

## **Better Regulations and Better Negotiations as Tools for Trade:**

### **Where Aid for Trade Can and Cannot Help**

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## **The path to compliance from policy**

This note is intended to cover a sequence of trade needs and the role (if any) of aid for trade for each:

- conforming to legal (and customary) standards and rules in trade (including, but not only, tariffs, preferences, SPS, TBT, etc.);
- establishing the institutions to enforce and set the rules;
- improving the application of rules (trade facilitation, information, etc.);
- negotiating changes in rules affecting trade;
- identifying and prioritising the changes in rules likely to help each developing country's trade.

These come mainly under the first heading of the Aid for Trade Task Force's definitions, trade policy and regulations, although some are related to those under the second, of trade development.

For the first four, I will look briefly at who is doing what and at any apparent gaps in what should be done. For the last, defining trade policy, I will also question how to set the boundaries between legitimate (and necessary) areas of assistance and interference in national policy. The conclusion will summarise the gaps in provision and also suggest some areas where changing donors' own trade policies can be of direct assistance.

This is fortunately a much more ambitious task than it might have been five years ago. UNIDO (*Trade Capacity Building Resource Guide 2010*) has recently reviewed the trade capacity building activities of the 25 most important multilateral donors, the five regional development banks, and the 24 Development Assistance Committee members. It found that the greater interest in trade and in Aid for Trade since the Hong Kong Declaration in 2005 has brought a major increase in the number of donors with trade programmes and in the amount of such aid, but the evidence it collected suggests that some types of trade support are still under-provided. The bilateral donors are, in principle, bound by the WTO's decision that AfT should be an international obligation, but the increase in support to trade has happened among the multilateral and regional organisations as well.

The UNIDO survey found that most types of trade capacity building now seem to be well provided by a good range of multilateral and bilateral donors, and there was an improvement even between the 2008 and 2010 editions of the guide. The types provided most often by multilateral donors include help with conforming to legal and regulatory standards, trade policy development, UNIDO's category of global advocacy ('services ... designed to promote the use of trade as a development tool'), and building supply capacity. Bilateral donors are more often involved in helping to build compliance institutions and trade facilitation, but they also support meeting standards and trade policy development, along with supply, physical trade infrastructure, and financial services.

The three important gaps in provision of assistance which the UNIDO study suggests have direct relevance to the topic of this paper: market information, trade promotion, and capacity building in non-traditional activities. Only four of the 30 multilateral and regional and 14 of the 24 bilaterals assist on market information. Only five of the 30

multilateral and regional agencies and 13 of the 24 bilaterals provide support for trade promotion activities. The lack of support to manufactures and services particularly by bilateral donors is found in all types of support, although it is most clearly shown in the data on direct support for building supply capacity: 21 bilateral agencies reported projects in agriculture and nine in textiles and clothing. But only six reported projects in new areas including environmentally friendly technology, information technology, and tourism (see UNIDO tables).

One of the gaps identified by the Task Force was capacity building at regional level. A few of the multilateral agencies and most of the regional ones are extending the types of trade policy and regulation which they cover to regional arrangements, but, as will be noted below, there are still gaps here.

## **II Understanding and meeting trade rules**

This includes both bringing national regulations into conformity with international rules, where necessary, and learning to deal with the rules. The needs of developing countries include learning to use provisions of trade agreements and trade preferences, both the tariffs themselves and any associated rules, such as rules of origin. A number of multilateral organisations are particularly important in this area, in their own areas of expertise. The WTO provides some training in how to comply with WTO rules, including training to acceding countries, as well as training in using the dispute settlement system. The World Bank and UNCTAD also provide such training, with UNCTAD also having a significant role in training on preferences and the World Bank in providing information on standards. The World Bank offers training and advice on border procedures, and the IMF provides technical assistance on customs reform and programmes to improve information about regional integration and preferences.

The ITC also provides information and training to help countries comply with WTO agreements, but with the specific aim of finding a way to comply which also promotes countries' competitiveness. It also promotes arbitration and mediation centres. WIPO has helped countries with implementation of international obligations, and also provides advice on how to use the flexibilities available under the WTO. This differentiates its support from that of the WTO, which cannot provide advice to countries that goes beyond the legal rules. UNDP has a special programme to support capacity building on the WTO's rules on Trade-Related Intellectual Property (TRIPS), including the flexibilities on access to HIV/AIDS drugs.

UNIDO provides a range of support to governments on developing the framework to implement WTO agreements on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) measures. It focuses specifically on the development of standards and technical regulations, product testing, metrology, and enterprise certification and accreditation. FAO helps countries to conform to international obligations, including agricultural standards, through assistance in drafting laws and on implementing them. ICAO provides information and technical support on air services agreements and the ILO on revising labour laws to conform to ILO conventions, as well as training officials and trade negotiators.

The regional banks and commissions tend to have very specific areas of interest in this category. UNESCAP has a technical assistance programme for the Doha negotiations and for the Asia-Pacific Trade Agreement (APTA), including analysis of its country-specific impacts, and offers assistance to LDCs acceding to the WTO. It also provides support for implementing trade agreements. AfDB provides legal assistance to countries facing problems dealing with private sector creditors. UNECE focuses in particular on developing trade related standards and infrastructure to reduce barriers to trade, including technical advice and assistance on regulatory harmonisation. UNECLAC has developed a database of trade disputes for its region.

Bilateral donors cover many of the same areas, and in some cases work through multilateral organizations, for example supporting trainees at the WTO (Ireland, the Netherlands), supporting the Advisory Centre on World Trade Law (Canada and Norway) or contributing to WTO trust funds (Australia). Some donors help countries meet the requirements for WTO accession, including Canada, Germany, Norway, Switzerland and the US, or provide post-accession support, as do Canada and Italy for Vietnam.

A high proportion of projects in this area are related to trade in agricultural goods, to meet both official SPS standards and private standards such as the European GLOBALGAP for food products. Donors providing support for countries to meet SPS standards include Belgium, which considers support on SPS as one of its AfT priorities, Australia, New Zealand, Japan, Canada, the EC, Finland, France, the Netherlands, Sweden, Switzerland, the UK and the US. Some donors including Denmark and Germany specifically mention assistance in meeting private food standards, while France provides assistance on agricultural regulation.

There is a little activity in non-agricultural areas, but this seems much less common. Denmark and the US provide support on technical standards and barriers to trade. The EC, Australia, Denmark, Japan, Sweden, Switzerland, and the US assist on meeting the rules on intellectual property. Italy has programmes for leather and shoes. Other countries cover investment law and financial sector regulation (New Zealand) and competition regulation and geographical indications (Switzerland). Austria assists neighbouring countries on accounting standards, and the UK has projects on trademarks. Korea supports quality testing. The Netherlands and Finland assist on meeting environmental standards.

A few donors offer assistance on standards related to social objectives. Belgium gives assistance on complying with fair trade standards. New Zealand supports fair trade companies. Sweden offers assistance with exports of organic products to some African countries. Switzerland supports standards for fair trade and organic production. The UK helps businesses meet labour and health standards in Bangladesh.

In terms of meeting international standards, donors from countries or institutions which have often been involved in setting those standards are clearly well-placed to deliver aid. But it is surprising and disappointing that where bilaterals might be expected to have particular expertise, in the rules for their own preference or other trading arrangements, they are in practice rarely active, although the US efforts to promote the use of AGOA are a notable exception. These have included programmes

to train exporters and country officials in how to use its provisions and how to meet the standards and market requirements in the US.

The support on standards suggests a clear gap, especially in bilateral programmes, in non-agricultural trade, which is, of course, the major part of exports for all developing countries and the major growth area. It may be that, because developed countries intervene in their own agricultural sectors more, they are more accustomed to such intervention. But the recent rejection of UNIDO's activities and objectives as less relevant to development by a UK government paper suggests that there is a more serious blindness to the importance of structural transformation to development. As services are the most rapidly growing exports for many small or SSA countries, this in particular is an important gap. Particularly for small countries, with high transport costs to major or growing markets, services are coming to have the same role as high-growth, high-development-effect elements in structural development that manufactures had for the industrialising countries of the 1970s, often with the additional advantage of high labour intensity.

### **III Building institutional capacity to comply with rules**

This is closely related to the previous category, but with more emphasis on building institutions which can understand, comply with, and adjust to the rules over time, not simply meeting current requirements. It is an area where the specialised agencies again have an important role.

UNIDO concentrates on institutional capacity building for standards bodies, product testing, and calibration/metrology laboratories, and product and enterprise certification and accreditation bodies. The World Bank helps to develop standards and compliance infrastructure and services. There is also the Standards Trade and Development Facility which provides funding for identifying needs in standards and for capacity building to both public and private sector organisations. FAO provides assistance in the development of food and animal import/export inspection services. The IAEA helps countries develop expertise in meeting standards in energy sectors, and the ITU provides capacity building on developing and adopting its standards.

UNECE and UNECLAC develop institutional capacity at the regional level. Some bilateral donors also operate at regional level. The EC, for example, has a long history of assisting other regional organizations to build their institutions; Belgium, Finland, Spain, the UK and the US also provide such help to various FTA secretariats. Some donors provide support more directly related to the regional objectives of Aft, in areas like developing the institutions for common or harmonized standards. These include the EC, Japan, Norway and France. (Any progress on helping countries meet world standards of course also reduces the need for regional harmonisation.)

But much of the activity of bilateral donors is at national level. Norway, for example, offers support to building institutions for compliance with international standards in agriculture and on fish. The EC and Sweden also support the systemic development of compliance infrastructures.

As in the previous section, there is evidence of a focus on agricultural standards, with less assistance to developing institutions to support manufactures or services.

#### **IV Trade facilitation, broadly defined**

This includes both public policy issues and filling gaps in private provision. On the public policy side, it can include all elements of border management: legal changes, such as standardising customs tariff and statistical nomenclature; procedural changes which improve efficiency; and programmes to bring together a variety of projects to improve simultaneously the legal rules, procedures, and infrastructure in trading corridors. On the more market-related side, improving information on private standards, providing trade data, and building the institutions to provide market data can all come under this category.

On the *public policy side*, assistance is offered by a range of multilateral and bilateral donors. UNCTAD helps countries to develop institutional capacity on various aspects of trade facilitation and to participate in negotiations on these. It also offers specific help in transport and trade logistics and customs, e.g. ASYCUDA, the Automated System for Customs Data. The World Bank offers general advice on trade procedures, guidance on customs modernisation, and dedicated financing for elements of trade facilitation, including customs reforms. It offers more specific help on reforming customs procedures. It provides a network of information on trade facilitation and improving cross-border transport, and on financing for such projects. ITC services improve the logistics of trade, including transport, storage facilities, and the links between the actors at different stages of trade. IMO tries to encourage trade flows by encouraging a balance between measures to improve security and measures to facilitate maritime traffic, and encourages the application of information and communication technology to facilitate maritime traffic.

At regional level, UNECE helps countries in negotiations on trade facilitation in the WTO, and supports the development of the institutions needed for trade facilitation strategies in-country, including capacity-building on norms, standards, and electronic business. UNESCAP provides information on how to adopt international standards and assistance in implementing more efficient customs procedures, including better coordination among agencies, and publishes guides on trade facilitation. It also promotes regional strategies for improving trade within the region, particularly for the land-locked countries. IDB has programmes for customs, transport networks, and other logistics services, including a comprehensive programme for Mesoamerica. AfDB supports and builds capacity in regional organisations to improve the efficiency of regional trade. EBRD's programmes are directed more at the eastern European countries' trade with the rest of the world than at intra-regional trade.

A high proportion of the bilateral donors assist in this area, although for some this is done through multilateral and regional agencies. Australia, Austria, Denmark, Germany, Japan, Canada, Norway, Spain, Sweden, Switzerland and the US give training on customs procedures. Some countries offer training on operating ports (including inland ports), including Belgium, Luxembourg, the Netherlands, Spain and Ireland.

In trade facilitation in general, countries with programmes include the US, with projects in a wide range of countries, Canada, Denmark, France, Denmark, Korea,

Switzerland and the UK. A number of countries offer training specifically on regional procedures or harmonization. These include Australia, the EC, the US, Germany, New Zealand, Norway, Sweden and the UK.

*The information side* is less well served. There are of course the general sources of data. The WTO provides data on world trade, including estimates of trade in services, and some analysis of recent data. UNCTAD provides a range of data on trade and on market access conditions, with a particular emphasis on special trading conditions for developing countries. It also has a website on trade, the environment and development. Its databases on trade and trade barriers provide tools to analyse markets, for policy makers and traders, and it is a major source of data and analysis on foreign investment and trans-national companies. The World Bank produces analytic summaries and its own analysis of the information, and develops tools of measurement and analysis. It provides databases on trade, tariffs data, other border and behind-the-border barriers to trade in goods, and regulatory barriers to services; studies of indicators on doing business and logistics performance; and models and tools to analyse the impact of tariff changes. The ITC provides market information and also helps countries to develop the capacity to set up their own market information systems. The information is intended for exporters and for national trade information institutions, and includes general surveys and specially designed studies. It provides databases of importers and of other trade promotion organisations. There are special schemes for SMEs.

The specialist agencies are active in their sectors. UNIDO offers a range of statistical analysis, including of trade and production by sector and country, and industrial development indicators. UNWTO provides data on tourism, including on its employment effects, and tools to analyse these. FAO provides market information systems, databases, and workshops to inform countries about commodity markets and trends in trade. It also provides production-related analyses, for example of value chains.

UNESCAP, UNECLAC and AfDB offer regular information on trade trends relevant for their regions; UNESCAP and UNECLAC have databases on trade and investment organisations in their regions and on-line information for exporters, including for UNECLAC one of trade disputes. IDB and ADB have databases on regional trade agreements in their regions.

A few bilateral donors are active. The most important examples are the countries offering specific information on imports into their own markets. The Netherlands import promotion agency (CBI) and the Swiss Import Promotion Programme (SIPPO) provide information, market research and training to meet markets for exporters, especially SMEs, trying to access the European market. Denmark also has an import programme, and Austria cites this as an example it may follow. Germany has projects for technology transfer to SMEs.

Australia, Belgium, and Italy have projects to train exporters of agricultural goods. The EC has a database of general market information. Belgium and the Netherlands offer more specifically targeted information: Belgium on agriculture for the Congo and textiles in Vietnam; and the Netherlands on sources of information on support for trade, investment, etc. Japan provides market support in some countries, and

Germany provides information for SMEs. The US supports a network for global agricultural information. Norway and Switzerland have programmes directed at “matchmaking” between their importers and exporters in developing countries.

There are some programmes to help countries build their statistical databases, including by Japan, Norway, New Zealand, and France. Some of this assistance is on a regional basis, for example Canadian assistance in building trade information networks in Africa.

As knowledge of their own markets is one of the clearest areas of advantage for donor countries, the small number offering direct assistance of this type is an important gap.

## **V Learning how to negotiate**

This should be a matter of capacity building (so analogous to section III on building institutions that give developing countries permanent capacity), but has too often been treated by donors as a matter of providing direct inputs (so more like section II: filling gaps in capacity by replacing or working alongside developing countries in negotiations). Some of the multilateral organisations provide capacity building in this area, although for a few this can slide into suggesting what to negotiate, as well as how to negotiate.

UNCTAD provides training at different levels for trade officials and also for academics and others who will in turn train and advise. It has a strong focus on current issues, and on providing early training for issues that are entering international negotiations (such as services and investment). The World Bank provides capacity building on specific topics in trade (institution building), but also itself conducts diagnostic studies of trade needs. With other agencies, it supports the EIF, which helps countries to identify their trade needs. UNDESA builds capacity for analysis of macroeconomic shocks.

The WTO has long experience in building the skills of trade negotiators in multilateral negotiations. It also provides technical assistance and training for government officials on WTO commitments and, in the context of the Trade Policy Review Mechanism, on using national institutions effectively in trade policy. It has a programme for increasing the capacity of developing country academic institutions to provide training. The ITC trains public sector and private sector decision-makers in trade policy and its implications for their other objectives. It emphasises building capacity on how to access a wide range of trade-related information and how to use it for policy decisions. UNIDO provides support to industry-related policy-makers and institutions to help define national quality policy to support exports and to build export capacity, and provides studies and data on trade and trade policy and on competitiveness. ILO helps on relating trade policy to employment creation and ‘decent work’, including support to regional organisations. WHO provides capacity building in analysing the relationships between trade and health objectives, ICAO on issues related to air transport, and UNWTO on planning tourism strategies.

The World Bank in the past specifically targeted negotiation assistance at the Doha Round; it has now added regional negotiations to its programmes, and the other agencies that offer assistance in negotiations all now include regional negotiations as



well as multilateral. They include UNCTAD, especially for LDCs, and UNDP, which has special programmes for Eastern Europe, Asia, Africa and the Arab states to strengthen trade policy formulation and analysis from a human development perspective.

In the regions, UNECLAC and IDB have programmes to provide information on multilateral and regional trade issues to trade officials and also to civil society. IDB also builds research and analytic capacity, and has programmes to support and train trade negotiators. The ADB and AfDB provide capacity building and research on trade policy questions, focusing on regional as well as country issues. UNESCAP has a range of regional networks and databases for research and dissemination of information about trade. UNECLAC offers policy implementation assistance, and UNECA provides institutional support to African countries in formulating trade policy, including to negotiators at the WTO, possibly moving from capacity building into policy making.

Many of the bilateral donors support multilateral programmes in this category: Australia, Austria, Canada, Denmark, the EC, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and the UK provide support to Doha and WTO-related programmes such as the Doha Development Agenda Trust Fund and to other organizations which support developing countries in trade. Some act in the area of improving the institutional competence of the trade policy organizations in recipient countries. The Netherlands and the UK build competence in trade and related ministries and also tries to strengthen civil society participation in trade policy. Australia, Belgium, the EC, Finland, France, Ireland, Norway, Portugal, Sweden, Switzerland, the UK and the US provide institutional support and training to developing country ministries on trade and trade-related industries, with Canada, Germany, Norway and the UK also supporting research capacity on trade policy.

Some bilateral donors support regional secretariats and negotiations, notably the EC, but also including Denmark for the EAC; Germany for the EAC and SADC; Norway for SADC; the UK for SADC, COMESA, ECOWAS, and the Caribbean; Australia for ASEAN and the Pacific; New Zealand for the Pacific; and Canada for CARICOM and some African regional organisations. Spain helped Latin American countries to analyse regional negotiations. In the Pacific, the EC, Australia and New Zealand, all of which are negotiating with it, support the Pacific Forum on trade policy.

A problem with all bilateral donors is that they have their own interests in what trade policies recipients follow, and they may, whether deliberately or not, mix advice with capacity building. This problem can apply even to institutional capacity building because, as illustrated above, this is often being done in the countries or regions with which they are negotiating. Even if the capacity building is separated from negotiations (for example, if it is done by a different department or agency), if the funding is simultaneous with the negotiations and if there are personnel from the donor country involved, it is difficult to avoid actual or perceived conflicts of interest. A much more serious problem is that the EC, in particular, has often intervened directly in 'supporting' African and Caribbean countries with which it is negotiating, through not only funding, but participating in preparations for the negotiations. The examples of support with a low vulnerability to conflict of interest are from the

multilateral agencies and from the regional, for example joint support by the Latin American agencies to their smaller members and research by the Asian agencies.

## **VI Deciding where and what to negotiate**

Following on from their needs for a good understanding of current trade rules (section II), the institutions and knowledge to deal with them (III and IV), and the skills to know how to negotiate changes in them (V), the next stage for developing countries is to know how to identify where to concentrate their efforts. They face:

- multilateral trade negotiations (Doha);
- a range of regional negotiations with other developing countries;
- negotiations (and pseudo-negotiations on preferences) with developed countries;
- identifying and, where necessary, trying to prevent potential effects from trade negotiations among their trading partners; and
- non-trade negotiations with potential effects on trade (notably in environmental areas).

*Negotiations supported: WTO, regional, environmental*

As noted in the last section, some multilateral organisations provide capacity building on international issues, including Doha, although some do this from a definite point of view on international issues. The World Bank and UNCTAD have frequently expressed their own views on appropriate trade policies for developing countries, while the specialised agencies clearly have an interest in their own areas. These views influence at least the type and sometimes the content of the support offered. UNCTAD offers advice and training to countries to assist them to reduce dependence on commodity exports and the risks from dependence. FAO and IFAD also take a particular interest in assisting on commodity policy. The IMF uses both its PRSP and its regular consultations with countries to assist them in formulating trade policies to promote poverty reduction, as well as providing special support to those faced with balance of payments shortfalls resulting from multilateral trade liberalization.

Some regional agencies go beyond assisting with regional arrangements to promoting them. UNECA and UNESCAP provide support for trade negotiations for regional arrangements in their respective regions. UNECLAC encourages programmes to improve border arrangements within the Latin American regions. It also supports links between Latin American and Asian regions. The African Development Bank provides capacity building and direct support to African regions. The Asian Development Bank gives policy support to the Asian regional groups and capacity building on regional negotiations. Regional integration is an objective of the IDB.

Among multilateral donors, the World Bank decision to support regions has included support for negotiations about new ones, including analysis of their potential effects. The support by the EU and its members for regional negotiations among developing countries is based on its commitment to the view that regions are in general a good strategy as well as on its clear advantage of experience of forming a region. Canada also lists regional integration as one of the areas which it supports. In addition to direct support for negotiators, some donors, notably the UK, have attempted not only

to develop capacity for trade analysis in non-governmental organisations, but to influence them on their conclusions.

In the negotiations of various developed-developing country agreements, there have been some attempts by the developed country to provide assistance for the developing countries involved, for example helping them to analyse options and effects, in order to encourage them to participate. Such assistance can clearly be useful for countries with limited resources and experience, but it risks sliding from analysis into advocacy.

In the case of the US agreements and the EU negotiations and agreements with advanced developing countries (for example South Africa, Mexico, Chile, the Caribbean countries, Korea and India), most of the potential opportunities and adjustment problems have probably been identified during the negotiations, whether by the countries themselves, by the developed country, or, in the case of US agreements with Western Hemisphere countries, under the IDB/ECLAC/OAS programmes of assistance on trade policy. In the EU EPA negotiations with other countries formerly under the Cotonou agreement, it is less certain that all needs were met. The agreements remained (and in some cases remain) controversial; until the last few months before the interim agreements were signed there was uncertainty over whether agreement would be reached. Therefore, there was much less possibility, and in some cases less capacity, to analyse what adjustments or new trade skills they would require before the agreements came into effect. This may also be true of some of the EU negotiations with the smaller Latin American regions.

For regions among developing countries, the various programmes to support them are not coordinated by any global mechanism. The four levels at which the WTO monitors Aid for Trade are global, by donor, by recipient country, and by effectiveness; there was before 2011 no attempt to collect information on needs or aid flows by regions or from the regional organisations. Therefore there are likely to be some gaps in coverage of actual or potential developing country regions.

There is some donor support for trade-related environmental negotiations, but this is at a more preliminary stage than trade negotiation support. New regulations as part of the global response to climate change could impose new requirements on standards and labelling (e.g. carbon labelling). There is the risk that countries will take unilateral action to restrict trade (e.g. border tax adjustments to complement national measures). Trade capacity building will need to respond by assisting countries probably first (in the current conditions of uncertainty on the extent and timing of changes) to diversify to reduce their vulnerability to these risks and then to find new areas of specialisation and to meet the new regulatory requirements for traded products. UNCTAD has added a programme on climate change to focus on the links of this to trade, investment, and development, and to support developing countries in taking advantage of the new opportunities created by climate change initiatives. It includes building developing country capacity to adopt consistent trade and environmental policies. It also provides support specifically to help countries meet environmental standards. From the environmental side, UNEP offers assistance on the relationship between environmental agreements and trade agreements, and has programmes to build capacity to understand the implications of trade for biodiversity and wildlife conservation. UNECLAC also provides support for analysis of the impact of climate change and new standards for trade. Among the bilateral donors,

Sweden cites trade and climate change as one of its priorities for aid for trade and Canada offers assistance both in meeting environmental standards and in adaptation.

Most other funds, including the growing number under the World Bank and those proposed by bilateral aid agencies (including EC, Finland, UK, Spain, Japan, Germany, Norway, Australia, and Germany) are targeted more directly at adaptation to environmental change rather than at the regulatory requirements of the Conventions, although some of these programmes are trade-related. For example, some technical assistance is targeted at increasing analytical capacity, which could have benefits for trade capacity as well, and the fund conditions often emphasise adoption of new technologies. There are obvious complementarities with productivity-increasing technical assistance for trade.

*Is the support to the right issues?*

There has to be doubt about some of the priorities implied by donor assistance. Although as indicated above, donors devote much effort to Doha, the small probability and small and uncertain effects of a Doha Round suggest that multilateral trade policy is unlikely to be a major part of most AfT recipients' trade strategies. This is not the place to review all the estimates of the effects of various combinations of outcomes in Doha on different classes of countries, but taken together they suggest that the countries most likely to have the smallest gains or, in some cases, actual losses, are countries which already have a high level of market access for goods in their major trading partners and in particular those with preferential access. Although strictly speaking welfare gains to countries from opening their own markets are not a Doha gain as countries have the option of unilateral liberalisation in the absence of any settlement, it can be noted that the exemption of LDCs from any requests for access on goods (and *de facto* on services) means that they will not have such gains.

While intra-regional trade may offer some advantages to Asian and Latin American countries, the markets are too small and too much in primary products to offer significant developmental advantages for African countries. An additional reason for caution in giving too much priority to assistance for regional negotiations is that such a priority does not always correspond to what countries want. Many existing regional organisations and negotiations stem from a regional process largely financed, at country and regional level, by donors. In its questionnaire to recipients of Aid for Trade for its 2009 report, the WTO asked countries to specify their three priorities from a list which included regional integration. In Africa and ASEAN, there was little interest, with only limited support in the Caribbean and the smaller Latin American regions; Mercosur countries, with their larger markets, were more interested.

There is one serious gap in support in spite of the fact that the principle that third countries can be affected by the trade policy changes of others was a driving force behind the WTO Aid for Trade initiative. There appear to be no initiatives specifically targeted at the potential adjustment problems for countries caused by FTAs among their trading partners or competitors or by preferences for them in spite of the large and growing number of trading arrangements among developing countries in all regions and between some developing countries and developed countries.

Such arrangements affect all those excluded from them as well as their members, especially if some of the members of new agreements previously had special trading arrangements with countries not included in the region. As well as the traditional economic effects (e.g. trade diversion), they increase the complexity of international flows and regulations facing every producer. The continuing changes in each country's net access to each of its trading partners through the interaction of its own and its competitors' trade agreements and preferences are perhaps less conspicuous than the one-off transformation expected in calculations of Doha Round effects. But they impose costs, create opportunities, and require countries to adjust to new trading patterns and new rules. They are probably harder to understand and model. Even more than a WTO agreement, they require the capacity to know and to understand multiple trading regimes. It is not clear whether either countries requesting trade assistance or the general providers of it are sufficiently alert to the problem.

### *Problems with trade policy support*

A more important reason for questioning support by donors, particularly bilateral donors, for specific trade initiatives by developing countries is not that they have chosen the wrong ones, but that they are not competent (in the legal sense, as well as in terms of the economic analysis behind the choices made) to make such choices for them. They are representatives of other members of the WTO or of countries actually or potentially negotiating with the developing country.

For a foreign government to attempt to influence a developing country government on which negotiations to prioritise or what to negotiate requires a high standard of care in ensuring that the policy is appropriate, is a priority, and is not in conflict with that government's other policies. This requires a deep knowledge of the country and its interests. It also implies that the donor believes that its status as a donor gives it legitimacy to influence recipient governments' policy processes equivalent to that of national interest groups. (In contrast, it is notable that many developed countries restrict foreign lobbying or contributions to national campaigns.) Building capacity in national interest groups, like building capacity in governments, is clearly useful, but also has risks if it moves into attempts to influence their conclusions. The close correlation between the countries being helped and those with which donors are negotiating suggests that these risks are not being avoided. Support through multilateral or regional agencies is one way of avoiding such problems.

## **VII Weaknesses in donor policy**

Identifying trade as an important and legitimate subject for aid and identifying aid as an important and legitimate subject for trade policy discussions were the two achievements of the WTO AfT initiative. But in spite of the increase in the number of donors offering AfT and in the quantity provided, there remain some clear gaps in provision.

On meeting rules and on building the institutional capacity to do so: there is too little assistance to understand and to meet donor countries' own trading rules, including preferences, FTAs (both those of which a developing country is itself a member and

those of which it is not), and standards. Few offer direct information on their own markets. There are relatively few projects in non-agricultural goods and in services.

On trade policy: there is adequate (probably excessive) support for preparing for multilateral negotiations. There is extensive, although potentially biased, support for developing countries or regions negotiating with a donor country. There is some support for some regions among developing countries, but no systematic review to ensure that this is adequate or that it covers all regions needing assistance. There is no support for developing countries to identify, adjust to, or negotiate on the impact on them of trading arrangements among other countries.

The entry of new donors, particularly new bilateral donors, has meant a greater role for the multilateral donors, as new donors and some existing donors for whom Aid for Trade capacity building is a new activity have tended to act through multilateral agencies. This has, however, applied to all types of assistance, and has not meant division of responsibilities, with multilateral donors taking over those activities where there is most risk of conflict of interest.

If bilateral aid agencies consider that policy is a legitimate area for them to influence, then they should apply this consistently. Direct intervention in the policy choices of small countries is likely to have small effects and is certain to raise serious problems of legitimacy; influencing their own countries' policies presents neither of these problems. The obvious and traditional recommendations, for example changing rules of origin on FTAs and preference areas, are an obvious possibility. Changes in world production conditions mean that even rules of origin which might have reflected 'normal' national value addition in the past continually become out of date; the existing rules were already too stringent, especially for the small countries which are most often targets for aid for trade. Greater scope for regional and trans-regional cumulation are other traditional recommendations. Two other areas for policy advice to donors' own governments would be to end the neglect of services in preferences, as well as in the aid initiatives discussed here, and to simplify and make more transparent their own standards.

Moving beyond the implementation of trade policies to the policies themselves would suggest scope for policy advice on tariffs, CAP reform, etc. Multilateral and regional agencies with developed country members could also focus their advice where changes will have the largest effects.