid for Trade, at least not without help from other agencies. To date, WTO member governments have been reluctant, and occasionally hostile, to WTO cooperation with UN agencies, raising the question of whether the WTO is the most appropriate forum to hold a periodic review of Aid for Trade activities.

Conclusion

The multilateral trading system is in urgent need of reform. The current system is ill equipped to address the fundamental concerns facing developing countries. If Aid for Trade is used to finance the implementation of the existing rules, it will exacerbate existing inequalities. Developing countries should think hard before accepting aid money that serves these ends. Developed countries should think twice before they allocate increasing shares of their aid budgets to such an agenda. If, on the other hand, governments are ready to confront the failures of the existing model of trade and to refocus their objectives on achieving full employment and sustainable development, then Aid for Trade could be an important complement to such a reform process.

References

1. The British Government discussed Aid for Trade in their Commission for Africa Report at the 2005 G7 Finance Ministers Meeting, the 2005 World Bank and International Monetary Fund (IMF) Meeting, and G8 Summits.
2. WTO, Hong Kong Ministerial Declaration, paragraph 57.
3. Finger and Schuler, "Implementation of Uruguay Round Commitments: the Development Challenge," *The World Economy*, 2000, vol 23, No 4, pp511-525
4. De Cordoba and Vanzetti, Coping With Trade Reforms, UNCTAD, 2005, Table 11.
5. In 1994, WTO Members adopted the *Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries.*
6. see http://www.fao.org/docrep/003/x7353e/X7353e09.htm
7. see www.wto.org WT/IFSC/W/15. An OECD evaluation in 2000 also found that the IF had limited pay-off because of lack of clear priorities, ill-defined governance structures and a low other of funding. (see www.wto.org WT/LDC/SWG/IF/1)
8. See www.oecd.org COM/DCD/DEV(2006)1 for a summary of a series of evaluations conducted by the U.S. Agency for International Development (USAID), the U.K. Department for International Development (DFID), the Netherlands and the North-South Institute, Canada.
9. see www.wto.org WT/AFT/1
10. There is no legally agreed definition of "productive capacities." UNCTAD defines productive capacities as "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop." UNCTAD, The Least Developed Countries (LDCs) Report 2006, Developing Productive Capacities, 2006.
11. The Paris Declaration on Aid Effectiveness sets out principles for donors, agencies and beneficiaries on issues including country ownership of aid programmes, accountability, effective donor coordination and transparency.
12. see www.wto.org WT/AFT/W/22
13. see www.wto.org WT/AFT/W/21
14. see www.wto.org WT/AFT/W/8
15. see http://jpn.cec.eu.int/union/showpage_en_union.external.wto.doha_1.php
16. see www.ictsd.org, Bridges Daily Update, 14 December 2005
17. see www.ictsd.org, Bridges Daily Update, 14 December 2005
18. Figures quoted in this section can be found at: www.sourceoecd.org/development/9264026940
19. see www.wto.org WT/AFT/1
20. see http://en.g8russia.ru/docs/16.html
21. see www.wto.org, Hong Kong Ministerial Declaration, paragraph 57
22. See Anderson and Martin, *Agricultural Trade Reform and the Doha Development Agenda*, World Bank, 2005, Table 12.14; De Cordoba and Vanzetti, *Coping with Trade Reform*, UNCTAD, 2005, Table 11; Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries*, CEIP, 2006; Wise and Gallagher, *Doha Round and Developing Countries: will the Doha deal do more harm than good?*, RIS Policy Briefs, 2006
23. see www.oecd.org COM/DCD/DEV(2006)1
24. UNCTAD, The LDC Report 2006, July 2006, Overview, p3
25. G8 leaders pledged U.S.$4 billion in 2006. At the Hong Kong Ministerial Conference, Japan pledged US$10 billion over three years (US$3.3 billion per year), the U.S. pledged US$2.7 billion and the EU pledged €2 billion (US$2.6 billion). This is roughly US$8.6 billion per year.
26. UNCTAD, The LDC Report 2006, p4