

An Evaluation of Trade Capacity Building Programs

USAID Support for WTO/FTA Accession and Implementation

PPC EVALUATION WORKING PAPER NO. 13



Bureau for Policy and Program Coordination
October 2004



PN-ACT-168

RELATED PUBLICATIONS

The analysis in this paper is based on the following documents:

An Evaluation of Trade Capacity Building: Overview
(PN-ACT-167)

USAID Behind-the-Border Trade Capacity Building
(PN-ACT-169)

Regional Trade Agreements: A Tool for Development ?
(PN-ACT-170)

Other relevant documents include

Building Trade Capacity in the Developing World
(PD-ABX-241)

U.S. Contributions to Trade Capacity Building: Improving Lives through Aid and Trade (PD-ABY-500)

An Evaluation of Trade Capacity Building Programs
*USAID Support for WTO/FTA
Accession and Implementation*

James W. Fox

The Louis Berger Group, Inc.

October 2004

According to the USAID database, USAID spent \$115 million between FY 1999 and FY 2001 on WTO accession, implementation of WTO commitments, and promotion of free trade agreements (FTAs) with the United States. This paper describes the major activities undertaken in this area of trade capacity building (TCB) and the results obtained, based on limited information available. The information was developed from four sources:

- a review of R4s from 23 missions having a strategic objective related to trade capacity building
- a workshop in Washington, D.C., with representatives of eight consulting firms active in providing TCB assistance to USAID
- interviews with USAID Washington staff responsible for TCB in the Bureau for Economic Growth, Agriculture, and Trade (EGAT) and in each of the regional bureaus
- email or telephone interviews with mission staff responsible for implementing TCB work in 16 missions

The information gathered from these efforts is necessarily tentative. Responses to emails or telephone interviews can only provide a very rudimentary insight into mission activities. This sketchiness is exacerbated by staff changes over time, so that current mission personnel may lack nuanced perspectives on the work by of predecessors. As noted in the overview report on the R4 reviews, (PN-ACT-167) mission reporting to USAID Washington often lacks strategic clarity or consistency.

The report is organized into six sections. There are three topical sections, addressing WTO accession, WTO implementation, and FTA preparation. The three sections that follow address different aspects of TCB modalities, or the organizational and strategic issues relating to how USAID work is carried out. These include the use

of consulting firms versus U.S. Government agencies, the adequacy of USAID Washington support for mission activities, and trade policy coherence within the U.S. Government.

WTO Accession

USAID Activities

Most of the 145 current WTO members joined the organization prior to 1998, the starting point for this review. In the documents reviewed, WTO accession was mentioned as an important USAID goal in three countries: Armenia, Jordan, and Kazakhstan.*

- In Armenia, a major effort was made during 1997–99 to carry out studies and public information activities to promote accession. Several million dollars in technical assistance were spent for this purpose. The government ultimately decided not to join, and the project was ended in 1999. The Armenian government finally joined the WTO in late 2002.
- WTO accession was not explicitly included as an objective in the large USAID program aimed at opening the Jordanian economy to world trade until 1999, when a change in regime produced a much more outward-oriented government. The Jordanian government joined the WTO in 2000.
- USAID Kazakhstan promoted WTO accession in the late 1990s, and efforts were made to convince the other Central Asian Republics to join. Kazakhstan chose to remain outside the WTO, though the Kyrgyz Republic joined in 1998.

Finding

The limited evidence from these cases suggests that the decision to join or remain outside the WTO is a political matter of high policy, and not

* As of January 2004, USAID is also facilitating the WTO accession process for Nepal, Bosnia, Georgia, Macedonia, and Albania.

particularly affected by technical analysis of the sort attempted in Armenia and Kazakhstan.

The 40 or so countries remaining outside the WTO include three groups: some former Soviet bloc countries (e.g., Russia, Moldova, four Central Asian countries, Vietnam, and several parts of the former Yugoslavia); most Arab countries in the Middle East (e.g., Algeria, Iran, Iraq, Saudi Arabia, and Yemen); and some microstates (e.g., Andorra, Bermuda, Bahamas, Cape Verde, and Vanuatu).

Most of these countries have been granted observer status, which requires them to join the WTO within five years. It seems likely that steady progress in the Doha round of trade negotiations will lead most to apply for full membership. If so, the reasons for doing so are likely to be political ones of high policy that are not much influenced by USAID arguments or assistance. Consequently, there seems little reason for USAID to commit resources to promote WTO membership for those countries that are not yet members. However, assistance to promote membership needs to be distinguished from technical assistance to help prepare for membership. For countries in this group that have decided to join the WTO, USAID should respond to requests for assistance in moving them toward membership.

WTO Implementation

USAID Activities

Many USAID missions have been working on WTO implementation, though it appears to represent a sideline activity for most. Missions frequently expressed some frustration at their lack of expertise in WTO implementation matters. Mission staff say they have upgraded their knowledge over the last several years, but many—perhaps most—missions still have little capacity to evaluate host government requests for technical assistance or the types of activities pressed on them from Washington agencies. Knowledge is rudimentary at the mission level of customs valuation obligations,

intellectual property rights questions, sanitary and phytosanitary issues, competition policies, and a host of other issues.

Finding

Missions would be in a much better position to make decisions about priorities with additional guidance from USAID Washington. This might take the form of categorizing the various WTO issues in relation to their likely importance to developing countries according to criteria such as size, level of development, potential for attracting foreign investment, and extent of foreign trade.

Preparation of a “cookbook” of WTO implementation menus according to a country’s conditions would be difficult. It could involve USAID in disputes with other U.S. Government agencies. The effort should help promote better prioritization of U.S. assistance for TCB (over the view that all countries should do “everything”).

Work on Free Trade Agreements

USAID Activities

FTAs are a growth industry. In Latin America, some missions have been working for several years on preparations for the Free Trade Area of the Americas (FTAA). More recently, U.S. policy has begun to pursue FTAs with individual countries or subregions. Jordan negotiated an FTA with the United States in 1999, which was ratified in 2001. An FTA was negotiated with Chile in late 2002. In recent months, with the approval by the U.S. Congress of trade promotion authority, the U.S. Government has begun to seek other such agreements. For 2003, the United States hopes to negotiate FTAs with Morocco, Singapore, the five countries of the South African Monetary Union (South Africa, Namibia, Swaziland, Botswana, and Lesotho), and the five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua).

Finding

Though USAID Washington has substantially upgraded its capacity to help missions work in this area, there is still much uncertainty and lack of information. There may be some tension between the U.S. desire to complete negotiations quickly and the developmental goal of assuring that agreements are seen as beneficial to the partner country so it can count on broad public support. For the latter purpose, technical studies and public debate are essential. Possible impacts on small enterprises and the rural sector are key concerns in some partner countries and an appropriate area for USAID analysis.

Two USAID missions expressed interest in the impact of the North American Free Trade Agreement (NAFTA) on Mexico in these areas. USAID Washington's dissemination of information on NAFTA's impact on agriculture, the rural poor, and small and medium enterprises would be a valuable addition to the information base of missions in countries seeking FTAs. The World Bank has carried out a number of studies in these areas that should be reviewed for relevance. If necessary, USAID Washington should commission additional studies.

Modalities: Consulting Firms vs. U.S. Government Agencies as Technical Assistance Providers

USAID Activities

USAID has used both consulting firms and other U.S. Government agencies to help provide technical assistance to governments in implementing WTO and FTAA commitments. In principle, each has advantages.

Consulting firms are directly accountable to their USAID employers for delivering the requested assistance in a timely and professional manner. If a provider fails to perform, another can be demand-

ed. Other U.S. Government agencies can provide the recipient government with contacts in the relevant agency—such as the U.S. Customs Service, the Animal and Plant Health Inspection Service (APHIS), and the Federal Trade Commission (FTC)—that can provide a means for permanent improvements in communication between the U.S. Government and its trading partners. This can bring two-way benefits: better understanding by U.S. Government agencies of the conditions in developing countries so that regulations can be better tailored to their realities, and better understanding by developing country officials that U.S. Government rulemaking is developed and implemented according to technical criteria, not arbitrary policy.

Finding

The limited evidence collected suggests that consulting firms and other U.S. agencies can play constructive roles, depending on circumstances. Consulting firms appear generally better on broad trade issues and more likely to identify with the development goals of the country being assisted. Consulting firms tend to be less reliable on specific technical issues—such as quarantine and fumigation procedures—for which the firm may not have the necessary specialized expertise. Other U.S. agencies are likely to be fully attuned to current technical issues relating to entry of products into the United States.

Consulting firms require capable oversight to assure that they are providing effective assistance. Consulting firms complained of cognizant technical officers (CTOs) with little understanding of technical issues holding them to the letter of the Request for Proposals (RFP) and not being willing to adapt to the evolving situation on the ground. The consulting firms consider the lack of USAID field staff with strong TCB grounding to be a major obstacle to effective provision of technical assistance. Weak oversight may also lead consulting firms to continue to implement activities that add little value because field staff contracted the firms to provide them.

In some cases, use of other U.S. agencies has established channels of communication among technical professionals that have been able to continue and deepen without the need for USAID oversight (or sometimes, without USAID funding.)

Modalities: Mission TCB Capabilities and USAID Washington Support

USAID Activities

Missions have substantially increased the attention given to TCB in the last several years. There is understanding that this is an important priority, but there are widespread complaints about lack of funding for mission-initiated activities. Missions also believe that they lack the technical expertise to choose appropriate types of activities.

Finding

Much of the WTO implementation agenda is highly specialized and requires specific knowledge. There was a general view that USAID Washington's capacity to support missions in this area has increased substantially during the last 1–2 years. Among Latin American missions, the 2002 workshop in Ecuador was frequently cited as very important in their understanding of trade issues and Washington perspectives and capabilities.

Despite the improvements in support, there is a sense that further increases in staffing and expertise in USAID Washington are needed.

Modalities: Intra-U.S. Government Cooperation on TCB

USAID Activities

U.S. trade policy is often seen as protectionist and contrary to the interests of developing countries attempting to gain market access. Some cynicism

about U.S. trade policy is legitimate, but the case is badly overdrawn. Overall, the United States has provided open markets for the exports of developing countries, and many developing countries have made enormous gains in productivity and incomes as a result.

The most interesting case in point has been the system of quotas on apparel under the name of the Multifiber Agreement (MFA). Regularly denounced by representatives of least developed countries (LDCs) as an obstacle to exports, the MFA actually benefited LDC exports. It shielded new entrants into the U.S. apparel market from competition from dominant countries—Hong Kong, Taiwan, Korea, and (more recently) China. All other countries could export to the U.S. market free from this competition until their exports reached significant levels. Most LDCs failed to export enough to even be eligible for the imposition of quotas. The smaller group of countries that faced quotas—such as Malaysia, Thailand, Indonesia, Mauritius, and nations in Central America—were able to avoid restrictions by moving into new categories or obtaining special access through the Caribbean Basin Initiative or the Africa Growth and Opportunity Act.

In sum, those countries that focused their rhetoric on the imperfections of U.S. trade policy failed to grasp the real opportunity that the U.S. market presented. They also failed to appreciate that the principal barriers to increased market access lie within the exporting country.

Finding

The above observations are preliminary to the assertion—defensible but not provable by quantitative methods—that current U.S. trade policy is as LDC-friendly as it has ever been. If this is the case, it is incumbent on USAID staff to seize the day and respond to the opportunity.

Two things are needed. First, USAID Washington needs to better inform field missions of the impor-

tance of understanding and working within the context of U.S. trade policy. This involves proactive identification of ways in which the USAID program can be more supportive of the U.S. trade agenda and leadership by USAID Washington at the policy level in stressing the importance of this area.

Second, USAID also is the only U.S. Government agency with the expertise on another U.S. Government priority: promotion of the development of poor countries. USAID has an obligation to educate other agencies on the development aspects of TCB. For example, USTR's near-term agenda is focused heavily on negotiating FTAs with developing countries. USAID's concern should be

to maximize the positive development impact of such agreements (and other trade policy actions) on the partner country. Supply response in the developing country to increased access to the U.S. market is a particularly key factor. The longer-term support for FTAs in developing countries will depend on such evidence of two-way benefits.

To minimize interagency conflict, USAID needs to think strategically about which parts of the trade agenda need to be adjusted to better coincide with development, choose its issues carefully, and seek to gradually increase the level of understanding of such issues in other agencies.

This Evaluation Working Paper can be ordered from USAID's Development Experience Clearinghouse (DEC). To download or order publications, go to www.dec.org and enter the document identification number in the search box. The DEC may also be contacted at 8403 Colesville Rd, Ste 210, Silver Spring, MD 20910; tel 301-562-0641; fax 301-588-7787; email docorder@dec.cdie.org.

Editorial, design, and production assistance was provided by IBI-International Business Initiatives, Arlington, VA, under contract no. HFM-C-00-01-00143-00. For more information, contact IBI's Publications and Graphics Support Project at 703-525-2277 or pgsp@ibi-usa.com.

For more information, contact
U.S. Agency for International Development
Washington, D.C. 20523-1000
Telephone: 202-712-4810
Internet: www.usaid.gov

PN-ACT-168