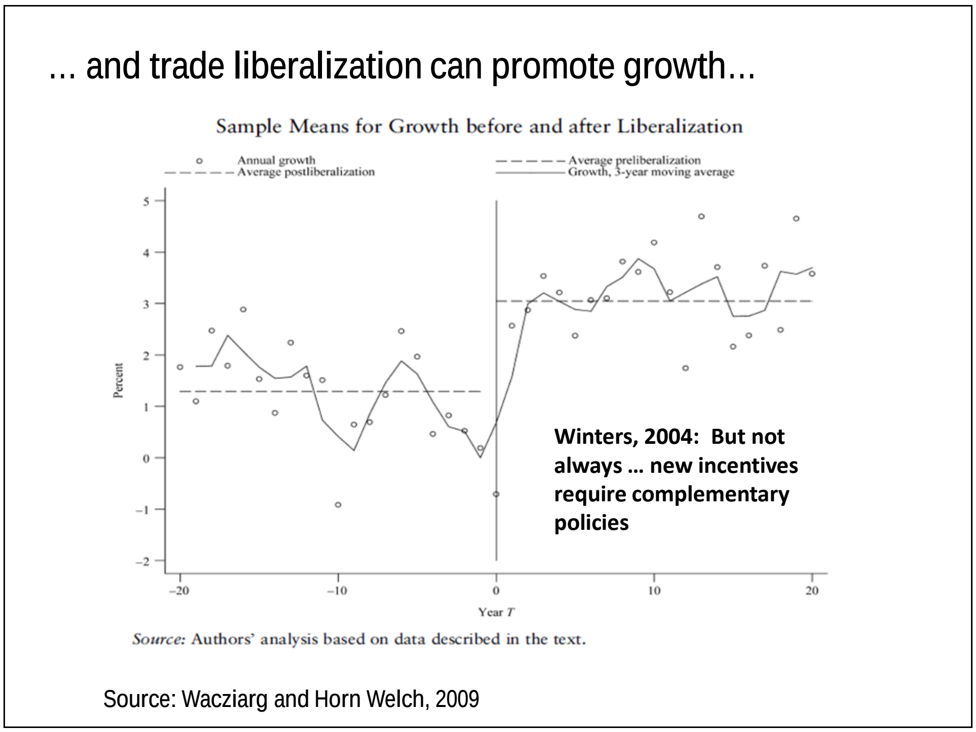
AID-FOR-TRADE CASE STORIES

POLICY TO PROMOTE TRADE

IMPROVING POLICY TO PROMOTE TRADE

If the economic literature emphasises one area that is essential to trade promotion – increasing exports, importing more efficiently or creating incentives for efficient import substitution – it is the policy environment. This common theme runs through Winters' twin reviews of trade and poverty reduction and trade and growth,[1] the OECD's extensive work in aid for trade, and the World Bank's and other multilateral development institutions' research on aid effectiveness. The potentially important role that policy can play in assisting workers and firms to move from pre-liberalisation uncompetitive sectors into post-liberalisation competitive sectors is a main focus.[2] The Aid for Trade Task Force recognised this when it emphasised the need for adjustment assistance to accompany the Doha Development Agenda.

Figure 1



Despite its importance, comparatively few case stories were submitted that directly dealt with comprehensive policy reform supported by development assistance to assist firms and workers to adjust to new post-reform prices. Only three stories dealt with efforts in support of adjustment associated with major reforms of the trade policy [Mauritius, 131, China, 89, and Costa Rica, 157].

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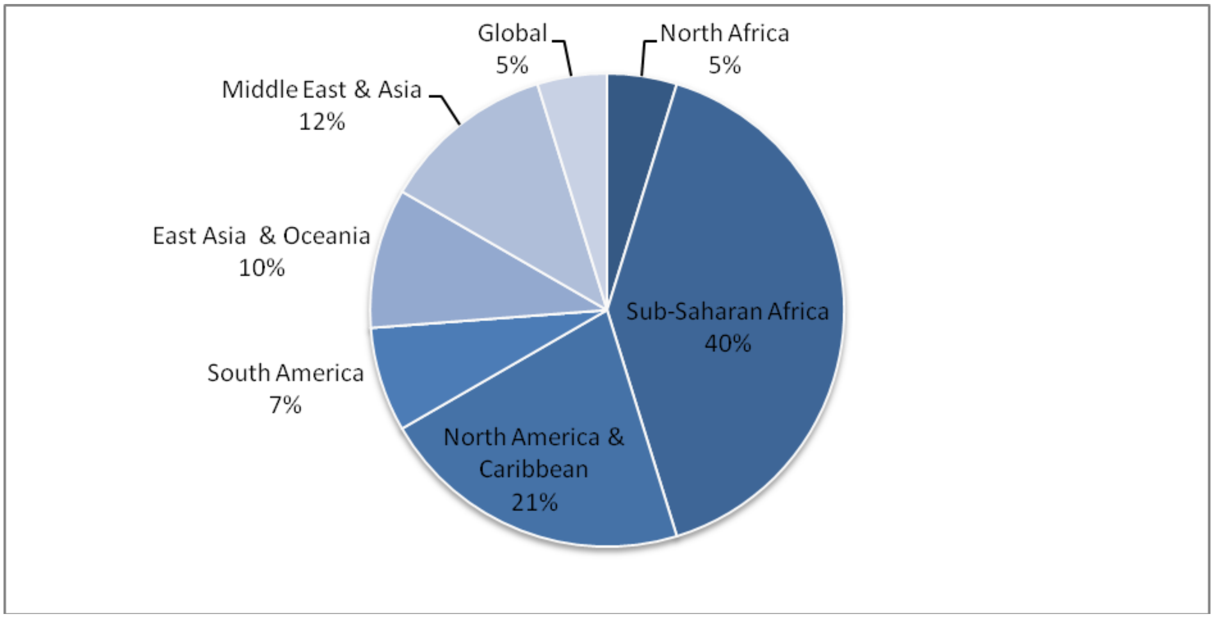
[1] Winters, Alan L. (2004), "Trade Liberalization and Economic Performance", *The Economic Journal* 114: F4-F21. Oxford: Blackwell Publishing; Winters, Alan L., McCulloch, Neil and McKay, Andrew, 2004, "Trade Liberalization and Poverty: The Evidence so Far", *Journal of Economic Literature*, Vol. 42, No. 1.

[2] See Porto, Guido and Bernard Hoekman (2010) (eds.) *Trade Adjustment Costs in Developing Countries: Impacts, Determinants, and Policy Responses* London: CEPR and World Bank.

What do the case stories tell us?

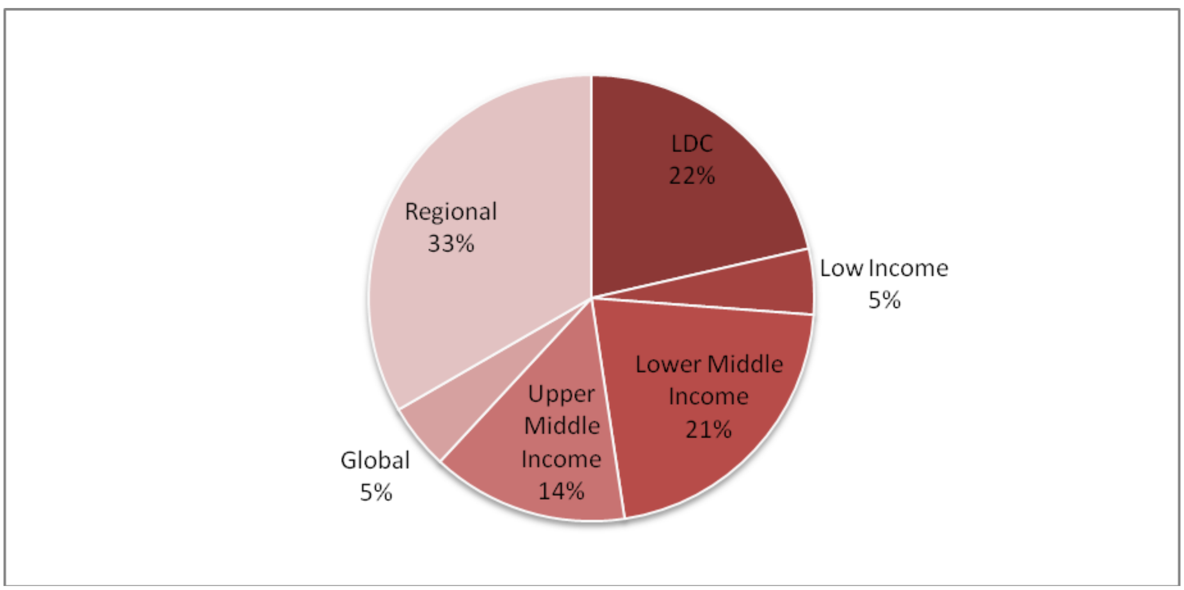
A total of 42 case stories were classified under the theme of improving policy, of which 17 of them came from sub-Saharan Africa and the regional distribution can be seen in Figure 2:

Figure 2 Improving Policy by Region of Implementation



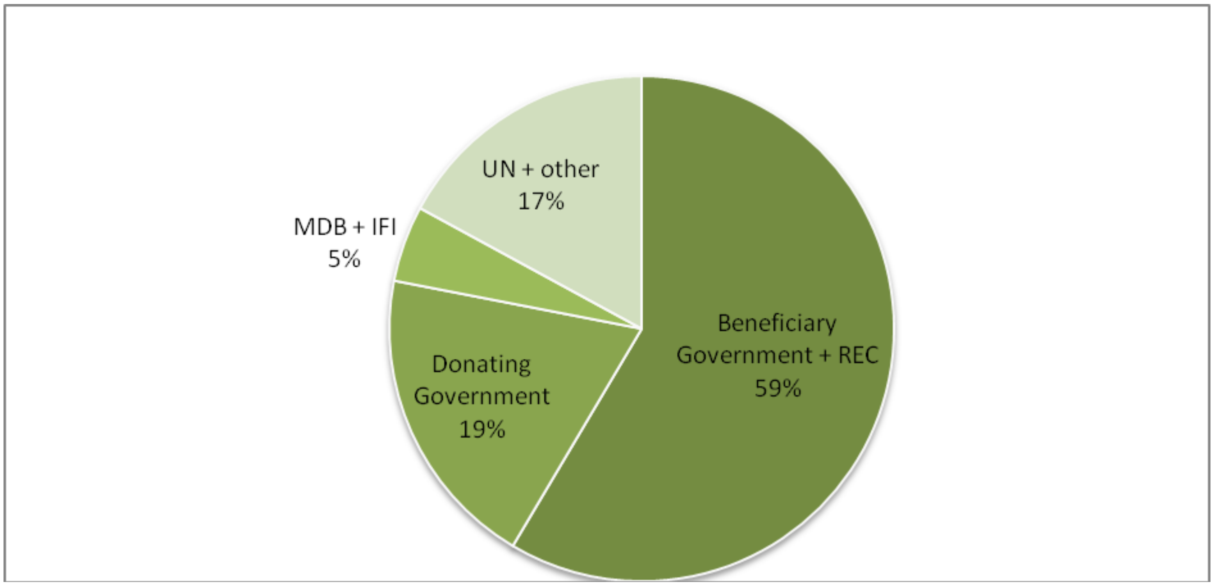
The stories also dealt in great part with regional and global groups, yet LDCs and lower middle income countries both accounted for about over 20% of the case stories (Figure 3):

Figure 3 Improving Policy by Income Group



A significantly large majority, almost 60%, of the case stories within this theme were written by beneficiary governments (Figure 4):

Figure 4 Improving Policy by Author



Stories in this area can be grouped in three general areas: (i) aid for trade that supported *adjustment to changes in trade policy,* (ii) changes in national *development strategy,* and (iii) those that supported the introduction of *improved standards*.

Support for adjustment to changes in trade policies

Despite the importance of adjustment assistance, only three case stories dealt directly with comprehensive policy reform aimed at assisting firms and workers to adjust to a new post-liberalisation environment [Mauritius, 131, China, 89, and Costa Rica, 157].

The Mauritius [131] story involves archetypical “trade adjustment assistance” as defined in the Task Force report. By 2006, Mauritius was suffering a triple shock – the phase out of sugar quotas, the end of the Multi-Fibre Agreement, and rising oil prices – that had dramatically slowed its previous high growth. In response to a government request, the World Bank provided diagnostics work that helped to lay the analytical foundations for subsequent reforms.[3] In June, the government announced a major reform programme comprising some 40 different policy initiatives. These included reductions in tariffs and the establishment of an “Empowerment Program” to assist workers and firms during the adjustment period. In a co-finance arrangement with the French Development Agency, the World Bank provided several budget support loans totalling USD 175 million. FDI increased, exports rose, and growth rates rose from 1.5% in 2005 to over 5 % in 2007-08 (before the "Great Recession" induced another slowdown in 2009). Despite the breadth of its reform programme and repeated requests for assistance, donors did not

[3] World Bank (2006a), “*Mauritius - From Preferences to Global Competitiveness: Report of the Aid for Trade Mission”* World Bank, April; World Bank (2006b) “*Mauritius - Country Economic Memorandum”*

provide Mauritius with concessional lending because of its status as a middle-income country [Mauritius, 131].

To help China's agricultural sector adjust to liberalization arising from WTO accession, Canada’s CIDA worked with the government to develop a programme to help small farmers adapt to import competition and new trade incentives. The five year program, launched in 2003 and funded with CAD 40 million, helped to train more than 20,000 farmers, agricultural extension workers, and government officials in food safety and WTO marketing rules. The programme was effectively a pilot programme which eventually led to spin-off efforts that China is still implementing [China, 89].

Over the last several decades, Costa Rica has implemented an ambitious programme of trade opening which saw tariffs reduced from an average of 46.3% in 1982 to 16.8% in 1989 and then (after joining GATT in 1990 and CAFTA in 2009) to just 5.87% today. During this period, the government received external support from the IDB, the Central American Bank of Economic Integration, UN Economic Commission for Latin America, UNCTAD, the OAS, and the WTO. The assistance took different forms, including training for trade negotiators, the acquisition of specialised hardware and software, and programmes for small rural farmers, SMEs, and officials in charge of scaling up standards and certification (to help Costa Rica participate in global supply chains). Building on its growing trade negotiation experience, Costa Rica entered into free trade agreements with 42 countries – with the result that more than 75% of Costa Rica’s exports enter foreign markets under preferential agreements. This contributed to strong economic growth and the reduction of poverty by more than one-third (from 28.3% of the population in 1989 to 18.5 in 2009) [Costa Rica, 157].

Support for changing national development strategies

Experience has shown that trade reforms do not always deliver expected economic growth and poverty reduction benefits. Hallaert (2010) argues that the impact of trade reforms on both trade and economic growth will depend on compatible and complementary policies. First compatible policies, such as an appropriate macroeconomic environment, are needed to reduce the risk of policy reversal and to make a trade reform sustainable. Second, building infrastructure, supporting the financial and banking sector development, building public and private sector capacities or supporting some regulatory reforms are usually needed so that firms can take advantage of new price incentives.

Kenya, Ghana and Cape Verde launched comprehensive reform programmes as part of their national development strategies. In Kenya, the programme involved removing obstacles to private investment and growth. In 2005-2006 Kenya launched an inventory of all its business licenses, fees, and user charges – and concluded that the resulting number was simply too high (1,325) to be consistent with a growing private sector. The government eliminated 315 licenses, simplified 379 others, and retained just 294. Simultaneously, it created an e-Registry as a focal point for investors seeking information about obtaining licenses and operating a business. It also set up a Business Regulatory Reform Unit to oversee licences and to screen all new proposed regulations through a Regulatory Impact Assessment process. The case story claims that these efforts led to *“gains… in FDI flows, growth in local investments and business start-ups...growth in employment...and more efficient delivery of public services”* [Kenya, 17].

In the case of Ghana, its programme was more overarching, and entailed stabilizing the macroeconomic environment, strengthening the financial sectors, introducing new business registration procedures, developing infrastructure, and reforming the public sector, the legal system, and land and property rights. This programme became an organising vehicle for work with development partners, outlined in a signed memorandum of understanding, including DFID, DANIDA, IDA, GTZ, AfDB, IFC, EU, and the governments of France, Japan, Switzerland and the United States. The programme resulted in several procedural improvements that would appear to have lowered the costs of doing business and expanded trade [Ghana, 65].

For Cape Verde, its WTO accession process was a driving force for reform. The government committed to binding tariffs to an average of 19 %. Because its tariffs were aimed primarily at raising revenue, the government embarked on a programme to reform revenue collection that went far beyond tariffs; – and, consequently, donor support in trade-related areas extended well beyond WTO technical assistance.. The programme included improvements in fisheries managements, infrastructure, telecommunications, airports and ports, as well energy and some business regulation. Although much remains to be done – particularly in business regulation -- the results so far include an increase in FDI and, most important, national income that have outpaced the rest of Africa in recent years [Cape Verde, 222].

Other countries reported on similar reforms with similar positive outcomes [Tanzania, 286; Uganda, 100)].[4] For example, Burundi [211] initiated major reforms to improve revenue collection from both tariffs and non-tariff domestic sources.

Raising standards for products and labour

Meeting international standards can be a major obstacle for exporters, particularly in low-income countries, so the numerous case stories describing programmes to address this challenge are valuable. These include, among others, programmes in the Latin America [252] and [253], Bangladesh [208], the Caribbean [169] Central America [223] East Africa [61] and [92], Morocco [179], Pakistan [115], and Sri Lanka [91]. In the Gambia, for example, the EU (through its UNIDO-executed West Africa Quality Program) supported a major effort to help firms raise quality to meet international standards. Even though implementation has lagged behind the original 2007 timetable – only two of six components are nearing completion – the programme established a National Standards Bureau in December 2010, to oversee national SPS and Codex standards for edible oil, labelling and advertising, and is nearing completion of metrology lab's refurbishment. The project has been extended for another year [Gambia,

[4] In Uganda, Hallaert *et al.* (2010) showed the importance of identifying the most binding constraints by comparing the trade reforms of the 1990s with the reforms of the 2000s. They argue that in the 1990s, the reforms were mainly limited to MFN tariff reforms and did not result in trade expansion and economic growth because they did not address the most binding constraints. This contrasts with the broader reforms of the 2000s, which were successful in leading to a sharp increase in trade and a significant export diversification. The most binding constraints to trade mainly derived from transportation, not so much the transport costs but delays and unpredictability at border crossing.

45]. Meeting specialised standards might have been considered a "niche" market a decade ago, but today it is becoming more mainstream, offering exporters that achieve such standards significant growth and product differentiation potential. For example, certified-organic exports from Uganda have grown from USD 10 million in 2004-05 to USD 37million in 2009-10 [East Africa, 102].

The work of the *Instituto Interamericano de Cooperacion para la Agricultura* (IICA) in Latin America is an example of the different ways that donor assistance can be used to promote international agricultural standards and exports. With support from the US Department of Agriculture (USDA), the IICA developed an ambitious five-year project, supplemented by WTO training courses, to encourage capital-based discussions on standards prior to each SPS meeting in Geneva [Latin America, 251]. IICA also put together a valuable tool kit to aid SPS compliance and to improve agricultural health and food-safety services [Latin America, 253].

For the standard-setting process to improve both product quality and market access, it must involve private actors as well as developing-country officials. One lesson from ITC's Ethiopian Coffee Improvement Project was the importance of involving buyers in the project's design. Their direct knowledge of export markets proved invaluable in designing effective interventions [Ethiopia, 75]. Similarly, involving LDCs in standard setting requires continuous training throughout the process of designing and implementing appropriate standards.

Labour standards are also important. In Cambodia, the World Bank's IFC joined with the International Labour Organization (ILO) to launch a programme called "Better Factories Cambodia" (BFC). The program's monitoring mechanism involves unannounced factory-inspection visits to ensure that working conditions – *i.e.*, emergency exits, lavatory facilities, and hours worked – met approved labour standards. Moreover, by sharing supervision efforts, multinational companies and local inspections were able to consolidate their inspections and audits, all of which had the imprimatur of the IFC and ILO. The programme was supplemented by training for supervisors and by an information management system to monitor working conditions. The programme is widely viewed as a success, improving not only working conditions but also productivity, as absenteeism and worker turnover rates have declined [Cambodia, 126]. Moreover, better labour standards attract reputation-conscious buyers who can now turn to the BFC for the monitoring results for a given factory. Using the BFC's factory-level data, Oka (2009) finds that having at least one reputation-conscious buyer encourages factories to improve compliance. Other studies have shown that during the recent downturn, factories participating in the BFC programme - and in similar certification programmes in other countries - suffered fewer order cancellations than non-participating factories.

One emerging area of concern for developing countries is the way that private standards are increasingly impacting trade flows. These standards are often set by large importing retailers or their associations, sometimes with the informal or formal backing of home governments. In 2008, UNIDO launched a forum to discuss these emerging standards involving private producers, governments and stakeholders. Sponsored by Norway, this dialogue eventually led to a guide, *Making Private Standards Work for You,* that shed light on a range of standards in three labour-intensive sectors - garments, footwear and furniture - which are of particular concern to developing countries [Global, 112].

REFERENCES

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