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**Sub-Committee on Least-Developed Countries**

## **REPORT ON THE SEMINAR BY THE INTEGRATED FRAMEWORK CORE AGENCIES**

The Policy Relevance of Mainstreaming Trade Into Country Development Strategies:  
Perspectives of Least-Developed Countries

WTO, Geneva, 29-30 January 2001

*Organized by the six core IF agencies: IMF, ITC, UNCTAD,  
UNDP, WORLD BANK and WTO*

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\* In English only.

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## I. BACKGROUND

1. At the 21<sup>st</sup> Meeting of the Inter Agency Working Group (IAWG),<sup>†</sup> senior officials of the core agencies,<sup>‡</sup> responsible for the implementation of the Integrated Framework for Trade-Related Technical Assistance for Least-Developed Countries (LDCs), agreed to co-host a joint seminar on "The Policy-Relevance of Mainstreaming Trade Into Country Development Strategies – The Perspective of LDCs". The seminar was organized and hosted by the World Trade Organization (WTO), 29-30 January 2001.

2. The seminar was part of the implementation process of the results of the agency review of the Integrated Framework, as mandated by Members.<sup>§</sup> At the meeting of Heads of IF Agencies and representatives, 6 July 2000, it was agreed that "mainstreaming" (or integrating) trade into country development plans and poverty reduction strategies was a vital component of the reform of the Integrated Framework.<sup>\*\*</sup> Following the process of the IF review, based on the report of independent World Bank consultants, and on consultations within the memberships/Boards of the six<sup>6</sup> agencies, one of the lessons that had been drawn from three years of IF implementation was that trade was a key component of development policy and, therefore, could not be viewed as "stand-alone". The results of the review had also made evident that the benefits of trade-related technical assistance could only be fully maximized within a coherent policy framework for development and poverty reduction. The benefits from the stand-alone delivery of trade-related technical assistance would either be minimal or unrealised. Of equal significance, as agreed by the agencies was that hosting the seminar, on an urgent basis, would be part of the broader preparatory process for the Third United Nations Conference on Least-Developed Countries (LDC-III). It was agreed that the seminar outcomes would serve as a "deliverable" (contribution) to the conference on LDCs.

3. The seminar brought together three distinct but related communities: the trade, development and finance communities. Approximately 200 participants participated in the seminar. Presentations and the discussions were organized in five panels, A, B, C, D, and E. The last panel, F, was a wrap-up session panel, in which Concluding Remarks were presented by Mr. Jonathan Fried, Senior Assistant Deputy Finance Minister, Canada, on his personal responsibility. The Seminar noted the Concluding Remarks and agreed that they be circulated.

4. Responding to requests by donor Members and LDCs, and in implementing the long-standing objective of enhancing dialogue amongst multilateral agencies, LDCs and donors, meetings were arranged on the margins of the seminar between LDCs and World Bank officials, led by Mr. Kernal Dervis, Vice-President for Poverty Reduction and Economic Management, and consultations also between participating World Bank staff and donor representatives.

5. Participating World Bank staff led by Vice-President Kemal Dervis and WTO Senior Management and participating WTO senior staff, led Mr. Andy Stoler, WTO Deputy Director-General, also met to exchange views on trade and development issues, including examining ways of strengthening the Integrated Framework and ensuring that trade priority areas of action were integral to development.

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<sup>†</sup> World Bank, Washington D.C., 14-15 September 2000.

<sup>‡</sup> International Monetary Fund, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme, the World Bank, and the World Trade Organization.

<sup>§</sup> WT/LDC/HL/1/Rev.1.

<sup>\*\*</sup> WT/LDC/SWG/IF/2: Joint Statement on the Mandated Review of the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF) by the Six Core Agencies (IMF, UNCTAD, UNDP, World Bank, and WTO).

6. Many participants at the seminar, in light of the value of the seminar in improving their understanding of the interaction between trade and development policy, considered that the seminar should be conducted regionally. Developing country participants were also in support of this view.

## II. EXECUTIVE SUMMARY

7. The seminar took place against the background that the greatest challenge facing the global economy today is to meet the internationally agreed goal of halving poverty by the year 2015. The overriding challenge is poverty alleviation. Most of the poor are in the LDCs. Assisting the integration of LDCs into the multilateral trading system and the global economy will contribute to the poverty reduction goal. Trade liberalization and reform are indispensable key elements contributing to the "integration objectives" of faster growth, increased earnings and reduced poverty. To this end, strengthening the multilateral trading system and ensuring that progress in liberalization and reform continues unabated is urgent.

8. However, frequently, trade priorities, including the implementation of WTO obligations and commitments, are neither integral to overall development plans, nor to strategies for poverty reduction, as expressed in the Poverty Reduction Strategies Papers (PRSPs). Furthermore, in many instances, core trade priorities are not taken into account by finance and planning ministries. Thus, although openness to trade is strongly associated with economic growth and poverty reduction, trade as a *growth strategy* is yet to be *mainstreamed* into development plans and poverty reduction strategies of many of the LDCs and developing countries as well. The principal objectives of the core agency seminar, therefore, were to:

- (a) review the concept, methods and process of mainstreaming trade priorities into overall development plans and poverty reduction strategies;
- (b) identify the core issues critical to mainstreaming, at both the domestic and global levels;
- (c) focus on some case studies with a view to identifying good practices of policy-relevance for mainstreaming trade into overall development plans and PRSPs;
- (d) consider the contributions of the IF trade-related technical assistance to the mainstreaming of trade priorities into development plans and PRSPs; and,
- (e) enhance coordination and improve the interface between multilateral and bilateral donors in the delivery of trade-related technical assistance to LDCs within the framework of development vehicles, in particular the Poverty Reduction Strategy Papers (PRSPs).

9. Lead presentations were made in five panels, on the basis of which selected panellists and seminar participants intervened in an exchange of views. A variety of views were expressed, enriched by focus on specific regional and country experiences (from Asia-Pacific, The Gambia, Malawi, Mauritania, and Zambia), in Panel C.

10. The full exchange of views, over the two days, on a broad range of issues, arising from "mainstreaming trade" and the delivery of trade-related technical assistance, made evident strong convergence on several key points, as follows:

- Trade liberalization and reform are necessary and vital for growth and development, but not sufficient. Mutually supportive companion policies are required, such as from stable macroeconomic policies, sound and pro-growth regulation and competition policy, investments in infrastructure, human resource development, governance issues and the rule of law. Much of the criticism of trade liberalization disregards the fact that several factors intervene in the relationship between trade liberalization and reform, on the one hand, and growth and development, on the

other. Greater efforts need to be made to ensure mutual interaction between trade liberalization and complementary policy areas;

- LDCs have undertaken autonomous liberalization measures. At the same time, the benefits of maintaining the pace of reforms as well as continuing with domestic reform priorities were underscored;
- The Integrated Framework (IF) is a valuable mechanism for coordinating the delivery of trade-related technical assistance to LDCs and for "mainstreaming" trade integration strategy chapters (i.e. trade priority areas of action) into development plans and PRSPs;
- The benefits from random and "stand-alone" trade-related technical assistance are limited, with little impact. Meaningful and long-term benefits from trade-related technical assistance are realized when delivered within a coherent policy framework;
- PRSPs are dynamic development vehicles in which LDCs' strategies for poverty reduction are to be pursued. To ensure a growth strategy, key to generating resources for poverty reduction, trade integration strategy chapters (or trade priority areas of action) should be integrated into PRSPs, on the basis of national choice and ownership;
- Bilateral and multilateral development partners urgently need to achieve coordination in the increasing proliferation of trade-related technical assistance projects and multiplicity of policy frameworks. The rapid evolution and multiplicity of donor/agency policy frameworks, programmes, and projects have led to puzzlement and frustration in the LDCs. The IF and the PRSPs offer development partners a unique opportunity for improved coordination;
- The Trade Policy Review Mechanism of the WTO should be enhanced so that it becomes a mechanism to further assist LDCs with trade-related human capacity-building in the course of trade policy reviews, and a mechanism also for assisting with implementing the "mainstreaming" of a trade integration strategy chapter into LDCs' development plans and poverty reduction strategies. It is suggested that the WTO trade policy review exercise could benefit from the active involvement of other multilateral economic institutions such as the IMF, UNCTAD, and the World Bank;
- The launch of a new Round of Trade Negotiations would act as an insurance against protectionism, for comprehensively addressing real and perceived systemic imbalances, for generating growth, necessary for proceeding rapidly with the agenda for poverty reduction and development. Implementation of existing agreements is important for the credibility and integrity of the system; and,
- The trade negotiating capacity of the LDCs should be strengthened to enable them to participate effectively in the multilateral trading system and the global economy. Developing and LDC participants accorded premium on the need for sequencing reforms: (to reduce the potential for disruptive efforts that tend to accompany reform efforts).

### III. MODERATORS' CONCLUDING REMARKS<sup>††</sup>

11. In Panel F, the Moderator, Mr. Jonathan Fried, Senior Assistant Deputy Finance Minister, Canada, provided Concluding Remarks, on his own personal responsibility. The seminar "took note" of the Concluding Remarks, as follows:

12. A sustainable development strategy requires, *inter alia*, approaches that are pro-poor and pro-growth to achieve the globally agreed poverty reduction targets for 2015:

- pro-growth, because private savings and investment generate wealth necessary to fund public goods and investment in social infrastructure; and
- pro-poor, because developing appropriate macroeconomic, fiscal and regulatory frameworks necessarily entails adjustment to a globalized economy which in turn requires investment in health, education and social infrastructure. This is required to look after the most vulnerable and to ensure equitable income distribution.

13. Improving the ability of LDCs to take advantage of the benefits that liberalized trade can provide is, in most countries, subject to the empirical evidence, a key element supporting the creation of a pro-growth environment.

14. Trade should properly be "mainstreamed" into national development plans, i.e. trade should be integrated into development strategies, while recognizing the efforts already made by many LDCs to lower trade barriers autonomously, acknowledging discussions at the WTO on mainstreaming trade into development and noting the prospects for improving market access in all countries through the early launch of new trade negotiations.

15. Mainstreaming trade must be seen as but one part of a pro-growth development strategy, supporting a stable macro-economic and fiscal policy framework and pro-competitive regulatory policies and rule of law through enforcement of contracts.

16. Sequencing is key. Trade benefits will not likely flow to LDCs unless trade liberalization is synchronised with the development of a sound economic framework at home and alongside appropriate social infrastructure.

17. Country ownership is essential. This requires effective coordination across ministries in government, and partnership between the government and private sector participants in the economy, as well as partnership between the recipient government and donor agencies.

18. Donor coordination among bilateral donors, within and between multilateral and regional agencies and even at the country level "on the ground" is lacking and in need of improvement. There are too many reports and frameworks and there is too little coordination.

19. The general mood of the seminar was supportive of the IF as a promising platform that, if implemented well as a shared responsibility among donors, recipients and multilateral agencies alike, can promote mainstreaming of trade and improved donor coordination within a country-owned Poverty Reduction Strategy Paper (PRSP) framework through the country assistance strategy (CAS)

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<sup>††</sup> Electronic and hardcopy transcripts of the entire seminar are available to Members and observers on request.

process. It might also provide a model for cost-saving in delivery of trade related technical assistance and capacity-building through improved coordination.

20. Funding of a trust fund to permit an improved IF process to be tested on a pilot project basis was broadly supported.

21. As with any well-administered program, ongoing evaluation is key. The case studies on trade-related technical assistance in Asia-Pacific and Sub-Saharan African countries provide important lessons for future programs, including regarding the autonomous liberalization undertaken and proposed by both developed and developing countries.

22. The Trade Policy Review (TPR) process could be enhanced to provide better guidance to LDCs on trade rules and liberalization within the broader context of national development plans. World Bank, IMF and bilateral country directors could be invited to participate in the TPRs.

23. Improved statistics would be of immeasurable assistance to donors.

24. The results of this seminar as well as its papers and presentations should be forwarded to those responsible for preparations for the Third UN Conference on Least-Developed Countries (LDC-III), the UN Conference on Financing for Development, and bilateral, regional and multilateral donor agencies.

25. To conclude the seminar, following the proposal by Minister Fried, participants agreed to request the Director-General to circulate the outcome of the seminar to:

- the Okinawa Workshop on Trade-Related Capacity-Building, 2-4 March 2001;
- Third United Nations Conference for Least-Developed Countries, Brussels, 14-20 May 2001;
- the Meeting on Financing for Development (FFD); and to,
- other multilateral and regional institutions and bodies.



#### IV. OPENING SESSION<sup>††</sup>

26. The Seminar was opened by Mr. Mike Moore, Director-General, WTO, and then moderated by Mr. Andy Stoler, Deputy Director-General. The five key speakers highlighted several issues taken, in the course of the seminar.

##### **Mike Moore, Director-General**

- The Integrated Framework, the first-ever attempt at institutionalizing inter-agency cooperation, is a test of the institutions themselves. All the agencies are firmly committed to the success of the Integrated Framework;
- There is a desperate urgency to ensure that trade priority areas of action are integrated into overall national development plans and strategies for poverty reduction. Trade liberalization and reform are indispensable for growth and poverty reduction, but they will be neither sufficient nor enough. Mutually complementary policies are required;
- Mainstreaming trade is the single most important element of the new IF, and the best vehicle for the mainstreaming process is the development vehicle of the PRSPs, developed by the World Bank and the IMF;
- There is a need to build a bridge that connects the trade, finance and development communities in order to ensure comprehensive strategies required for development and poverty alleviation;
- There is urgent necessity for a wider set of negotiations – a new Trade Round. Progress has been made, but imbalances, both real and perceived, remain. Much more rapid progress is required; and,
- There have been significant improvements in market access opportunities for the LDCs. The improvements follow on the consultations that the WTO initiated, Post-Seattle. Twenty-seven Members have taken or proposed further measures to improve market access for the LDCs. These include, *inter alia*, Canada, New Zealand, Norway, European Commission, Japan and the United States.

##### **H.E. Mr. MD Abdul Jalil, Minister of Commerce, Bangladesh, (LDCs' Coordinator)**

- The participation of the six core agencies in the Integrated Framework reflects their commitment to the cause of the LDCs. The organization of this seminar by the WTO and the presence of Mr. Mike Moore, symbolises the commitment of the WTO and the personal commitment of the Director-General to the cause of the LDCs;
- There must be coherence in the activities of multilateral agencies with respect to any LDC. The Integrated Framework, incorporating the programmes of the six organizations, is a good way forward;
- Improving market access opportunities for LDCs and, in particular, obtaining duty-free, quota-free market access will be an important step in the integration of LDCs into the trading system;

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<sup>††</sup> The full text of the Opening Statements are contained in Annex II of this document.

- The fundamental issue for LDCs is to eliminate poverty, hunger, deprivation, malnutrition and disease. In some cases, LDCs face new challenges, such as with HIV/AIDs that were unknown until recently. LDCs face growing marginalization;
- The social costs of globalization cannot be ignored. LDCs will take risks, but risks will depend on the compact that they are able to build with their development partners. LDCs will open up their markets and remove barriers, but are the developed countries ready to reciprocate;
- International finance has a leading and strong role to play in LDCs. LDCs need to access finance available in developed country markets. LDCs require assistance to bridge the "digital divide";
- Export-led growth and industrialization are important in order to achieve economic development. The days of self-sufficiency and import substitution strategies are over;
- The power of multinational companies has grown. The role of governments must be reviewed in the changing scenario. The right environment must be provided so that the private sector can flourish. State-owned enterprises should be privatized;
- ODA trends do not show significant increases. LDCs need to rely more on private sources of capital. LDCs and development partners need to work together to encourage private sector firms to invest in LDCs; and,
- The current HIPC programmes have not been able to assist a substantial number of LDCs. Not much progress will be made in LDCs, unless the debt burden is relieved.

**H.E. Mr. Jonathan Fried, Senior Assistant Deputy Finance Minister, Canada**

- All countries share the goal of fostering economic growth in a manner consistent with sustainable development. This goal is critical for LDCs, many of whom have not participated in nor benefitted from the expansion of the world economy and trading system in the last few decades;
- Poverty reduction is not simply a matter of re-distributing income and wealth. Economic growth is required to generate additional income and wealth to re-distribute. No amount of HIPC debt reduction or ODA can guarantee that the internationally agreed goal of halving poverty by 2015 can be attained;
- Development policies need to recognize that private sector-led investment must be the engine for growth to meet LDCs' needs;
- Developing countries must focus on strengthening institutions, if development policies are to successfully stimulate the private sector;
- Savings and investment will flow to countries where good economic governance prevails. Businesses prosper in a conducive regulatory environment, characterized by sound macroeconomic fundamentals, mutually agreed bargains between investors and government, transparency, predictability and fairness. It also includes governance based on the principles of inclusion, the rule of law, and respect for contracts. Good economic governance is vital for development and growth and, thus, for poverty reduction;
- Emphasis by donors, such as the Canadian International Development Agency, on development spending, is shifting towards effective integration and coordination of a range of development

activities, including capacity-building projects. This can catalyse human resource development and good economic governance;

- Domestic savings and investments (two key elements of private sector activity) are essential elements of development strategy. Promoting trade is the third essential element for economic growth. There is no evidence of any country that has been successful in achieving sustainable growth without meaningful participation in the international trading system;
- Increased integration of the developing world into the global trading system is the key goal and a critical component in the launch of a new round of multilateral trade negotiations. The early launch of the new round is the key to the development prospects of developing countries in general and the LDCs in particular;
- Mainstreaming trade encompasses building the necessary institutional capacity in developing countries to permit traders to participate in the international trading system. It does not simply mean teaching people how to read WTO Agreements – which is only a small part of the story. Mainstreaming trade, ultimately, means giving greater visibility to linkages between trade and other related economic policy areas. Mainstreaming trade means investing in an environment that will assist in achieving sustainable long-term economic growth. It will require changes in the trade regime, the financial and commercial institutional infrastructure, and in such areas as accounting, corporate governance, supervision of financial institutions, etc. Mainstreaming trade, for instance, means providing capacity to ensure that goods meet internationally agreed standards for safety, and to show that agricultural products come from a pest or disease free area;
- Mainstreaming trade requires collective responsibility and *all stakeholders* to increase emphasis on trade-related technical assistance and capacity-building in on-going programmes:
  - the IMF needs to consider the impact of government revenues of potential and required changes in trade policy and pay attention to devising methods to compensate for any losses in tariff revenue that may occur from trade liberalization;
  - the ITC should continue to pursue trade enhancement activities, in particular in supply-side development and promoting private sector readiness for export;
  - UNCTAD and UNDP should provide assistance in managing domestic adjustments to a more open trade environment;
  - the World Bank should be more pro-active in engaging with national trade policy makers to determine the nature and extent of trade-related technical assistance and capacity-building needed in a country;
  - The WTO could lever existing mechanism to achieve desired results, for instance, through the use of trade policy reviews to help build capacity in LDCs, and to understand their rights and obligations as Members;
  - Trade Ministers need to become more involved with Finance Ministers, in national debates, on the elaboration of poverty reduction strategies; and,
- Donor countries need to re-examine development assistance priorities to ensure coherent messages across different development assistance mechanisms and institutions;

- The Integrated Framework was initially conceived as an instrument for coordination amongst agencies. The IF can help in integrating country defined and owned trade-related technical assistance and capacity-building within a broad development and planning framework. The main development vehicle is the Poverty Reduction Strategy Process. If successfully re-mounted, the IF, which currently focuses on the needs of LDCs, can serve as an example for low and middle income developing countries, on how to best integrate trade as a central component for comprehensive development, and for achieving growth;
- It is important that trade policy issues figure centrally in the formulation and implementation of poverty reduction strategies and country assistance strategies;
- Country ownership of policies is vital, if they are to be effective;
- Countries may focus on regional integration as a means of increasing trade and promoting economic growth, as long as it is consistent with the principles of the WTO.

**Honourable Kweronda Ruhemba, Minister for Economic Monitoring, Office of the President, Uganda**

- LDCs face several challenges such as supply-side constraints and low productivity levels, which make it difficult to take advantage of open markets. Other challenges include lack of investment funds, and a political and economic environment that is not conducive to the attraction of foreign investment;
- LDCs need to act aggressively to add value to primary products;
- A more coordinated approach to international development, finance and trade policies is a means towards breaking the vicious circle of low investment, low growth, low share of global trade, and increasing debt, all of which frustrate the goal of poverty eradication;
- There is a need to mainstream trade policy, programmes and projects into the overall policy framework for development and poverty eradication;
- Multilateral agencies, bilateral donors and national authorities need to come together to initiate sector-wide working groups in relation to trade policies. This would be one way of finding a solution to agency cultures in which each one of them would like to pursue its own agenda;
- There is a need to integrate trade into country assistance strategies;
- There is a need to recognize that the policies that LDCs have pursued, based on their static comparative advantage of abundant natural resources and unskilled labour, have not succeeded. There has been a loss of market share, not only because of inefficient agricultural practices, weak marketing, poor infrastructure and civil conflicts, but also because of increased competition from new commodity producers. Urgent action is required to move into higher value-added resource-based industries with more buoyant market prospects;
- There is a major problem with resource waste and confusion in the policy-making process as the result of uncoordinated technical assistance initiatives, which lead to duplication of efforts, in those areas that are fashionable with donors, and neglect, in those areas that are not. The solution to this problem is a joint programming donor-recipient programming exercise that seeks to optimise return from the scarce technical assistance resource available;

- Technical assistance programmes are still too supply-driven, reflecting the donor interest, rather than demand-driven, responding to national concerns;
- To enhance programme implementation in capacity-building, it is imperative that partners reach agreement on shared objectives and commit themselves to the major policy and resource actions, essential to achieving shared objectives;
- Debt relief is not the long-term solution to poverty. The long-term solution is to seek means whereby export growth can generate sustainable livelihood options for many of the poor, by the development of traditional and non-traditional exports. This requires ensuring market access for LDCs' exports;
- It is an irony that developing countries who promote the virtue and possibilities of export led growth find that when they begin to succeed, the protection lobby in the developed countries succeeds in raising barriers impeding access to developed country markets;
- LDCs need to enhance their capacity to coordinate similar to the necessity for agencies to coordinate. In the global economy, individual LDCs find themselves marginalized. LDCs' individual economies are too small to carry much weight at the international negotiating table. It is only by identifying common interests, understanding each others' problems and experiences and acting together that they can hope to be heard;

#### **H.E. Dr. Nkosana Moyo, Minister of Industry and International Trade of Zimbabwe**

- There is an inherent contradiction in seeking to discuss development, on the one hand, and poverty reduction, on the other. Developing countries have to focus on development before poverty alleviation, because wealth has to be created before it can be distributed;
- A country that seeks integration into the global economy has to be able to identify trading opportunities and take advantage of them. It would also need to fulfill its multilateral trade obligations as well, formulate and pursue development strategies within the framework of these obligations and opportunities, defend its acquired trade rights and privileges, set trade objectives and effectively pursue them in any negotiations;
- Economic growth, while essential, is not always sufficient for sustained poverty reduction. Furthermore, trade liberalisation, defined in terms of the reduction of border protection, cannot alone guarantee economic growth;
- Trade expansion strategies should encompass a broader set of country-level initiatives within the context of an appropriate macroeconomic environment, and a comprehensive approach to overall development goals and poverty reduction strategies;
- Supply-side difficulties should be addressed through investments in necessary infrastructure and human capital development, as well as institutional, and the creation of a conducive legal environment to increase investor confidence;
- Trade policy should be consistent with other complementary policy areas such as foreign investment, competition, environmental protection and labour practices;
- Sequencing is important in the implementation of policy reforms;

- Developing countries require support and assistance from donors and multilateral agencies, in the form of direct investments, technical assistance, support for regional integration and access to markets. Support will also involve trade facilitation and debt relief;
- There are important linkages that need to be borne in mind. For instance, improved market access without trade-related technical assistance and capacity-building to improve supply-side responses will have little effect;
- Technology transfer issues need to be addressed. It is imperative for developed countries to improve access for developing countries through, *inter alia*, acquisition on a non-profit, non-commercial basis, and providing incentives for technology transfer;
- Developing countries in general, and Africa in particular, must generate growth in order to achieve the internationally agreed target of halving poverty by the year 2015;
- It is critical that domestic policies in developing countries must be mutually supportive. Policy coherence is an imperative;

**HE. Mr. Koichi Haraguchi, Ambassador/Permanent Representative of Japan, Geneva.**

- Trade is a powerful engine for economic development. Many countries, including post-war Japan, have achieved rapid economic development through trade expansion with other countries;
- Increased exports generate more income, but is necessary to improve market access in order to do so. LDCs cannot expand trade, no matter how hard LDCs try, unless there is improved market access;
- International trade rules need to be strengthened because without them, international trade can still be subjected to abusive management by economically strong countries;
- There still remains much room for further improving market access and strengthening rules. This is why some countries, including Japan, have stressed the need to launch a new round of multilateral trade negotiations at the earliest opportunity;
- Special considerations are needed for some developing countries to assist them with implementing WTO rules and taking advantage of the open, rules-based system. Japan, for instance, is preparing necessary legislative measures for establishing special preferential treatment for LDC products;
- It is crucial to find appropriate solutions on as many implementation issues as possible, by special measures. A basic approach is to promote trade-related capacity-building in developing countries;
- Trade-related capacity-building in developing countries should be promoted to enable them to exploit improved market access opportunities, to become more credible partners, and thus more active beneficiaries of the rules-based trading system;
- Japan attaches importance to building trade-related capacity in developing countries for trade rules compliance and trade competitiveness capacities. International cooperation for assistance to developing countries falls into two categories: trade rules capacity to improve knowledge and implementation of the rules; and, trade-related capacity-building to enable the use of improved market access on a competitive basis.

- Mainstreaming trade into country development strategies requires more qualitative and quantitative efforts. To this end, more coordination is needed amongst donors and agencies;
- Japan supports the efforts to re-vamp the Integrated Framework and make it workable. An important objective is to improve coordination amongst the aid and trade communities. The Integrated Framework is important in this respect because it could be effective in bringing the different communities together and promoting dialogue amongst them;
- In addition to the Integrated Framework and to implement trade-related capacity-building efforts more effectively, it is necessary to promote country-by-country approaches, to reflect more specifically individual country needs, as well as promote also the agreement-by-agreement approach; Japan has been exploring these approaches based on the proposal by the European Commission. These approaches need to be flexibly employed so as to promote capacity-building most effectively.

## **V. PANEL PROCEEDINGS**

### **1. PANEL A: TRADE, MACROECONOMIC AND REGULATORY POLICIES**

27. Panel A focused on the economics of trade policy, trade reform and liberalization, as part of a wider package of domestic economic reform. The starting-point of the panel was that trade reform and liberalization were necessary components of comprehensive policies for poverty alleviation and development. Trade liberalization while vital to development, does not stand-alone. Companion policies are also required, as part of a wider package of economic reform, without which the dividends from an open, multilateral trading system are minimal, and integration into the global economy will be retarded. The panel examined essential and required companion policies that constituted part of the wider package of economic reforms, and which intervened in the complex relationship between trade liberalisation, poverty alleviation and development.

28. Two lead presentation to establish the basis for the discussions were made by:

- (i) Mr. Richard Eglin, Director, Trade and Finance Division of the World Trade Organisation; and,
- (ii) Professor Frédéric Jenny, Chairman of the WTO Working Group on the Relationship between Trade and Competition Policy.

29. Following the lead presentations, five (5) panellists intervened. The panellists were:

- (i) H.E. Mr. Srinivasan Narayanan, Ambassador/Permanent Representative of India to the WTO, Geneva;
- (ii) Mr. Philippe Brussick, Chief, Competition, Law and Policy and Consumer Protection Section, UNCTAD;
- (iii) Mr. Clem Boonekamp, Director, Trade Policies Review Division, WTO;
- (iv) Mrs. Anh-Nga Tran-Nguyen, Head, Investment Issues Analysis Branch, Division on Investment, Technology and Enterprises Development; and,
- (v) Mr. Grant Taplin, Director, IMF Office, Geneva.

### **Key Issues**

- Although there have been some gains, LDCs are not benefitting as much as had been hoped for from the expansion of international trade and from the functioning of the multilateral trading system and the global economy;
- The challenges facing LDCs are of such magnitude that the WTO alone cannot address it. The extent of the challenges exceeds the core responsibilities, expertise and resources of the WTO;
- Trade liberalisation (or market openness) and reform are vital and necessary. They enlarge the potential market of countries, allowing them to benefit from scale economies, and technology transfers, through capital goods and knowledge. However, trade liberalisation and reform are not sufficient. They will not solve all problems of development. They require complementary and mutually supportive policies on a much broader platform of economic reform, including



macroeconomic, regulatory and structural reforms. Investments in health and education are critical;

- Trade liberalisation in an unstable macroeconomic context is self-defeating. There are several areas of weaknesses in LDCs. These include exchange rate instability and exchange rate overvaluation. Overvalued (appreciated) exchange rates and high real exchange rate volatility have been associated with a muted response to trade liberalisation and other reform measures in LDCs;
- There are strong linkages between trade liberalisation and domestic reform. Consequently, a domestic programme of economic reform is needed to underpin trade liberalisation. Trade openness creates efficiencies and, therefore, incentives (and pressures) for policy makers to pursue virtuous policies ("either because they face the threat of capital flight or because they have found themselves in international agreements, implicit or explicit that provide a check on their policy");
- A viable banking system is a key companion policy to facilitate the processing of export receipts, import payments and provision of credit;
- An efficient tax system is critical. Such a system should ensure equity and effective coverage, and shift taxation away from international trade flows to consumption and value-added.
- Regulatory reform is necessary to allow trade liberalisation to be translated into trade openness;
- Competition policy is equally necessary in all countries, including developing and least-developed countries. It will prevent firms from erecting private barriers where governments have sought to eliminate barriers, and to ensure that the benefits of freer trade are not "captured" by few monopolists or firms;
- Although necessary, no one size fits all. Flexibility in competition policy is useful to ensure that it is consistent with the general environment in which it is to be implemented;
- Institutional weaknesses pose significant challenges for LDCs. Such institutional weaknesses lead to an effective tax on exports and discourage investment in the export sector. For instance, there is a virtual absence of effective duty drawback schemes in LDCs, which is coupled to very high tariffs on imported intermediate and capital goods. LDCs' exporters, therefore, pay an inflated price for imports on capital goods, and are not able to drawback the taxes which they pay on the imported products when they export. All countries use this and it is perfectly WTO consistent;
- One clear lesson is that a comprehensive approach is required towards trade and development. Under the GATT, the attempt was to "force" development into the multilateral trading system, through the Special and Differential Treatment provisions. However, now the challenge is to "mainstream" trade and the trading system into the development process;
- Mainstreaming needs a policy framework. Trade reform has to be mainstreamed into an overall development policy. The mainstreaming process involves several interrelated approaches. For instance, it needs that two distinct cultures are reconciled namely, trade culture (which is legalistic and highly centralised) and development culture (which is decentralised, demand driven, and based on a country-owned process);

- There is a good case for a new Round of Multilateral Trade Negotiations. The next Trade Round must take account of the circumstances and the development priorities of LDCs and address issues of importance to them, including, but not limited to, the timing and sequencing of trade reforms, complementarity with other policy and regulatory reforms, and support implementation through enhanced trade policy surveillance;
- According to one view a new Round will not solve all the problems of developing and least developed countries, and that there was no certainty in predicting the results that would emerge from a new trade round. According to another view, the failure to launch a new trade round would be worse, with only little further improvements in LDCs' preferential market access. The reality of the trading system is that it works better in a negotiating mode, with time limits, rather than in the "business-as-usual mode";
- Enhanced trade policy surveillance trade-related support and capacity-building will support implementation more effectively than is presently the case in committee oriented WTO work. The Trade Policy Review Mechanism can be used to assist countries to better understand their obligations, and also to assist with the process of mainstreaming trade into development plans and poverty reduction strategies. The relevance of trade policy reviews could be improved with the increased frequency;
- The historical evidence unambiguously shows that countries that pursue open trade policies, with sound macroeconomic policies and structural reforms, to make them more competitive do better. A significant part of the solutions lies in the LDCs themselves.
- LDCs have taken significant steps in autonomous liberalisation, particularly in the '90s. They have reduced average tariffs from 45% in the late '80s to approximately 20% currently. There is scope for improvement. Simpler and more transparent border measures are better. For instance, uniform tariffs are better than a "staggered" system of tariffs by sector or by product; and,
- Countries should work to improve market access opportunities for LDCs. In this regard, significant and concrete improvements have been made particularly with regard to improvements in preferential market access. However, further significant improvements, across the board (i.e. beyond the areas of LDCs traditional exports), will be achieved within the framework of a new Round of multilateral trade negotiations.

## **2. PANEL B: MAINSTREAMING: CONCEPTS, APPROACHES, IMPLEMENTATION AND FUNDING**

30. This panel focused on clarifying the concept and value of mainstreaming and setting-out the mechanics of how a trade agenda and trade priority areas of action are actually integrated into development plans and poverty reduction strategies. The question of how mainstream is undertaken was addressed. The different approaches and options to mainstreaming were discussed. How do key economic domestic ministries and departments coordinate and seek an integrated approach that includes complementary market reforms, supporting policies and institutions? Who arbitrates domestic discussions to establish a national economic consensus that is integrated and balanced, and to which trade priority areas of action are integral? What are the main approaches, and which are the best practices? Is external policy support (intervention) by multilateral Agencies necessary to achieve the mainstreaming of a trade integration agenda, as a vital public good, into development plans and poverty reduction strategies? Is there a cost to mainstreaming, how is the cost calculated, and who pays for costs of mainstreaming?

31. Lead Presentations were made by;

- (i) Mr. Ataman Aksoy, Economic Advisor, Economic Policy, Development Prospects Group, World Bank; and,
- (ii) Mr. Graham Chipande, Senior Economist, UNDP, the Gambia.

32. Following the lead presentations, three panellists intervened:

- (i) Mr. John Cuddy, Director, International Trade Division, UNCTAD
- (ii) Mr. Grant Taplin, Director, IMF Office, Geneva, and,
- (iii) Mr. Ignacio Garcio Bercero, Trade Division, European Commission.

### **Key Issues**

- Mainstreaming trade into overall national development plans and poverty reduction strategies has arisen as an issue of urgent necessity because, although trade liberalization and reform are necessary for generating resources and growth for poverty reduction, they may not work unless they receive support from complementary policy areas (macroeconomic, regulatory and structural policies);
- An integrated reform package is essential because there are strong linkages amongst policy areas. For instance, inappropriate fiscal, monetary and exchange rate policies will adversely impact on trade development. Although trade generates growth for poverty reduction and development, sound macroeconomic policies provide the foundation for all reforms;
- Trade liberalization and reform do not work in isolation. Mainstreaming is important for several reasons because, for instance, it is not Trade Ministries that have the budget for development cooperation, but Development Ministries and multilateral organizations;
- LDCs and developing countries require a positive strategy for trade integration to fully benefit from the multilateral trading system;

- There are several *core issues* in mainstreaming. These include *sequencing* of reforms and national *policy trade-offs* (such as between tariff reductions and ability to provide exporters with duty drawbacks because of immediate revenue considerations). Furthermore, there is also the issue of the *choice* confronting LDCs in determining priorities of companion policies, as well as the important issue of *country specificity*: the same approach may not be applicable to all LDCs. *Ownership and domestic coordination* amongst key national economic ministries is also an important issue. Coordination is entailed in the relationship between development partners (donors and agencies) and beneficiary LDCs, and could be given effect through joint programming and joint appraisals. Finally, financing is critical in mainstreaming efforts, in the absence of which efforts to mainstream dissipate;
- Mainstreaming trade has to be implemented systemically. Long-term horizons are needed and there will be no quick fixes. Although trade is necessary in generating sustainable resources for growth and poverty reduction, LDCs also have many other competing priorities, and sometimes would like to focus on direct interventions for poverty reduction in such areas as education, the social safety net, health issues, etc. At the same time, it is clear that trade generates resources, which are necessary for growth, and which, mediated by correct policies, alleviate poverty and facilitate development;
- Mainstreaming trade is also not simply about the use of consultants to write reports (trade integration studies). It involves much more, which is essentially ownership by the LDC, in order to ensure that trade priority areas of action are systemically integrated into national development plans and strategies for poverty reduction;
- The IF is a vital mechanism for assisting LDCs with mainstreaming trade priority areas of action into national development plans, as has been the case in The Gambia, where trade accounts for 75% of the GDP. An one of the several advantages of the IF is its value as a mechanism for systematic and focused intervention by the six core agencies, in the LDCs, to assist them with trade integration;
- Development partners (donors, LDCs and multilateral agencies) should guard against the proliferation of strategy papers, policy frameworks, programmes and projects with technical assistance. Improved coordination is required;
- The regional setting is important as a medium for mainstreaming trade and seeking to expand the market access opportunities for LDCs;
- To secure the gains from mainstreaming trade, LDCs require access to the markets of developed and high income developing countries;
- Although there is more work to be done, LDCs' trade regimes were significantly liberalized in developing countries and LDCs in the 1980s and 1990s, through tariff reduction and reduction also in non-tariff measures. This resulted in accelerated growth in developing and least-developed countries in the period;
- Although there are LDCs that still have distorted trade regimes, such distorted trade regimes are not the most severe challenges that LDCs face in seeking to achieve growth and integration. The most severe constraints that LDCs now face, and have to overcome, lie at the policy and institutional level in order to enhance supply and ensure appropriate supply responses;
- Market access has become far more important for LDCs today than they were a decade ago, because with autonomous liberalization by LDCs, they are no longer taxing their exports as they

did a decade ago. Demand constraints from developed and high income developing countries are far more significant than they were 10 to 15 years ago;

- LDCs' reform will continue, including enhancing supply responses. However, LDCs' efforts need to be matched by improved market access for LDCs' exports, particularly in the agricultural sector.

### **3. PANEL C: DOMESTIC CONSTITUENCY FOR MAINSTREAMING: EXCHANGE AND REVIEW OF COUNTRY EXPERIENCES.**

33. This panel addressed specific country experiences. A major challenge in the implementation of policy, particularly for public goods, is how to build a viable domestic constituency, necessary for advocacy and policy sustainability. Public goods involve adjustment costs, and the benefits while certain and meaningful, may not be immediate, but medium to long-term. Furthermore, there are competing national economic choices, involving decisions on national expenditure, from the immediate and urgent to avert disasters, to the medium and long-term for sustained growth and development.

34. The panel focussed on building domestic constituency for mainstreaming and ensuring that a trade integration agenda was part of development plans and poverty reduction strategies. Several developing countries, particularly in Asia, have been successful in establishing trade priority areas of action as part of national development plans. The presentation and the contributions by panellists focussed on country experiences, both from a governmental point of view, as well as from the perspective of consultants who assisted governments in their efforts to build a domestic constituency.

35. Lead presentations were made by:

- (i) Dr. Ravindra Ratnayake, Chief of the Trade Policy Section of the Economic and Social Commission for Asia and the Pacific (ESCAP); and,
- (ii) Mr Michel de la Taille, UNDP Resident Representative, Mauritania.

36. Following the lead presentations, five panellists intervened, The panellists were;

- (i) Mr Steve Hadley, Director, Office of Emerging Markets, USAID,
- (ii) Mr James Fox, USAID consultant for Zambia's Trade Sector Round Table,
- (iii) Mr Musokotwane, Zambia's PRSP Coordinator,
- (iv) Mr Maxwell Mkwezalamba, Principal Secretary, Ministry of Finance and Economic Planning, Malawi, and,
- (v) H.E. Mr. Srinivasan Narayanan, Ambassador Permanent Representative of India to the WTO, Geneva.

#### **Key Issues**

Common themes were drawn from the various country experiences. Countries discussed were Zambia, Mauritania, Malawi, and the Asia-Pacific region<sup>§§</sup>.

- Trade is a powerful engine for growth for some of the developing countries in the Asia Pacific region;
- The governments of LDCs in the Asian region need to make trade an engine for growth by introducing sound economic policies, including appropriate trade policies, and to incorporate these policies into development plans or poverty reduction strategies;

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<sup>§§</sup> For individual country experiences, see papers annexed papers

- During the last decade, the LDCs in the Asia-Pacific region have managed to make some significant progress in terms of liberalising their trade regimes;
- In order to benefit from the trade policies, a clear commitment to the implementation of such policies is necessary;
- Regional integration is very important. Regional integration, regional agreements and other regional initiatives should be taken as building blocks of a broader trade liberalisation strategy;
- Successful implementation of policies and plans depends largely on the capacity of human resources that LDCs lack;
- The international community can assist by ensuring the full implementation of the IF, by giving duty-free access to products from LDCs and by taking a fast track approach to LDCs' accession to the WTO, particularly since only 4 out of the 13 LDCs in the Asia-Pacific region are WTO Members;
- It is important to establish a dialogue between trade ministries and other ministries, particularly the finance ministries, as well as between government as a whole and the private sector, the academia and other interested parties. It is also important that bilateral donors compliment and supplement the role of the multilateral donors;
- The IF needs to be broadened to include all development-related issues;
- Country ownership of the PRSP process is critical;
- While trade liberalisation is generally believed to promote economic growth, there is no finding that trade, *per se*, leads to poverty alleviation and greater employment opportunities;
- There is also a need to mainstream *development into trade*. When negotiating agreements, it should be ensured that the agreements do not go against the development interests of the country.

#### **4. PANEL D: GLOBAL DIMENSIONS AND CORE ISSUES IN MAINSTREAMING.**

37. This session aimed at identifying the core issues related to the integration of trade priority areas of action in national development plans and poverty reduction strategies. There is a global as well as a domestic dimension to the core issues in mainstreaming. The issues and their importance may vary from country to country. The results of the panel aimed at assisting in the improvement of the critical issues that required reflection in a trade integration agenda for development and poverty reduction.

38. Lead presentations were made by:

- (i) Mr Uri Dadush, Director, Economic Policy and Development Prospects Group, World Bank; and
- (ii) Ms Susan Prowse, Senior Economic Adviser, Department for International Development, UK.

39. Following the lead presentations, six panellists intervened. The panellists were;

- (i) Sarath Rajapatirana, American Enterprise Institute, Washington D.C.;

- (ii) Michael A. Samuels, President, Samuels International Associates, Washington D.C.;
- (iii) Gretchen Stanton, Senior Counsellor, Agriculture and Commodities Division, WTO;
- (iv) Charles Gore, Senior Economic Affairs Officer, Office of the Special Coordinator for the LDCs, Landlocked and Island Developing Countries, UNCTAD;
- (v) Masahiro Yamashita, Senior Advisor, Japan International Cooperation Agency (JICA); and
- (vi) Mr. Mohammed Ould Lemrabott, Conseiller, Mauritania.

### **Key issues**

- A global agenda is very important in the mainstreaming and integration issues, although the main impediments to integration in LDCs are local;
- LDCs have constraints with respect to, *inter alia*, their institutional framework and their capacity;
- There is a need to approach the integration of LDCs from the global perspective, not only from the trade angle but also by considering broader issues of finance, aid and other creative solutions;
- There are trends in the current global system that help to address the issues that are faced at the global level of mainstreaming. These include:
  - Developing countries have much greater weight in the world economy and the world trading system than they did ten to twenty years ago;
  - Trade opening in developing countries has progressed over the last twenty years. The average tariff has been reduced by half from 32% in the first half of the 1980s to 15.6% in the second half of the 1990s;
  - Despite the progress, trade barriers in developing countries remain much higher than those in industrial countries. This imposes a cost on their own welfare and on export opportunities to each other;
  - While the developing countries have been integrating rapidly into the global system, the poorest countries among them have been falling behind. The share of LDCs in the world trade in 1997 was 0.4%, down by half from 1980. In addition, LDCs are particularly disadvantaged by lack of communication facilities;
  - There is disappointment among many developing countries over the outcomes of the Uruguay Round.
- The market access agenda remains particularly important for LDCs. The Eus' "Everything but Arms" initiative as well as the USs' African Growth and Opportunity Act are a good start. Other initiatives are being considered at the highest level with regard to market access for LDCs;
- LDCs face various barriers in trading freely in global markets. An example of such barriers is product standards. Assistance should be given to developing countries to enable them to develop and strengthen their capacity to meet standards and to participate more fully in international standard settings;



- There is a tremendous amount to be done at the global agenda level with regard to the new issues of world trade and helping LDCs deal with the regulatory and other behind-the-border indications of the new trade agenda;
- A solution to these issues will have to be approached from a much broader development perspective;
- Promotion of a trade agenda within developing countries is vital to achieve the common objective of reducing world poverty by half by the year 2015;
- There is a strong link between trade and poverty alleviation. Trade liberalisation and openness have a beneficial impact on economic growth;
- It is necessary to recognise that WTO Members are at different stages of development. New WTO rules must reflect a country's implementation capacity and there is a need to strengthen the capacity of developing countries to participate effectively in the WTO;
- The integrated approach by the WTO, the World Bank and the IMF needs strengthening. It should deal with not only the questions on trade but also of funding and monetary issues;
- The five elements, which were viewed as central to mainstreaming trade are:
  - Trade reform by developing countries;
  - Trade reform under a pro-poor agenda;
  - Strengthening the capacity to trade;
  - Market access issues; and
  - Impediments and benefits of the WTO global rule-making for developing countries.

## **5. PANEL E: COORDINATION OF THE DELIVERY OF TRADE-RELATED TECHNICAL ASSISTANCE AMONG BILATERAL AND MULTILATERAL DONORS.**

40. Panel E focussed on the various initiatives for the delivery of trade-related technical assistance, the development vehicles within which they operated, and the urgent need for improved coordination. There was particular focus on the new arrangements for the enhanced implementation of the IF within the development vehicle of the PRSPs.

41. LDCs, as beneficiaries of trade-related technical assistance delivered by bilateral donors and multilateral agencies, have expressed frustration at the multiplicity of vertical initiatives with little horizontal coordination. Improved coordination is needed amongst bilateral donors and multilateral agencies. The IF has become a reliable channel of communication amongst the six core Agencies and has significantly enhanced coordination and trust amongst the agencies.

42. This panel also focused on on-going activities within the Development Assistance Committee (DAC) of the OECD. The DAC is strongly committed to improving coordination with multilateral agencies. As a forum for bilateral aid agencies to share experiences and good practices, the DAC increasingly recognises the importance of trade for development and poverty reduction, and the need to participate actively in international efforts to help build the human and institutional capacities of developing countries to trade.

43. The DAC is currently in the process of preparing a set of guidelines in this area. The guidelines aim to foster effective partnerships between developed and developing countries. They also aim to promote synergies between the aid and trade communities, on the one hand, and between the bilateral and multilateral donor communities on the other hand, particularly with regard to the effective implementation of the IF.

44. The lead presentations were made by:

- (i) Mr. Richard Carey, Director, DAC/OECD Secretariat; and
- (ii) Mr. Chiedu Osakwe, Head, Secretariat Working Group on the IF and LDCs, WTO.

45. Following the lead presentations, six panellists intervened. The panellists were:

- (i) Mr. Martin Dagata, Director, Technical Assistance, ITC;
- (ii) Mr. Rénald Clérismé, Minister Counsellor, Permanent Mission of Haiti, Geneva;
- (iii) Mr. Marcel Namfua, Interregional Adviser, Office of the Special Coordinator for the LDCs, Landlocked and Island Developing Countries, UNCTAD;
- (iv) Mr. Peter Tulloch, Director, Development Division, WTO;
- (v) Mr Georges Chapelier, Principal Technical Advisor, Management Development and Governance Division, UNDP; and
- (vi) Mr Jean-Maurice Leger, Director, Technical Cooperation Division, WTO.

### **Key issues**

- There is renewed energy in the international community to push strongly the development agenda, the aid agenda, the debt agenda and the trade agenda;
- There is a need for guidelines to raise the level of priority and commitment to trade capacity-building in both developing countries and among the donor community;
- These guidelines will assist in getting things moving on the ground in systematic, sustainable and dynamic ways. The OECD guidelines, to be endorsed by OECD Ministers in May, provide the donor community and their development partners with a common reference point and will be an important instrument of coordination;
- Trade development is the key to development, to dynamic growth and, in the long run, poverty alleviation;
- There has been too much technical cooperation for too little sustainable capacity-building;
- Financial support does not equal capacity-building. Financial support can facilitate capacity-building, but there can be a lot of financial support with little capacity-building. The essence of capacity-building is participation and ownership of the recipient country;
- Local ownership is the key to country level ownership. The developing country itself must bring the donors together into a common effort. Bilateral and multilateral donors at the country level can assist countries to get people together to identify agenda;

- Technical assistance is important for a number of reasons. It is important for capacity building – capacity for human development, capacity for infrastructural development and capacity to develop very specialised expertise. However, there is the risk of a moral hazard which needs to be avoided;
- The new IF will consist of a trust fund and will operate on the basis of a pilot scheme;
- Coordination between donors can be enhanced by taking stock of who is doing what at the country level, what needs are not being adequately addressed and what synergies can be exploited;
- The Joint Integrated Technical Assistance Program (JITAP) initiative which combines the expertise and knowledge of three agencies (ITC, UNCTAD and WTO) to deliver trade-related technical assistance, is the first inter-agency effort towards coordination. In implementing and structuring the Integrated Framework, lessons should be drawn from JITAP;
- There is a need to build upon and broaden the existing coordination platform provided by the agencies and the prospective donors to the proposed IF Trust Fund to include other bilateral donors and other agencies in the field that are engaged in the delivery of trade-related technical assistance;
- The need for technical assistance for capacity building in the institutional and human resources, as well as the need to mobilise resources and coordinate these efforts, has become more apparent and increasingly expressed;
- Multi-donor funding of specific programs reflects the sharing of common objectives and purposes among the donors and beneficiaries, and therefore, improves the impact and effectiveness in the use of technical assistance resources in beneficiary countries;
- The IF Trust Fund, for example, provides the possibility for consensus on the goals and objectives of trade-related technical assistance programs between donors, beneficiary LDCs and multilateral agencies, thus reducing the risk of duplication;
- There is also a need for South – South coordination since many developing countries are part of a regional grouping; and,
- Coordination of donors, and of governments cannot be limited to trade alone. Multiple and coordinated initiatives must be taken in the wider context. Coordination at country level is also crucial.

## A. ANNEXES

## ANNEX I

## I. MESSAGE FROM MIKE MOORE, DIRECTOR GENERAL, WTO

On behalf of my colleague Heads of Agencies, at the IMF, ITC, UNCTAD, UNDP, and the World Bank, I am pleased that you are here participating in this first ever, joint core IF agency seminar focused on, *"The Policy Relevance of Integrating Trade into Country Development Strategies – Perspectives of the Least-Developed Countries"*, 29-30 January 2001. The ultimate purposes of trade reform and liberalization are to increase national incomes and employment, alleviate poverty and promote economic development. Trade has an important role to play, but it requires companion policies for it to contribute to development. No single agency, and no single policy can completely address the needs of Least-Developed Countries (LDCs).

The Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (LDCs) is the only platform available to the core multilateral economic institutions today for coordinating assistance to LDCs in support of their efforts to integrate into the multilateral trading system and the global economy. The benefits of integration are no longer an issue for debate. What is, however, under discussion is how to involve all stakeholders and oversee the provision of support for the LDCs in their efforts to grow faster and reduce poverty.

On 6 July 2000, the six core Agencies decided to take various measures to improve the implementation of the Integrated Framework, and to make it a more effective tool for the delivery of trade-related technical assistance to LDCs. We decided to situate the IF within the Poverty Reduction Strategy Papers Process (PRSPs), the main development vehicle, coordinated by the World Bank. I am convinced, with other Heads of Agencies, that placing the IF within the wider context of an overall development strategy is the best solution for optimizing the potential and the benefits of the IF. Trade reform and liberalization have to be set within a comprehensive framework for poverty reduction and economic development.

The contributions of the IF, so far, have been modest. Nevertheless, improvements are underway to strengthen the IF and to make it a more effective mechanism for assisting the trade development of LDCs. The IF has provided the platform for coordinating the work of our agencies and provides the basis for the delivery of high quality trade-related technical assistance to and support for LDCs. In my view, the IF is a necessary instrument for assisting LDCs in their search to draw on the benefits of membership of the multilateral trading system. Furthermore, it is now more evident than ever that additional measures are required for assisting the integration efforts of LDCs, and that this can only be meaningfully achieved with the launch of a broad and balanced set of multilateral trade negotiations, focused on a development agenda. The launch of a new round of trade negotiations is the best insurance against protectionism, for comprehensively addressing real and perceived systemic imbalances, and for proceeding rapidly with an agenda for development and poverty reduction.

I hope that the outcomes from this seminar will significantly contribute to providing meaningful assistance to LDCs, and will ensure that trade priority areas of action are firmly set within the wider context of development plans and national strategies for poverty reduction. In this regard, I believe that the papers presented at this seminar as well as the discussions will make a significant contribution to our common objective to support the LDCs to integrate more effectively into the global economy and draw on the benefits of an open, rules-based trading system.

## ANNEX II

### II. OPENING STATEMENTS

#### **Welcoming Remarks by Mr. Mike Moore, Director-General, WTO**

On behalf of the six core agencies responsible for the Integrated Framework: the IMF, ITC, UNCTAD, UNDP, the World Bank and the WTO, I want to welcome you to this important seminar.

Three points need to be highlighted at the very beginning. First the Integrated Framework is the first-ever attempt at inter-agency cooperation amongst our six economic institutions. So it is a test of the institutions themselves. There are enormous challenges because of the different mandates and cultures but we have no choice. I believe we institutions are on the line here as well so I intend to do everything I can – I know the heads of the other agencies and staff are committed to ensure that this works if it succeeds here it will succeed elsewhere and it has to succeed if we are to convince our partners the donors and other friends to improve and make successful this partnership.

The second point, requiring highlight, is the purpose of this seminar, that is the urgent need to ensure that trade priority areas of action are integrated into overall national plans for development and strategies for poverty reduction. Trade liberalization and reform are indispensable for rapid growth, which generates the essential resources for poverty alleviation and development. Although necessary, we all know that trade reform and liberalization on their own are not enough. They only constitute part of the complex jigsaw for generating essential resources for the increase of national incomes wealth, prosperity and poverty alleviation. We all know there are other issues at stake whether it be debt repayment, whether it be capacity-building, whether it be good governance or whatever, but this is an area we have a responsibility for and I believe we can do something about it. Over many years, and far too often, trade liberalization and reform have been pursued as stand-alone policies. They cannot work and have never worked as stand-alone policies or measures. Although openness to trade is associated with rapid economic growth, and although countries that trade grow much faster than those that do not, yet, for trade liberalization to be the motor for rapid growth, companion and mutually supportive policies are essential requirements. This is why we need to construct a bridge that connects the three communities: the trade, the development and finance communities. If we cannot together build this bridge, and if the three communities cannot initiate and sustain a dialogue, focused on comprehensive strategies in which trade priority areas of action are integral, then our efforts and the outcomes will be second best and that is not good enough for anyone. So that is why we are here today. And that is why we have with us, not only the usual representation of the trade community in Geneva, but also the representatives from the finance and development communities, comprising LDCs, donors and agencies, and including both the Geneva-based and the capital-based officials. I believe that this provides a great opportunity for all those who have been involved in trade policy making as well as trade-related technical assistance from different angles, to discuss and brainstorm as to how the trade agenda can be effectively incorporated into LDCs' national development strategies.

This leads me to a third point namely, that is the urgent necessity for a wider set of multilateral trade negotiations – a new Round. And I report to you that the mandated negotiations in agriculture and services are underway. Special sessions of the General Council have been held frequently to address the implementation issues, raised by Members. In all these areas we have made some progress. Never enough. Yet it's clear that imbalances, perceived and real, remain, and much more rapid progress is required. If you accept that status quo is not good enough and that injustice still remains, then, in my view the best way to change the status quo which is only yesterday's compromise is to start a negotiation where we can address those points in a wider agenda. It has always been my view that it is always the smallest guy, and the more vulnerable person who needs to

get into the ring and to negotiate. And I look forward to helping build the capacity so when that negotiation begins all friends feel that they can with confidence represent the legitimate needs of their country.

There are several important elements to the new arrangements for improving the implementation of the Integrated Framework. The notion of "mainstreaming" is probably the single most important feature of the new IF arrangements. The six agencies strongly believe that in order for trade policy and trade-related technical assistance needs to receive full consideration in national deliberations on development strategies, the IF process needs to be mainstreamed. The best framework for this mainstreaming process is the development vehicle of the Poverty Reduction Strategy Papers process, which has been developed by the World Bank and the IMF as a means for articulating national economic priorities as a basis for dialogue within domestic constituencies and with the international community. The IF, mainstreamed into the PRSPs, would mean that, first, the role of trade is firmly situated within the coherent national policy context of the country concerned; and, second, that the country's trade-related technical assistance needs are better identified, prioritized and sequenced, on the basis of policy diagnosis, and therefore stand a much better chance of being financed by donors and agencies.

One of the assets of the Integrated Framework is the complementarity of competence and mandates of the six core agencies. The new distribution of responsibilities amongst the agencies can now ensure a better a more effective coordination in the delivery of trade-related technical assistance. The difficulties and challenges that confront LDCs are complex and diverse. LDCs cannot be expected to tackle these problems on their own, although they need to drive and own the process of addressing these challenges. Equally, no single agency, on its own, can respond appropriately to the needs of the LDCs. That is why the Integrated Framework is so important.

I am pleased to report to you that, since the 6 July meeting of Heads of Agencies, the donor community has risen to meet the challenge of providing concrete support for the effective implementation of the IF, as a mechanism for the delivery of trade-related technical assistance within a coherent policy framework for the LDCs. This concrete support has been demonstrated in three areas. First, the strong commitment of donors is reflected in their expressed willingness to participate in the management structure of the new IF. Second, donors have signalled their clear intentions to commit resources to the Integrated Framework Trust Fund, which is not only significant because it transforms the IF into a funded mandate, but also because it provides real resources for assisting the vital process of mainstreaming a trade integration agenda into the poverty reduction strategies of LDCs. Third, and in addition to signalling commitments to an IF Trust Fund, several donors are taking the lead, in the field, in some LDCs, and providing them with direct support. So at this moment in time, we have a rare opportunity to transform the Integrated Framework into an effective instrument of support for the LDCs. We must not miss this opportunity. Agencies, donors, LDCs; we all have a critical role to play. We cannot succeed with each playing its role on its own. The new IF will begin on the basis of a pilot scheme. On your behalf, I want to express my profound gratitude and respect and thanks to the donor countries.

I am confident that once positive results are attained in two or three LDCs, in the next few months, hopefully by the Third UN Conference for LDCs, Brussels, 14-20 next May, then on the strength of that the scheme will be extended to other LDCs. I believe that all our efforts on the Integrated Framework will and should result and become one of the "deliverables" for the conference, but I need to stress over and over again, that we need to and are obliged to work together and in partnership. This concrete "deliverable", another concrete deliverable by the UN Conference is that we will see trade mainstreamed and turned into a development vehicle for the poverty reduction strategies in these pilot countries; and, that trade-related technical assistance can be delivered to those countries. Understanding where we are and what requires urgent accomplishment is one of the objectives of this seminar.

Market Access, this is a good time for updating you on recent developments on market access for LDCs. There have been several significant improvements. These developments follow on the consultations that I initiated, as part of our confidence-building package in January, last year. So I can report to you that trading partners, both developed, transition and developing, have taken steps, towards "duty-free and quota-free treatment" for LDCs. Based on my consultations, I reported to General Council in May last year that 27 Members have taken or proposed further market access opportunities for LDC exporters. I addressed letters to Members, and have invited notifications of these opportunities.

Following on my letter and on-going consultations that I have had, notifications and positive announcements have since been made to enhance preferential access for LDC exports. Many of our Members have done so. Canada, New Zealand and Norway, have notified measures taken, while Japan, EC, and the US have announced or proposed new measures that *will* significantly improve market access opportunities for LDCs. Let me briefly outline these for you:

- Canada, effective 1 September 2000. They added a further 570 tariff lines to the list of goods from LDCs eligible for duty-free treatment. Now about 90 percent of all LDC imports will now receive duty-free treatment;
- New Zealand, in November 2000, notified its decision to offer duty and quota-free access to all imports from LDCs effective from 1 July this year.
- Norway in November 2000, notified its GSP-system that accords duty-free treatment to all industrial and agricultural imports from LDCs, with the exception of flour, grains and feeding stuffs, where a preferential margin of 30 percent within indicative tariff ceilings is given;
- The European Commission is continuing to pursue its proposal for duty-free, quota-free market access for all LDCs exports (except arms). A transition period of between 6-9 years is being considered for sugar, rice and bananas.
- Japan in December 2000, announced its "99 per cent - initiative on Industrial Tariffs". When implemented in April 2001, the coverage of duty and quota-free treatment for LDC industrial product exports will rise from 94 to 99 per cent and will include textile and clothing exported from LDCs;
- The US, has further elaborated on the African Growth and Opportunity Act adopted in May last year. 34 Sub-Saharan countries have been designated as beneficiaries under this Act in October 2000, and they will be able to avail themselves of new GSP benefits for 1,835 tariff lines as from December last year. So I can report that there have been significant and positive improvements. I know that it is never enough but we are committed to working harder with our Members to see what more we can do. Let me conclude by saying that assisting and accelerating the integration of LDCs into the multilateral trading system and the global economy requires effective measures at the level of improved market access and, at the level of meaningful trade-related technical assistance within this coherent policy framework. At both levels, it is urgent and vital that trade liberalization and reform are firmly located within national development and poverty reduction strategies. I have always believed that a new Round of Trade Negotiations will enable us to do even better and assist us all in building on our current modest achievements.

Some excellent papers have been contributed and have been circulated to assist your discussions at this seminar. And on behalf of the six core Agencies, I wish to you all a successful seminar and if I can conclude by saying to the agencies that are here I appreciate the assistance in the work and the comradeship and solidarity we are showing with each other and I look forward to reporting to the other Heads of Agencies about how this seminar is another step in getting us to the

goal we all want. To thank you very much for your attendance and thank you to our staff here at the WTO.

Thank you.

**H.E. Mr. M.D. Abdul Jalil, Minister of Commerce, Bangladesh**

I am delighted to be able to participate in this Seminar on "Policy Relevance of Mainstreaming Trade into Country Development Strategies: Perspectives of LDCs".

The six intergovernmental organizations have joined in its arrangements reflects their commitment to the cause of the LDCs. I thank them all. The Integrated Framework for the LDCs arose from a decision adopted by the Members of the WTO in Singapore in 1996. At that time, it was felt that the trade-related capacity of the LDCs need to be developed. I believe the desire to assist the LDCs is still as strong as ever.

Mr. Mike Moore's presence here symbolises the WTO's and his personal commitment to the cause of helping the LDCs he has been vocal in his support to the need to provide market access to the LDCs, apart from other forms of assistance. Some countries have already integrated that they are seriously considering providing market access for our products. The EU, in particular has tabled a good proposal that covers all products of LDC, except arms. I do hope that with the WTO's support, we will soon get duty-free and quota-free access for all our LDC products in the EU and in other countries.

We live in an age of rapid change. Much of this change has been brought about by the rapid transformation in information and communication technology over the last two decades. We are now able to do what was only dreamt of a few years back. And, today, we have new enthusiasm among our entrepreneurs and private sector representatives. In fact, today's heroes are not statesmen, soldiers and philosophers but entrepreneurs such as Bill Gates. We clearly have the means and the ability to make a difference on this planet.

The fundamental issue for LDCs is to eliminate poverty, hunger, deprivation, malnutrition, and disease. In some cases, we face new challenges, such as with HIV or AIDS, that were unknown till recently. In this era of globalization the plight and sufferings of LDCs are increasing as they face growing marginalization in the world economy. Trade is generally considered as an essential building block of globalization. Yet, protesters at Seattle were able to halt this very important aspect of globalization. Now, many ask if there is political will in the developed, industrialized world to make the concessions that can move this process forward. In the field of international finance flows, governments have belatedly realized that they still have considerable powers. The manner in which Malaysia was able to recover from the East Asian financial crisis has a great deal to do with the policies they adopted, in defiance of the prevalent prescriptions. In some parts of the world, advocacy of free market principles do not include a surrender of some basic concepts of a "welfare state". In international negotiations, whether in the field of environment, in genetically modified foods or in cultural affairs, science and economics now take a back seat to politics.

Ignoring the political dimensions of globalization has its costs. What risks we are able to take will depend on the compact that we are able to build with our development partners. We will open up our markets, and remove barriers, as we have been doing, but are the developed countries prepared to reciprocate? We require finance that is available in the developed countries' markets; but, we can access such funds without the prospect of burning our fingers in the process? We know that the growing "digital divide" will further marginalize most of our developing countries. The question is: are the developed countries prepared to work with us to bridge this gap? These are among the issues



we will face in the next decade of globalization. It is my view that this decade will pose a challenge for us, more in politics than in science and economics.

The experience of countries that have progressed on the path to economic development clearly demonstrates the importance of export-led industrialization and growth. The days of self-sufficiency and import substitution strategies are over. External trade enables countries to meet their shortage of foreign exchange, technology needs and management expertise. All these are vital for the LDCs. In many ways, trade may even occasionally substitute for aid in the development process.

The rule-based trading regime has come at a time when the LDCs are poised for development based on trade. Countries that are more developed did not face the obstacles we now face in trade. The result has been a growing marginalization of the LDCs. Almost one-tenth of the world population now accounts for less than one per cent of world GNP and less than half of one per cent of world trade. We see the new group of *supra*-States, the multinationals, contributing to more than a fifth of world trade just by trading among themselves. Taking advantage of economies of scale, location, sourcing of inputs, and in pricing, they have begun to dominate markets. In some cases, they have begun to dominate markets. In some cases, they have even followed predatory practices, which make strong economic sense from their perspectives. LDC firms are unable to compete, and our legal and institutional structures are inadequate to enable fair competition.

The role of Governments must be reviewed in this changing scenario. We must provide the right environment so that our private sectors can flourish. State-owned enterprises should be privatized. In physical and social infrastructure, the governments in the LDCs would need to continue to play a leading role until the private sectors can step in. In helping LDCs governments create the right environment for the private sector, the international community can play a very important role.

The importance of international finance in the development of LDCs has been repeatedly emphasized. Again, the changing world scenario does not provide us much hope. The OECD reports that over three hundred billion dollars that moved from the DAC countries to the developing countries, in 1999, less than 22 per cent was in the form of ODA. Most of the flows were non-concessional and from private sources. The LDCs accounted for barely 4 per cent of the total flows, mostly in ODA. Only a decade back, the proportion was much better for the LDCs. While most developing countries are increasingly relying on private flows for development, the LDCs are being deprived of this facility.

The trend of ODA flows to the LDCs over the last few years does not provide hope for significant increases. Clearly, our reliance will have to be on private sources of capital. The LDCs are making valiant efforts to attract private investment. However, without the active intervention of our development partners, our chances of making significant breakthroughs are slim. Our development partners need to encourage their private sector firms to target LDCs, through fiscal and other incentives, concurrently with the LDC efforts.

Before I leave the arena of finance, I must mention the problem of indebtedness that we face. The current HIPC programmes have so far not been able to help a substantial number of LDCs. Unless we can relieve the debt burden of the LDCs, we will not go far with other programmes to assist them. In Bangladesh, the Government of Prime Minister Sheikh Hasina has emphasized the role of external trade in economic development. In this area, we are encouraging our private sector to come forward. Our objective has been to provide the right framework, legal and physical, in which the private sector can operate in response to demand. We are also encouraging foreign private investment. Our policies are producing good results, with high growth rates and excellent export performance. Much more remains to be done.

Conceptually, an Integrated Framework (IF) incorporating the programmes of the six organizations is a good way forward. There must be coherence in the activities of the organizations, in respect to any LDC. This coherence can be achieved through the IF approach. The objective should be to create capacity in infrastructure, both social and physical. Thereafter, the private sector should be allowed full freedom to take advantage of the opportunities, both in trade and in finance. The IF programmes will be judged by what they have achieved.

It is vital that the diagnosis for change be correct, otherwise the programmes we develop will be flawed. The latest LDC Report, brought out by UNCTAD, has clearly highlighted the inadequacies of the current approaches. There are positive synergies between international policies towards LDCs in domains of aid, debt reduction, international trade, and promotion of private capital flows. I believe our programmes must take this into account. As the Minister of Commerce, I strongly believe it is through international trade that the LDCs will make their way in this world.

I thank the WTO and other collaborating Organizations for organizing this Seminar. I look forward to the deliberations of the two days, in the hope that realistic approaches will be found to assist the LDCs.

**H.E. Mr. Jonathan Fried, Senior Assistant Deputy Finance Minister, Canada**

All of us share the goal of fostering economic growth in a manner consistent with the sustainable development of the world economy. This is particularly critical for the least developed countries, many of whom have not participated in nor benefited from the expansion of the world economy and trading system over the last few decades. As you know, the international community has endorsed a series of development goals aimed at halving global poverty by the year 2015. Unfortunately, many LDCs, particularly in Sub-Saharan Africa, are not on track to meet them.

Recognizing the difficulties faced by so many of the LDCs in terms of unsustainable debt burdens, and the associated social and economic costs, the international community, operating bilaterally and through the international financial institutions, has pushed forward the enhanced initiative in favour of highly indebted poor countries, or HIPC. This is designed to lower debt burdens to sustainable levels, typically defined relative to the export earning capacity of a country. The HIPC debt initiative is already providing twenty-two countries with interim relief. In fact, when the dust is settled, it is expected that the HIPC debt load will be reduced by almost two-thirds. Finance Ministries of the G-7 and other developed countries have worked hard with the international financial institutions over the last couple of years to ensure that interim HIPC finance was available, but there is still much more to do.

No amount of HIPC debt reduction or Official Development Assistance (ODA) can guarantee that we will reach those poverty reduction goals. Poverty reduction is not just a question of redistributing income and wealth. Economic growth is required to generate additional income and wealth to redistribute. Stimulating growth, however, is a complex issue. ODA in and of itself can play a useful role in stimulating growth, but it is far from enough. The needs are so great that no imaginable increase in ODA, however well spent, would ever be sufficient to meet them.

Private sector-led investment and economic development must, therefore, be the engine for growth to meet LDC needs, and development policies need to recognize this. In turn, if development policies are to successfully stimulate the private sector, developing countries must focus on strengthening their institutions. Domestic residents will not leave their savings at home and foreign investors will not send in their capital if a country's institutions do not inspire confidence that they will be able to benefit from the return on those assets. Without the required savings and investment, economic growth is unlikely to be initiated.

Business will prosper, providing essential employment and income, in places where there is a conducive regulatory environment - one characterised by sound macro-economic fundamentals, a mutually agreed bargain between investors and the government based on transparency, predictability and fairness. In other words, business will come to countries where good economic governance reigns.

Both the literature on the effectiveness of development assistance and, more recently, the practice of private investors, show that a considerable premium attaches to a business-friendly economic and institutional environment. If we look at the widening range of spreads on various emerging market bonds, it is clear that investors are now able to -- and do -- differentiate between those countries that pursue good economic policies and those that do not.

When I say, with no particular claim to originality, that good economic governance is vital for development and growth, and thus for poverty reduction, what do I mean? I mean a fair and effective legal and institutional framework, reinforced by a culture of competent, transparent and accountable public management, committed to eradicating corrupt practices. It necessarily features governance based on the principles of inclusion, whereby all those potentially affected by regulation, domestic and foreign alike, can provide input, and can know the rules of the game. Good economic governance thus helps to ensure that market participants, the local population, and potential foreign investors, have confidence in the government and in its development policies, in the rule of law -- so that contracts can be relied upon -- and in the country's financial institutions. From Canada's point of view, good governance is also an important criterion of our bilateral assistance programs and is a condition for determining which countries benefit from a moratorium on debt service payments to Canada, under the Canadian Debt Initiative announced in December.

It is now increasingly recognized that, to encourage sustainable growth, development spending must focus on supporting the establishment and strengthening of the institutional framework needed to inspire savers' and investors' confidence. In the past, development efforts by countries themselves, as well as by bilateral and multilateral agencies, emphasized specific projects, particularly for large physical infrastructure, as a means of stimulating growth and economic development. Often the projects were not well co-ordinated and did not have the desired results. Projects were often poorly integrated with the rest of the developing economy, which did not have the capacity to benefit from them. Emphasis in development spending around the world, including at CIDA, is now shifting towards the effective integration and coordination of a range of development activities, including institutional and capacity-building projects. ODA can act as an important catalyst for the human resource development and good economic governance that are essential foundations for growth. As it bears fruit, we can hope to see the private sector expand with increasing confidence in countries where it was previously hesitant to operate.

Given the need to ensure private sector-led economic growth to allow countries to reduce poverty in a meaningful way, fostering domestic savings and encouraging foreign investment are two essential components of a development strategy. Promoting trade is a third. While debates may exist about the importance of trade to a country's growth, there is no evidence of a country successfully achieving sustainable growth without it. Growth has usually been associated with an increasing trade to GDP ratio. Increased exports are the vehicle by which hard currency is earned, capital equipment imported and productivity, income and wealth increased. In countries where domestic savings are low, as is the case in almost all LDCs, foreign direct investment is also a critical ingredient.

A few LDCs, including such countries as Bangladesh and Cambodia, have had important successes in participating in the world trading system. But most have not. It is for this reason that Canada and many other WTO Members believe that the greater integration of the developing world into the global trading system is a key goal, as well as a critical component, in the launch of any new

round of multilateral trade negotiations. Thus the early launch of a new Round is key to the development prospects of developing countries in general, and least developed countries in particular.

It is within this context that the notion of “mainstreaming trade” should be examined in the course of this Seminar. What does it mean? Mainstreaming trade includes many things. It is must not be interpreted solely as meaning teaching people how to understand and interpret WTO agreements. That is not to say that Canada does not support a clearer and more directly funded role for the WTO in providing this type of trade-related technical assistance. But this is only a small part of the story.

Mainstreaming trade encompasses building the necessary institutional capacity in developing countries to permit them to participate in the international trading system. For example, Finance Ministers have to ensure that their country’s financial sector is well regulated. It does not have to be the most sophisticated in the world to permit participation in the global economy, but it has to be sound. Mainstreaming trade means looking at other parts of economic regulation in a similar way: being able to ensure that goods meet internationally-agreed-upon standards for safety; being capable of proving that agricultural products come from a pest or disease-free area; and supporting the ability of private sector to market goods and services abroad in a timely and effective manner.

But mainstreaming trade also means that governments need to reflect on how to use most efficiently the limited resources they can devote to trade issues. There are many aspects of developing countries’ institutions that can usefully be enhanced to improve their ability to trade with the developed world, including customs facilitation measures, intellectual property rules, private commercial regulation, and administrative and judicial review procedures for commercial disputes between private parties and government. But, as with all other aspects of development, it is the developing governments themselves that must take responsibility – ownership, if you will – for the implementation of these policies if they are to be effective. Country ownership of development plans therefore means that the country itself needs to make the decisions.

For example, a country may consider that the expense of putting together a developed world-consistent inspection system is too great, given the amount of agricultural exports to the North that are likely in the short-run. It may be worthwhile, instead, for that country to focus on greater economic integration with neighbouring countries as a means of increasing trade and promoting economic growth, provided that this is done in a manner that is consistent with the principles underlying the world trading system. It is encouraging in this regard to see the recent progress in efforts to rebuild the East African Community. I hope they will capitalize on the useful work done by Uganda in the trade area in its development planning. In sum, strategies for mainstreaming trade need to be country-specific and country-owned to be viable and successful.

Ultimately, mainstreaming trade means giving greater visibility to the linkages between trade and all other related policy areas. The creation of an environment that encourages trade is instrumental to sustainable, long-term economic growth. That environment will require changes to the financial and commercial institutional infrastructure, including in areas such as accounting, corporate governance, and supervision of financial institutions. Development planning therefore needs to consider the needs associated with these changes alongside improvements in health, education, general social conditions and the creation of adequate social safety nets.

The Integrated Framework (IF) can be an important mechanism to mainstream trade concerns in development strategies. The IF was initially conceived as an instrument of co-ordination, to ensure that institutions involved in trade-related technical assistance were aware of each others activities. The IF was grounded on assessing individual country needs and priorities. While all of us would have liked to see more tangible results at this point, I believe that the basic thrust of the IF remains sound. Indeed, much important groundwork has been done, including the intellectual effort leading to this

Seminar. The IF can help to integrate country-defined trade-related technical assistance and capacity building needs into broader development and economic planning frameworks.

How can we accomplish this? One vehicle is the Poverty Reduction Strategy Paper (PRSP) process. You may recall that this was conceived in 1999 to ensure that funds freed from the HIPC debt initiative were used for poverty reduction. PRSPs, supported by the regular World Bank Country Assistance Strategies (CAS), are increasingly becoming blueprints for national development and poverty reduction strategies in the least developed countries, as well as being mechanisms for co-ordinating donor development assistance. Obviously, in the rush to get as many countries to the HIPC decision point as possible, the interim PRSPs did not focus on as all aspects of development and poverty reduction. For example, few countries have identified trade as a policy priority in their interim PRSPs, although Uganda has done good work on trade in its full PRSP. As the process develops, the PRSPs and the CAS are supposed to be developed in tandem. Given their significance in development policy, it is important that trade policy issues figure prominently in their formulation and implementation.

The independent review of the IF last summer highlighted different expectations about the IF held by recipients and donors. Governing bodies of the core IF agencies agreed with the recommendations that trade be better integrated in national development strategies, and that steps be taken to strengthen the secretariat and the coordination functions. There was, however, some hesitation regarding the proposal for a trust fund. I think this reflected a concern that the IF would be turned into a new bureaucracy without providing comfort that the deficiencies noted in the Independent Review would be addressed. I am pleased that discussions over the past months both within the relevant institutions and among WTO Members have helped clarify the intent of the proposed pilot scheme. Canada is examining them with a view to determine how we can best participate. While the IF focuses on the needs of LDCs, the international community must remember that lower-middle and middle-income countries also have trade-related technical assistance and capacity building needs.

Let me conclude by offering a few observations on how mainstreaming trade in broader development strategies requires all of us, developed and developing economies and international institutions, to take a hard look at how we can place increased emphasis on trade-related technical assistance and capacity building in our ongoing programs.

- While the IMF is concerned with stable macroeconomic environments that are necessary conditions for an effective and successful trade regime, it must also consider the impact on government revenues of potential required changes in trade policies and devise methods to compensate for any losses.
- The ITC can continue to pursue trade enhancement activities particularly in the areas of supply side development and promoting private sector readiness for export.
- UNCTAD and the UNDP should provide policy assistance in managing the domestic adjustment to a more open trade environment.
- In the WTO, I recognize that technical assistance is limited by budgetary and institutional constraints. However, a more integrated approach means that existing mechanisms could be levered to achieve the desired results. The WTO could use Trade Policy Reviews to build up the capacity of LDCs to understand the rights and responsibilities of being a WTO Member.
- The World Bank, in preparing a CAS, should be more proactive in engaging with national trade policymakers to determine the nature and extent of the trade-related technical assistance and capacity building needed in the country.

- At the same time, Trade Ministers and Trade Ministries of LDCs need to become more involved in national debates on the elaboration of full PRSPs so that informed decisions can be made about the allocation of scarce resources.
- Finally, for donor countries the concept of mainstreaming trade means they need to be ready to re-examine development assistance priorities to ensure they are sending a coherent message across their different assistance mechanisms and institutions.

In sum, we have a collective responsibility in this endeavour. Mainstreaming trade into broader development frameworks is where the nexus of trade, finance and development policies takes its most concrete form. The next two days will allow you to examine the importance of including macroeconomic and regulatory policy reform along with trade liberalization in a package that promotes poverty reduction and development. From an LDC perspective, you will also be examining practical ways to build a consensus on mainstreaming in domestic constituencies. From the donors' perspective you will consider ways to reconcile the different frameworks for the delivery of trade related technical assistance both bilaterally and multilaterally. Sessions will consider the best practices to integrate trade into broader development strategies. The extensive work of the OECD's DAC may provide valuable information in this area. In all of these sessions the focus will be on how to bring together trade and other aspects of economic policy into one, coherent development plan.

Looking ahead, the output of this seminar will help to feed into the broad international effort currently underway in a variety of fora to pave the way for the UN Conference on Financing for Development scheduled for next year. Poverty reduction and development are complements, not substitutes. Economic growth is needed to create the income and jobs that will reduce poverty. And trade is a key instrument for bringing about that growth.

Working together, we can help to ensure that trade is mainstreamed into the development process in order to bring developing countries into the mainstream of the world economy, with a much better sharing of the benefits from the continuing globalization of economic activity.

Thank you

**H.E. Honourable Kweronda Ruhemba, Minister for Economic Monitoring, Office of the President, Uganda**

I would like to thank the organisers of this seminar for allowing me the opportunity to participate in this important meeting and for providing me with the opportunity to make some brief remarks on the subject of our gathering.

Let me begin my presentation by quoting a prominent African, (the Executive Secretary of the United Nations Economic Commission for Africa) on Africa's expectations on multilateral relations - *"African countries arrived in Seattle for the Third WTO Ministerial Conference with both aspirations and hope that the conference would mark a new beginning in multilateral trade negotiations within the framework of the World Trade Organization. They came to press for a "Development Round" that would address the deepening poverty in their countries and modalities for their effective integration in the global trading system. They came armed with a set of proposals to make the concerns of the world's poorest peoples central to the rapidly expanding global trading system. They also came to Seattle to argue that industrialised countries should open their markets to African exports, eliminate the biases against developing countries inherent in the Uruguay Round Agreements and adopt a package of special and differential treatment in favour of the Least-Developed Countries"*.

The above quotation summarizes the expectations of Africa regarding a new approach to trade negotiations from the developed world and has a lot of relevance to today's seminar. With that general perception and starting-point I would like to take up some practical matters which would provide the basis for significant progress in this difficult area of international dialogue.

To me, having a more coordinated approach to international development, finance and trade policies is a means towards us breaking out of the vicious circle of savings, low investment, low growth, falling share of world exports and increasing debt which frustrates our efforts to attain the overarching goals of poverty eradication.

There is increasing recognition that multilateral agencies, bilateral donors and governments need to improve coordination in the delivery of technical assistance in the areas of trade, finance and development. In other words, we need to mainstream trade, we need to mainstream trade issues, programmes and projects into the overall policy framework for development and poverty eradication.

#### Sector-wide approaches: a new approach to trade policy

A sector-wide approach to partnerships between donors and recipient countries has been developed in recent years as a key instrument for the coordination of policies between donors and the national authorities. However, so far this approach has mainly concentrated on areas in which donors have mounted large capital assistance programmes in most LDCs. There is a need to deepen the approach to other sectors where the main common interest concerns policy coordination and related technical assistance.

This will enable the development of comprehensive, coordinated programmes, involving the participation of all stake holders in a genuine partnership.

A practical suggestion would be for the WTO, other concerned multilaterals, interested bilaterals and national authorities to come together to initiate sector-wide working groups in relation to trade policies. I place this on the table as a specific proposal. Why am I tabling this proposal? I am tabling this proposal because of some of the visions I have made in my own country. In other words the Integrated Framework has problems, problems of resistance to change even when you bring these agencies together there is a problem that each one of them is locked in its usual *modus operandi*. There is a problem of lack of give and take. Each one of them would like to pursue its agenda without adulterating it with other agencies' ideas. So I am tabling this problem for discussion.

#### The integration of trade in country assistance strategies (CAS)

The integration of trade issues in donor country assistance strategies has so far mainly been concerned with conditionality related to the liberalization of broad policy instruments (e.g. other areas the dismantling of exchange controls, the reduction in tariff levels etc). This approach has been justified, but has stopped short of focusing on positive interventions that may be required to promote our exports.

In terms of the evolution of Structural Adjustment policies in Africa, we are willing to agree that considerable success has been achieved in liberalizing our economies and putting our budgetary policies on a sounder footing. However, when you look at the balance of payments of most African countries, progress has not yet translated into dramatic improvement in our trade performance. We need a fresh effort to look at this problem. In particular I would like to pose this question: even if structural adjustment was a necessary stage in the revival of our economies, has the package of policies been sufficient to engender the export led growth that can underpin our growth and reduce aid dependence, and persuade our populations of the benefits to be reaped from economic openness?

What may be required is an integrated donor-national effort to look at his problem in an unbiased and open fashion. I would propose such an initiative.

### Growth of exports

Most LDC countries have been encouraged to pursue export policies that are claimed to be consistent with their static comparative advantage based on an abundance of natural resources and unskilled labour. However, this approach has not succeeded. There has been a loss of market share, not only because of inefficient agricultural practices, weak marketing, poor infrastructure and civil conflicts, but also because of increased competition from new commodity producers. Also, many of the old regiments of the Prebisch era regarding the limited dynamic potential of specializing in primary commodities continues to have some credibility.

Urgent actions need to be taken to reverse the poor performance in traditional exports and to move into higher value added resource based industries with more buoyant market prospects. This requires substantial technical help in identifying the trading opportunities and transferring the skills required to take advantage of those opportunities. This requires, in turn, much more effective technical assistance than was available in the past.

The issue of the efficiency of technical assistance to the trade sector can be seen as part of a larger problem of resource waste and confusion in the policy-making process as the result of uncoordinated technical assistance initiatives, which lead to combination of duplication of efforts (in those areas that are fashionable with donors) and neglect (in those areas that are not).

The solution to this problem is a joint donor-recipient programming exercise that seeks to optimise return from the scarce technical assistance resources available.

A related problem is the obvious fact that technical assistance programmes are still too supply driven, reflecting the donor interest, rather than demand driven, responding to national concerns. In the trade area, there may be a particular problem that at the national level there may be a limited knowledge and comprehension of the implications of the arcane matters, which are the daily bill of fare at meetings such as this. Therefore a pre-condition for more balance in this regard is education programmes that provide an opportunity for national stakeholders to increase their understanding of the issues and the interests at stake. It is important that this should be done in an open and unbiased fashion, presenting all sides of the various issues. It would not work if it were seen as propaganda for a particular viewpoint, or as a means of promoting the agenda of any given institution.

### Capacity building

One of the most effective ways of encouraging capacity building to take place is to increase responsibility and ownership. As an example in the case of Uganda, the Education Sector Investment Plan experience where donor support to the education sector has increased the national capacity to develop, monitor and account for sector activities, which in turn justified an increasing flow of resources. Increasing levels of untied budget support have improved the level of responsibility and ownership of the sector programme.

To enhance capacity in programme implementation it is imperative that partners reach agreement on shared objectives and commit themselves to the major policy and resource actions essential to achieving the shared objectives.

Capacity building to improve the partnership process through improved information flows, increased consultation in developing a comprehensive development framework, coordinated sector-



wide planning and increased accountability for service delivery strengthens good governance. In turn, good governance strengthens ownership.

#### Debt relief and trade issues

We in Uganda have been among the first beneficiaries of HIPC, and we appreciate the recognition we have received for a poverty focused policy agenda. However, we also recognise that, justified as it is, debt relief is not the longer-term solution. For that, we need the export growth that prevents us from falling into debt. Likewise, the longer-term solution to our poverty problem is to seek means whereby export growth can generate sustainable livelihood options for many of our poor, both by the development of traditional and non-traditional export activities. This requires us to ensure market access for our products. It is an irony that we in developing countries who promote the virtue and possibilities of export led growth find that when we begin to succeed, the protection lobby in the developed countries succeeds in raising all sorts of barriers to access developed country markets.

#### A coordinated approach to LDCs

Just like there is a need for greater inter-agency coordination at the international /multilateral level, there is an equally important need for LDCs to enhance their capacity to coordinate their trade-related efforts.

The different efforts at country level in LDCs differ in terms of both the scale and intensity of interventions. Nevertheless, there are shared concerns and much to be learnt from pooling experience. In the global economy, individual LDC's find themselves marginalized – their individual economies are too small to carry much weight at the international negotiating table. It is only by identifying common interests, understanding each others' problems and experiences and acting together that they can hope to be heard.

The less developed countries should initiate a process for dialogue amongst themselves and with interested multilateral, regional and bilateral partners. This allows for an opportunity to share views and experiences as well as providing an opportunity for agreeing on the necessary support to the respective countries.

Lastly in my opinion, a coordinated approach to trade-related technical assistance brings about the following benefits:

- Avoids duplication of effort and as such maximises the return from available financial resources to LDCs.
- Promotes a greater level of ownership of programmes and projects by LDCs.
- Lastly, a coordinated approach also enhances the synergies that may exist between the different sub-programmes and projects thereby promoting efficiency and effectiveness in the overall planning process.

I thank you very much.

**H.E. Dr. Nkosana Moyo, Minister of Industry and International Trade, Zimbabwe****How can we build trade priority areas of action into national plans for development and poverty reduction?**

I would like to paint a picture of what I perceive as challenges in trying to discuss development on the one hand and poverty reduction on the other. There is an inherent contradiction in the two approaches. The first problem is that international fora, like the WTO which sets frameworks for international trade relations, are more aligned to Governments as opposed to the private sector. However, what emerges out such fora must be implemented by the private sector. The two bodies are motivated by different factors: while the private sector is motivated by profits, international governments would be pressured to channel resources towards poverty alleviation. It is important to recognise the tension between the two agents.

Another challenge is to invest in the development aspect as opposed to the poverty alleviation aspect. It is important to bear in mind that, in managing the limited resources of developing countries, they need to create wealth before they can pull resources in poverty alleviation. However, it is often easier to request other countries to pull resources for poverty alleviation, than for strengthening businesses of developing countries, that is the development aspect. If a country, like mine, asks a donor that we would like to create wealth so that we are able to direct resources for education or an AIDS programme, the donor is unlikely to support such approach because some lobby groups are afraid of competition and thus of losing jobs.

Having said so, let me attempt to put my thoughts across on what I believe is necessary to be recognized in the issues of development and poverty reduction. In the first instance, for a county to be integrated into the global economy, it is important to identify and take advantage of the opportunities that are existing in the trading system. The country also has to fulfil its multilateral trade obligations, and formulate and pursue development strategies within the framework of these obligations and opportunities. It is also important to be able to defend its acquired trade rights and privileges, set trade objectives and effectively pursue them in trade negotiations. Growth, while essential, is not always sufficient for sustained poverty reduction. Moreover, trade liberalization defined in terms of the reduction of border protection cannot alone guarantee economic growth.

A strategy for trade expansion should embrace a broader set of country level initiatives within the context of an appropriate macroeconomic incentive environment and a comprehensive approach to overall development goals and poverty reduction strategies. It should also address supply side constraints by investment in infrastructure and human capital development, as well as institutional reform and a conducive legal environment to increase investor confidence.

Developing countries need support from international communities and donor agencies to attract investment. Social programmes, to offset adjustment costs of liberalization, should also be put in place including provision of safety nets, retraining and other transitional arrangements. A country's comprehensive trade policy is to be consistent with other appropriate policies such as foreign investment, competition, environmental protection and labour practices. Linkages among trade reforms, economic growth and poverty reduction will be realized if correct sequencing of reform initiatives is undertaken. Apart from inflows of direct investment, countries need to enhance institutional transparency and governance.

Recent findings by the Department of Foreign Trade, demonstrate trade diversion and the erosion of trade preferences especially for developing countries dependent on a single export commodity. The trickle down of any benefits rests on a number of factors such as penetrating new markets, domestic macroeconomic policies, technological innovation and capacity to adjust to new

realities. Beyond these national efforts the potential benefits of liberalization will depend on the willingness of developed countries to implement negotiated market access decisions in a manner which increases developing country gains from trade.

Uruguay Round commitments made by developing countries defined the parameters for their integration into the global system. Developing countries pledged to remove national policy barriers which could hinder their future efforts to attract investment by global corporations in their national economies: thereby integrating into the global economy. But as I attempted to point out above there are tensions implied in some of these relationships.

In conclusion, developing countries have to grow economically, to achieve the international global poverty reduction goal of 2015. Developing countries, need international support in the form of foreign direct investment, technical assistance, support for regional trade integration and access to markets, trade facilitation and debt relief. Once again we should not underestimate some of the tensions or contradictions that are inherent in some of the issues that I highlight here. Enhanced market access without addressing technical assistance issues will not achieve the desired results. Technology transfer issues also need to be addressed. At present a large portion of technology transfer into developing countries takes place through direct pledges of capital good imports. It is imperative for developed countries to improve access for developing countries through the transfer of technology, on a non-profit, non-commercial basis as provided and agreed in multilateral commitments on transfer of technology. Lastly, the cohesion of supporting domestic policies such as the mutual reinforcement of trade reforms and exchange policies, domestic tax reform and sound macroeconomic policies is also critical. I trust that the deliberations of this seminar will facilitate the ongoing negotiations in the multilateral fora.

**H.E. Mr. Koichi Haraguchi, Ambassador/PR of Japan, Geneva**

There is no question that trade is a powerful engine of economic development. There have been a number of countries, including post-war Japan, which have achieved rapid economic development through expansion of trade with other countries. Increased exports generate more income, more capital, and above all, more self confidence and that is a better chance for development.

In order to expand trade, it is necessary to have improved market access. As long as there remains many high barriers to trade, we cannot expect to expand our trade, however hard we may try. It is also necessary to have strengthened rules on international trade. Without them, international trade can still be subjected to abusive management by economically strong countries. Fortunately, the WTO and its predecessor the GATT, have achieved important improvement in market access and introduced sets of rules that govern international trade through a series of rounds of trade negotiations. Of course, there still remains much room for further improving market access and strengthening rules. This is why some countries, including my own, have been stressing the need to launch a new round at an earliest opportunity.

Having said that, however, I have to recognize that improving market access and strengthening rules alone are not sufficient to lead to development especially of those for developing countries. Due to different levels of capacity among countries, in many cases, developing countries have not been able to make good use of the opportunities generated by the increase of market access as much as developed countries. Also due to the lack of necessary know-how and experience, some developing countries have not been able to observe regulations under the WTO rules in spite of their good intention, thus losing their credibility in the international trading community and sometimes exposing themselves to a potential danger of retaliation under the Dispute Settlement Mechanism.

One way to cope with this situation is to supplement our market access and rule making efforts with special consideration to developing countries. The introduction of GSP was a typical example. An initiative for tax-free, quota-free treatment for products of the least-developed countries is another recent effort in this direction. On our part, my government is now preparing necessary legislative measures which will establish a special preferential treatment for LDC products. We expect that these legislative measures be approved by our Diet by this April, the beginning of our fiscal year. In the WTO rules, special and differential treatment falls under this category. It is also crucial to find appropriate solutions on as many so-called "implementation issues" as possible.

But these are all special measures. There is another more basic approach to cope with a situation, and that is, to promote trade-related capacity building in developing countries. By promoting their trade-related capacity, many developing countries would be increasingly able to exploit improved market access opportunities to become more credible partners, and thus more active beneficiaries of the rules-based trading system. This point is well expressed in the communiqué of the G8 Summit last year, which states "In view of critical importance of trade for the development of developing countries, trade-related capacity building should be substantially expanded, which would be conducive to the more effective participation of developing countries in the system and to fuller utilization of improved market access in their favour".

Incidentally as you might have already noticed, when I say "trade-related capacity building", I have two different types of capacities in mind. One is a type of capacity which will enable developing countries to observe rules better, this might be called "trade rules compliance capacity". The other is a type of capacity which will enable them to better exploit the improved market access for their exports. This might be named "trade competitiveness capacity". I believe that they are closely connected with each other and both of them have to be promoted through international cooperation. I might add that foreign direct investment is also extremely importance for the improvement of what I called "trade competitiveness" capacity building of developing countries. This was already recognized in the Development Partnership Strategy adopted in the Development Assistance Committee (DAC) in 1996, which stressed the three pillars for development promotion: trade, aid and investment. This is one of the reasons why my country has been insisting that we should work for an international direct investment rules in the next round of WTO negotiations so as to prepare better environment especially in developing countries to attract much-needed foreign direct investment and to strengthen their "trade competitiveness" capacity.

Japan attaches much importance to building trade-related capacity of developing countries, both in what might be called "trade rules compliance" and "trade competitiveness" capacities. For instance, my Government, in cooperation with WTO, organized seminars on such issues as dispute settlement procedures and practices the knowledge of which is very critical for developing countries' effective participation in the multilateral trading system. The WTO and the Japanese Government are also planning to organize a seminar on investment in Malaysia in March, this time in conjunction with the UNCTAD.

Japan has also been actively promoting bilateral development assistance directed to trade-related capacity building of developing countries. This policy of ours was well expressed by the late Prime Minister Obuchi when he attended the UNCTAD Conference in Bangkok in February last year. There he stated that Japan intends to extend the systems to train 2,500 personnel of developing countries in the trade-related areas in the coming five years. In line with this basic policy, our bilateral technical corporation in trade-related capacity building has been steadily extended for example, through JICA, Japan International Corporation Agency, which is our implementing agency of technical corporation. We dispatch experts, receive trainees and implement projects in such areas as customs administration, intellectual property rights, trade policy formation and enhancing productivity of industries. In APEC, too, of which Japan is a founding member, Japan took the initiative to organize two seminars on trade and investment last year. We are also glad to have

enabled to make intellectual contribution to more effective capacity building by proposing "Strategic APEC Plan" on building capacity to implement WTO Agreements.

I am afraid I have dwelt on Japan's efforts too long. Mainstreaming trade into country development strategies requires more qualitative and quantitative efforts, both bilaterally and multilaterally, and both on donors and developing countries sides. In this connection, first I believe we need to promote more collaboration and coordination among donors. And the Integrated Framework is very relevant in this regard. Japan supports the effort to revamp Integrative Framework and make it more workable. The WTO Secretariat's latest proposal on the Integrated Framework including the utilization of the Trust Fund to conduct model projects is an interesting idea, which reserves further serious consideration in this regard.

Second, naturally we should strive to implement trade-related capacity building efforts more effectively. One way to meet this requirement is to further promote "country by country" approach which directs these efforts more in line with specific needs of each individual developing country. On the other hand, as we have been exploring in the context of the implementation of the Customs Valuation Agreement based on the suggestion by the European Commission, it might also be useful to identify the types of trade-related capacity building most needed in each agreement and concentrate our effort to assist developing countries to use these types of capacity. This may be called "Agreement by Agreement" approach. We need to employ those two approaches in a flexible manner so as to promote capacity building most effectively.

Third, it is also vital to promote closer dialogue and cooperation between aid and trade communities. Once again, the Integrated Framework is important in this respect because it could be effective to bring two communities together, if managed properly. We thus believe that the management structure of the Integrated Framework and the Trust Fund should be designed in such a way as to take into account the relevant activities of the bilateral donors.

Having said that, let me say a few words about the Okinawa Workshop on Trade-related Capacity Building which is scheduled to be held at the beginning of March this year. The workshop is to be co-sponsored by the WTO and my government and will be participated by donor countries and international organizations as well as developing countries. This workshop is in a sense a follow-up the Okinawa Summit of last year where the G8 leaders committed their support to improving trade-related capacity building of developing countries. Its objective is to explore ways of mainstreaming trade in country development strategies and strengthening trade-related capacity building through serious discussion between aid and trade experts. More specifically, this workshop intends to further the deliberation on how to achieve

- (a) to enhance a system to the least-developed countries by strengthening the Integrated Framework;
- (b) to develop "agreement by agreement" approach to better reflect expertise in individual sectors such as customs valuation; and
- (c) to strengthen country by country approach through, for example, case studies of individual donors with a view to sharing experiences and lessons.

The Okinawa Workshop is also expected to serve as a good opportunity for interaction between aid community which has ample expertise on effective development assistance and the trade community which has ample expertise and know-how on WTO agreements, domestic implementation and trade policies and negotiations.

It is encouraging to note that the importance of trade-related capacity building is gaining more and more recognition. There are tasks to take on, but I believe that this can be addressed by collective wisdom and efforts of all the Members, of both trade and aid communities. My government intends to continue to play a leading role in this endeavour along with other countries.

### ANNEX III

#### III. SEMINAR PROGRAMME

##### Monday, 29 January 2001:

Moderator: Mr Andy Stoler, Deputy Director General, WTO.

#### OPENING SESSION

- 08.30:** Welcoming remarks by **Mr. Mike Moore**, Director-General WTO
- 08.50:** **Introductory remarks:** Integrating LDCs into the Global Economy: Trade, Finance and Development Perspectives  
**H.E. Mr. MD Abdul Jalil**, Minister of Commerce, Bangladesh (LDCs' Coordinator)
- 09.10:** **Introductory remarks:** Importance of Integrating Trade, Finance, and Development Perspectives  
**H.E. Mr. Jonathan Fried**, Senior Assistant Deputy Minister, Department of Finance, Canada, (G-7 Deputy for Canada).
- 09.30:** **Introductory remarks:** The Necessity of Coordinated Approaches by Multilateral Agencies and Bilateral Donors to Technical Assistance and to Development, Finance and Trade Policies, Programmes and Projects  
**Hon. Kweronda Ruhemba**, Minister for Economic Monitoring, Office of The President, Uganda.
- 10.00:** **Introductory remarks:** How can we build Trade Priority Areas of Action Into National Plans for Development and Poverty Reduction?  
**H.E. Dr. Nkosana Moyo**, Minister of Industry and International Trade of Zimbabwe.
- 10.20:** **Introductory remarks:** A Policy Framework for Trade-Related Technical Assistance: Okinawa Initiative.  
**H.E. Mr. Koichi Haraguchi**, Ambassador, Permanent Representative of Japan, Geneva.

**PANEL A: TRADE, MACROECONOMIC AND REGULATORY POLICIES**

**10.30:**                    **The economics of trade policy, trade reform and liberalization as part of a wider package of domestic economic reform**

Trade reform and liberalization are necessary components of comprehensive policies for poverty alleviation and development. Trade liberalization while vital to development, does not stand alone. Companion policies are also required, as part of a wider package of economic reform, without which the dividends from an open multilateral trading system are minimal, and integration into the global economy will be retarded. This panel will examine essential and required companion policies that constitute part of the wider package of economic reforms, and which intervene in the complex relationship between trade liberalization, poverty alleviation and development.

**Richard Eglin**, Director Trade and Finance Division, WTO  
**Professor Frederic Jenny**, Chairman, WTO Working Group on Trade and Competition Policy & Conseil de la Concurrence, France

**11.00:**                    **Panelists**

**Panelists:**                    H.E. Mr. Srinivasan Narayanan, Ambassador/Permanent Representative of India to the WTO, Geneva  
Philippe Brussick, Chief, Competition, Law and Policy and Consumer Protection Section, UNCTAD  
Clem Boonekamp, Director, Trade Policies Review Division, WTO  
Anh-Nga Tran-Nguyen, Head, Investment Issues Analysis Branch, Division on Investment, Technology and Enterprise Development  
Grant Taplin, Director, IMF Office, Geneva

**Discussions**

**13.00:**                    Lunch break



**PANEL B: MAINSTREAMING: CONCEPT, APPROACHES,  
IMPLEMENTATION AND FUNDING**

**14.00:**                    **Mainstreaming trade into country development plans and poverty reduction strategies: how do you mainstream? concept, approaches and implementation**

Panel B will focus on clarifying the concept and value of *mainstreaming*, and setting-out the mechanics of how a trade agenda and trade priority areas of action are actually integrated into development plans and poverty reduction strategies. How do you mainstream? The different approaches and options to mainstreaming will be discussed. How do key economic domestic ministries and departments coordinate and seek an integrated approach that includes complementary market reforms, supporting policies and institutions? Who arbitrates domestic discussions to establish a national economic consensus that is integrated and balanced, and to which trade priority areas of action are integral? What are the main approaches, and which are the best practices? Is external policy support (intervention) by multilateral Agencies necessary to achieve the mainstreaming of a trade integration agenda, as a vital public good, into development plans and poverty reduction strategies? Is there a cost to mainstreaming, how is the cost calculated, and who pays for costs of mainstreaming?

**Ataman Aksoy**, Economic Advisor, Economic Policy, Development Prospects Group, World Bank

**Graham Chipande**, Senior Economist, UNDP in the Gambia

**H.E. Mr. Srinivasan Narayanan**, Ambassador/Permanent Representative of India to the WTO, Geneva

**14.30:**                    **Panelists**

**Panelists:**

John Cuddy, Director, International Trade Division, UNCTAD

Anne McGuirk, Assistant Director, Trade Policy Division, Policy Development and Review Department, IMF

Ignacio Garcio Bercero, Trade Division, European Commission, Brussels

Bahle Sibisi, Deputy Director-General, Department of Trade and Industry, South Africa

Grant Taplin, Director, IMF Office, Geneva

**Discussions**

**PANEL C: DOMESTIC CONSTITUENCY FOR MAINSTREAMING:  
EXCHANGE AND REVIEW OF COUNTRY EXPERIENCES**

**16.30:**                      **Building a domestic constituency to sustain mainstreaming: Exchange of views on country experiences**

**Dr. Ravindra Ratnayake**, Chief, Trade Policy Section, Economic and Social Commission for Asia and the Pacific (ESCAP)

**Michel de la Taille**, UNDP Resident Representative, Mauritania

A major challenge in the implementation of policy, particularly for public goods, is how to build a viable domestic constituency, necessary for advocacy and policy sustainability. Public goods involve adjustment costs, and the benefits while certain and meaningful, may not be immediate, but medium to long-term. Furthermore, there are competing national economic choices, involving decisions on national expenditure, from the immediate and urgent to avert disasters, to the medium and long-term for sustained growth and development. Panel C will focus on building domestic constituency for mainstreaming and ensuring that a trade integration agenda is part of development plans and poverty reduction strategies. Several developing countries, particularly in Asia, have been successful in establishing trade priority areas of action as part of national development plans. The presentation and the contributions by panelists will focus on country experiences both from a governmental point of view, as well as from the perspective of consultants who have assisted governments in their efforts to build a domestic constituency.

**17.00:**                      **Panelists**

**Panelists:**

Steve Hadley, Director, Office of Emerging Markets, USAID

James Fox, USAID Consultant for Zambia Trade Sector Round Table

Prof. Situmbeko Musokotwane, PRSP Coordinator, Zambia

Maxwell Mkwezalamba, Principal Secretary, Economic Affairs, Ministry of Finance and Economic Planning, Malawi

H.E. Mr. Srinivasan Narayanan, Ambassador/Permanent Representative of India to the WTO, Geneva

**Discussions**

**18.00:**                      **Cocktail. Hosted by Mr. Andy Stoler, WTO Deputy Director-General**

**Tuesday, 30 January 2001**

Moderator: H.E. Mr. Ali Said Mchumo, Ambassador, Permanent Mission of Tanzania, Geneva

**PANEL D: GLOBAL DIMENSIONS AND CORE ISSUES IN MAINSTREAMING**

**09.00:**                    **What are the global dimensions and core domestic issues in mainstreaming?\*\*\***

Panel D will seek to identify the issues that are core to meaningful integration of trade priority areas of action within national development plans and poverty reduction strategies. There is a global as well as domestic dimension to the core issues in mainstreaming. The issues and their importance may also vary from country to country. The results of this panel will assist in improving understanding of those critical issues that require reflection in a trade integration agenda for development and poverty reduction.

**Uri Dadush**, Director, Economic Policy and Development Prospects Group, World Bank

**Susan Prowse**, Senior Economic Adviser, Department for International Development, UK

**09.30:**                    **Panelists**

**Panelists:**                Anne McGuirk, Assistant Director, Trade Policy Division, Policy Development and Review Department, IMF  
Sarath Rajapatirana, American Enterprise Institute, Washington D.C.  
Michael A. Samuels, President, Samuels International Associates, Washington D.C.  
Gretchen Stanton, Snr. Counsellor, Agriculture and Commodities Div, WTO  
Charles Gore, Senior Economic Affairs Officer, Office of the Special Coordinator for the LDCs, Landlocked and Island Developing Countries, UNCTAD  
Masahiro Yamashita, Senior Advisor, Macro Economics, Japan International Cooperation Agency (JICA)  
Ould Mohamed Lemrabott, Conseiller, Mauritania

**Discussions**

**13.00:**                    Lunch break

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\*\*\* An illustrative list of core mainstreaming issues include the trade policy regime: trade and growth, pace and sequence of domestic reform, cost of domestic protection; pace and sequence of WTO rules; development-relevance of WTO rules; market access and import liberalization; WTO accessions; international standards and exports; rules of origin; uniform tariffs and tax structures; exchange rates and exports; export processing zones; external debt and investments; balance of payment; fiscal policy; inflation and growth; and, regional trading arrangements.

**PANEL E: COORDINATION OF THE DELIVERY OF TRADE-RELATED TECHNICAL ASSISTANCE AMONGST BILATERAL AND MULTILATERAL DONORS**

**14.00:**                    **How do the different frameworks for the delivery of trade-related technical assistance, by bilateral donors and multilateral agencies, fit together into various development vehicles? Mainstreaming the Integrated Framework (IF) for trade-related Technical Assistance into a policy-framework for development and poverty reduction.**

Panel E will consider the various initiatives for the delivery of trade-related technical assistance, the development vehicles within which they operate, and the urgent need for improved coordination. There will be particular focus on the new arrangements for the enhanced implementation of the Integrated Framework within the development vehicle of the Poverty Reduction Strategy Papers (PRSPs).

LDCs' beneficiaries of trade-related technical assistance delivered by bilateral donors and multilateral agencies have expressed frustration at the multiplicity of vertical initiatives with little horizontal coordination. Improved coordination is needed amongst bilateral donors and multilateral Agencies. Efforts at correction have begun, but need to be expanded and accelerated. The Integrated Framework, in the past three years, has emerged as a valuable platform for inter-agency coordination for the delivery of trade-related technical assistance. The IF has become a reliable channel of communication amongst the six core Agencies and has significantly enhanced coordination and trust amongst the agencies. The six core Agencies recognize that the successful implementation of the IF would be a win-win situation for LDCs, donors and the Agencies. The potential of the IF is enormous, but is yet to be fully realized. Involvement of the bilateral donors in the efforts of the core Agencies is an urgent objective to be attained for the more effective implementation of the IF. In this regard, the DAC/OECD Secretariat has been invited to a meeting of the Inter Agency Working Group (IAWG), responsible for managing the IF. There is a strong desire that the DAC should continue to participate in the IAWG in order to improve coordination between bilateral donors and multilateral agencies.

The **Development Assistance Committee (DAC)** is also strongly committed to improving coordination with multilateral agencies. As a forum for bilateral aid agencies to share experiences and good practices, the DAC increasingly recognises the importance of trade for development and poverty reduction, and the need to participate actively in international efforts to help build the human and institutional capacities of developing countries to trade. The DAC is currently in the process of preparing a set of guidelines in this area. The guidelines aims to foster effective partnerships between developed and developing countries. It also aims to promote synergies between the aid and trade communities, on the one hand, and between the bilateral and multilateral donor communities on the other hand, particularly with regard to the effective implementation of the Integrated Framework. The DAC guidelines under preparation will include: a) the importance of mainstreaming trade into country-specific poverty reduction strategies (PRSPs); b) facilitating the emergence of a strong country-level trade policy

process; and, c) providing a roadmap for effective donor policies and instruments.

**Richard Carey**, Director, DAC/OECD Secretariat

**Chiedu Osakwe**, Head, Secretariat Working Group for LDCs/IF, WTO

**14.30:**

**Panelists**

**Panelists:**

Martin Dagata, Director, Technical Cooperation Division, ITC,

Rénald Clérismé, Minister Counsellor, Permanent Mission of Haiti to the WTO

Marcel Namfua, Interregional Adviser, Office of the Special Coordinator for the LDCs, Landlocked and Island Developing Countries, UNCTAD

Peter Tulloch, Director, Development Division, WTO

Georges Chapelier, Principle Technical Advisor, Management Development and Governance Division, UNDP

Jean-Maurice Léger, Director, Technical Cooperation Division, WTO

**Discussions**

**PANEL F: WRAP UP**

**Moderator: H.E. Mr. Jonathan Fried**, Senior Assistant Deputy Minister, Department of Finance, Canada (G-7 Deputy for Canada).

**17.30:**

General exchange of views.

## ANNEX IV

### IV. LIST OF PARTICIPANTS

#### Least-Developed Countries

Bangladesh:	H.E. Mr. MD Abdul Jalil, Minister of Commerce (LDCs' Coordinator)
Haiti:	M. Jean René Bordes, Conseiller technique, Ministère de l'Economie et des Finances
Lesotho:	Mrs. Matseliso Mei, Director of Economic Policy, Ministry of Development Planning
Madagascar:	Mr. Joseph Rasolofonirina, Administrateur Civil, Ministère du Commerce et de la Consommation
Malawi:	Mr. Maxwell Mkwezalamba, Principal Secretary Economic Affairs, Ministry of Finance and Economic Planning
Tanzania:	Mr. Mark C. Temu, Acting Assistant Commissioner of Macroeconomic Policy, Ministry of Finance
Uganda:	Hon. Kweronda Ruhemba, Minister for Economic Monitoring, Office of the President Mr. Kenneth Mugambe, Assistant Commissioner, Economic Development Department, Ministry of Finance
Zambia:	Prof. Situmbeko Musokotwane, Lusaka

#### Panelists

Bangladesh:	H.E. Mr. MD Abdul Jalil, Minister of Commerce
Burkina Faso:	Mr. Bertin Teby, Directeur General du Commerce, Ministère du Commerce de l'Industrie et de l'Artisanat (IF Focal Point)
France:	Professor Frederic Jenny, Chairman, WTO Working Group on Trade and Competition Policy and Conseil de la Concurrence
Gambia:	Mr. Graham Chipande, Senior Economist, UNDP
India:	H.E. Ambassador S. Narayanan, Permanent Mission in Geneva
Malawi:	Dr. Maxwell Mkwezalamba, Principal Secretary, Economic Affairs Ministry of Finance and Economic Planning
Mauritania:	Mohamed Ould Lemrabott, Coonselor (PRSP) M. Michel de la Taille, UNDP

Thailand:	Dr. R. Ratnayake, Chief, Trade Policy Section, International Trade and Industry Division, UN-ESCAP
Uganda:	The Honourable Mr. Kweronda Ruhemba, Minister for Economic Monitoring, Office of the President
United States:	Mr. Michael Samuels, President, Samuels International Associates Mr. Sarath Rajapatirana, Visiting Scholar, American Enterprise Institute
Zambia:	Mr. James Fox, USAID Consultant for Zambia Trade Sector Round Table

### **WTO Members and Observers**

Albania:	Mara Adrian, Second Secretary, Permanent Mission in Geneva
Angola:	Amadeu Alves Leitão Nunes, Commercial Counsellor, Permanent Mission in Geneva
Argentina:	Juan A. Marchetti, Secretary of Embassy, Permanent Mission in Geneva
Bangladesh:	MD. Abdul Jalil, Minister of Commerce, Government of Bangladesh M. Abdul Mannan, Minister (Eco.), Permanent Mission in Geneva MD. Shahidullah Miah, Secretary to the Minister of Commerce Shahidul Haque, Counsellor, Permanent Mission in Geneva
Brazil:	Jorge Kadri, First Secretary, Permanent Mission in Geneva
Burkina Faso:	Ambroise Balima, Economic Counsellor, Embassy in Brussels Biheouan Bertin Teby, Directeur Général du Commerce, Ministère du Commerce, de la Promotion de l'Entreprise et de l'Artisanat
Canada:	H.E. Mr. Jonathan Fried, Senior Assistant Deputy Minister, Department of Finance, (G-7 Deputy for Canada) (Panelist) Mr. Peter McGuire, Department of Finance Mr. Bill Singleton, CIDA Ms. Patricia Malikail, Department of Foreign Affairs and International Trade Ms. Adair Heuchan, Permanent Mission in Geneva Mr. Terry Collins-Williams, Minister Counsellor and Acting Ambassador, Permanent Mission in Geneva Gaston Grenier, Development Agriculture Expert, Canadian International Development Agency
Cape Verde:	Antonio Pedro Alves Lopes, Chargé d'affaires a.i., Permanent Mission in Geneva
Colombia:	Maria Eugenia Mesa, Asesor Comercial, Permanent Mission in Geneva
Denmark:	Mr. Albert Wright, Minister Counsellor, Permanent Mission in Geneva Mr. Erik Høeg, Head of Section, S.2, Permanent Mission in Geneva Mr. Morten Lykke Lauridsen, Head of Section, N.4, Permanent Mission in Geneva

Djibouti:	Hassan Doualeh, Permanent Representative, Permanent Mission in Geneva
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Forum Secretariat:	Mr. Peter Williams, Forum Representative to the WTO
Agency for International Trade Information and Cooperation (AITIC):	Mrs. Esperanza Durán, Director
Commonwealth Secretariat:	Mr. Vinod Rege
African, Caribbean and Pacific Group (ACP):	H.E. Mr. A.G. Zounguere-Sokambi, Ambassador, Central African Republic, Chairman of the of the Committee of Ambassadors to the ACP in Brussels

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Asian Development Bank:

Islamic Development Bank:

Inter-American  
Development Bank:

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Anne McGuirk, Assistant Director, Trade Policy Division,  
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## ANNEX V

### V. PAPERS/LEAD PRESENTATIONS

**H.E. Mr. MD Abdul Jalil**, Minister of Commerce, Bangladesh (LDCs' Coordinator)

Integrating LDCs into the Global Economy: Trade, Finance and Development Perspectives

**H.E. Mr. Jonathan Fried**, Senior Assistant Deputy Minister, Department of Finance, Canada, (G-7 Deputy for Canada)

Importance of Integrating Trade, Finance, and Development Perspectives

**Hon. Kweronda Ruhemba**, Minister for Economic Monitoring, Office of The President, Uganda.

The Necessity of Coordinated Approaches by Multilateral Agencies and Bilateral Donors to Technical Assistance and to Development, Finance and Trade Policies, Programmes and Projects

**H.E. Dr. Nkosana Moyo**, Minister for Economic Monitoring, Office of The President, Uganda

How Can We Build Trade Priority Areas of Action into National Plans for Development and Poverty Reduction?

**H.E. Mr. Koichi Haraguchi**, Ambassador Permanent Representative of Japan, Geneva

A Policy Framework for Trade-Related Technical Assistance

## **PRESENTATIONS: PANEL A**

**Richard Eglin**, Director Trade and Finance Division, WTO Secretariat.

### Mainstreaming and Economic Policy Reform Considerations for the Least-Developed Countries, their Trading Partners, and the WTO

The failure of economic globalization to ignite strong trade growth in the least-developed countries (LDCs) is a major concern for the WTO. LDCs are a large group of its shareholders – almost 30 per cent of its Members – yet the record of their trade performance and their participation in the trading system makes depressing reading. Their share of world trade is disproportionately small, and continues to decline<sup>†††</sup>. There is little sign of them diversifying successfully away from primary sector exports and low value-added manufactures into goods and services that offer prospects of more rapid trade growth. Their annual export earnings are volatile, and hopelessly insufficient to help pay for imports that they need to help modernize their economies. Foreign investment passes them by<sup>†††</sup>. Their trade-related institutions and infrastructure are inadequate to cope with the demands of highly competitive global markets, and ill-equipped to translate their WTO rights into tangible trade benefits and tools for their economic development. And they lack trained officials to press their case through the WTO's institutional machinery and through trade negotiations to help correct all of this<sup>§§§</sup>.

That the LDCs remain committed to the WTO, and optimistic that there are better times ahead, is a tribute to their patience<sup>\*\*\*\*</sup>. They are not about to give up on the WTO, and the WTO is not about to give up on them<sup>††††</sup>. But new ideas are called for.

### Mainstreaming

"Mainstreaming" trade into development policies is one of them. For the WTO, its novelty lies in looking beyond the traditional GATT/WTO paradigm on trade and development, and seeing rules-based trade policy reform as a means to an end rather than an end in itself<sup>††††</sup>. Disillusion with trying to squeeze development provisions into the trading system through various forms of Special and Differential Treatment<sup>§§§§</sup> – most of which have a poor track record<sup>\*\*\*\*\*</sup> – has prompted questions about how trade and the trading system can be made to work more effectively for each country's programme of economic development and poverty eradication.

One of the main challenges posed by mainstreaming is to marry the two different cultures of trade policy and development policy. The legal and political focus of the WTO on trade policy reform is driven by a highly centralised and formal process – negotiation and implementation of the WTO Agreements – and for LDCs it is only the thin end of a long wedge. The thick end of the wedge

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<sup>†††</sup> UNCTAD, The Least Developed Countries, various years.

<sup>†††</sup> UNCTAD, World Investment Report, various years.

<sup>§§§</sup> Blackhurst, Lyakurwa and Oyejide (2000); 15 Sub-Saharan Africa countries have no permanent WTO representation in Geneva at all.

<sup>\*\*\*\*</sup> See, for example, Libreville 2000, Final Communiqué of African Trade Ministers, WTO, Focuss, November 2000.

<sup>††††</sup> See WTO Ministerial Declarations, 1996 and 1998.

<sup>††††</sup> See, for example, Eliminating World Poverty: Making Globalisation Work for the Poor, UK Government White Paper, 2000.

<sup>§§§§</sup> The main ones are (a) more flexibility under the rules, (b) non-reciprocity in negotiations, and (c) preferential tariffs.

<sup>\*\*\*\*\*</sup> Hudec (1987).

involves a host of complementary policy reforms in areas outside the purview of the WTO, and costly investments in trade-related institutions, infrastructure, and human resources, which are undertaken at the discretion of each LDC – if at all – in the context of its own, comprehensive development programme.

Mainstreaming will require adjustments from both cultures if they are to work together to produce a more coherent approach towards trade and development for the LDCs<sup>††††</sup>. On the one hand, the trading system is being asked to take on board the costs and difficulties of trade-related policy reforms and capacity-building in LDCs when formulating its rules and procedures. On the other, the LDCs and their development partners are being asked to incorporate technical and financial support for trade policy reform into the development process much more deliberately than in the past. Neither adjustment will come easily. Discussion of the WTO's "Implementation" agenda last year made little headway towards finding agreement on how best to apply the flexibility of WTO procedures to help countries that are encountering problems in meeting their legal commitments. And questions about the relevance of open trade policies for economic development and poverty alleviation, as well as about the value of committing scarce resources to trade-related capacity-building in the face of competing demands from more familiar causes such as health care and education, continue to generate controversy among development experts<sup>††††</sup>.

In finding an accommodation, it is important to respect core responsibilities. It is not the WTO's role to become involved in the delivery of trade-related support and capacity-building, beyond the rather narrow compass of technical assistance for implementation of WTO Agreements. The WTO has no expertise or experience outside this area, and it should not set about trying to gain any. The way forward lies in the WTO cooperating more closely with organizations that are qualified to provide hands-on assistance to the LDCs. The Integrated Framework was designed with exactly that objective in mind.

The principal vehicle through which the WTO can contribute directly to mainstreaming is its rules and their related procedures, in particular transitional arrangements for developing and least-developed countries to implement their WTO commitments. Thought will need to be given to how to make room for mainstreaming to take place. The current transitional arrangements were constructed somewhat in haste at the end of the Uruguay Round, as the simplicity of the result suggests: five years of transition for developing countries for most things, and ten for the least-developed. That idea will need refining for the next trade Round, so as to take account of the individual circumstances and development priorities of developing and least-developed country Members; to address the importance of the proper timing and sequencing of trade reforms, in-and-of themselves and in conjunction with other policy and regulatory reforms; to support implementation through enhanced Trade Policy Review (TPR) surveillance; and to address problems more effectively through Committee work, in collaboration with those outside the WTO who are directly involved in trade-related support and capacity-building. These are core mainstreaming issues for the WTO and its least-developed country Members to reflect on.

#### The need for a policy framework

Mainstreaming trade into development for LDCs, with its connotations of increased financial and technical support to help them build trade-related capacity, does not reduce the need to get the economic policy fundamentals right. Money spent on trade-related capacity-building, in any country, in the absence of a sound trade, macroeconomic, and regulatory framework is likely to be money

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<sup>††††</sup> "Coherence" is one of the WTO's five core functions. See Marrakesh Agreement Establishing the WTO, Article III:5, and Marrakesh Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy-making.

<sup>†††††</sup> Rodrik (1999), Finger and Schuler (2000).



wasted – money that would indeed be better directed to health care, education, and other pressing development priorities. Equally, financial support for trade-related capacity-building is no substitute for improving the external policy environment that LDCs confront, in particular removing restrictions and distortions affecting exports of those goods and services in which they have a natural comparative advantage. Mainstreaming needs a policy framework. Its success will depend on improvements being made to the current one, by the least-developed countries and their trading partners alike.

It is intended that the main institutional vehicle for mainstreaming trade into development will be the country-led Poverty Reduction Strategy process that the IMF and the World Bank agreed, in September 1999, to place at the heart of their lending programmes for the world's poorest countries. This will help support the establishment of a coherent framework of policies, particularly macroeconomic policies, for each LDC involved. What will almost certainly be missing from that framework, however, is attention to the external trading environment that LDCs confront. It is appropriate, therefore, that this should be the first focus for attention in the WTO.

### The external trading environment for LDCs

Many countries have more cause to worry about damage caused by their own trade policies than by those of their trading partners, but the LDCs are more vulnerable to the external economic environment than are other countries. They lack surplus resources to help insulate them against hard times and external shocks, and their access to international capital markets is very constrained. In addition, they are more poorly equipped to deal with trade restrictions and distortions in their main export markets than are other countries, because a host of other domestic policy and institutional weaknesses inhibit their ability to switch resources into less restricted export sectors – even if they could, or should, given their natural comparative advantage.

The market access barriers facing exports of goods and services from the least-developed countries have been surveyed extensively, in the WTO and elsewhere<sup>§§§§</sup>. Given the various preferential arrangements under which LDCs trade into their major export markets, principally the European Union and the United States, the conclusion which is often drawn is that market access is not the main problem – the main problem is supply-side constraints which prevent LDCs from producing sufficient goods and services of high enough quality to take advantage of the access opportunities available to them.

Whether or not it is the main problem is not really the point. Market access remains a significant problem for many LDCs. Eloquent testimony to that effect was provided in a survey of private business opinion in LDCs carried out in 1997 by the International Trade Centre (ITC) for the *WTO High-Level Meeting on Integrated Initiatives for the Least-Developed Countries' Trade Development*. Market access restrictions, and inadequate information about market access conditions and opportunities, were identified as the most important bottlenecks to international business development in LDCs after lack of efficient trade support services<sup>\*\*\*\*\*</sup>.

The most recent detailed WTO survey of the market access restrictions facing LDCs dates from the *High-Level Meeting*<sup>†††††</sup>. At that time, the overall, unweighted, average, applied tariff facing the LDCs' principal exports into their twenty-three main export markets was 10.6 per cent<sup>+++++</sup>. The average was 1.8 per cent in their developed country export markets, and 14.5 per cent in their developing country export markets. As for quantitative restrictions and other non-tariff

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§§§§ For example, WTO (1997), OECD (1997), WTO (1998), World Bank (2001).

\*\*\*\*\* WTO (1997a).

††††† WTO (1997).

+++++ The twenty three markets accounted for 95 per cent of LDC exports in 1995.

measures<sup>§§§§§§</sup>, based on a measure of frequency of application, LDCs had a 6.2 per cent probability that their exports would encounter some form of barrier in their main developed country export markets, and a 16.5 per cent probability in their main developing country export markets. The products for which the incidence of non-tariff measures was highest correlated closely with those where the level of tariffs was also high in both their developed and their developing country markets. In other words, even assuming that the product "Made in an LDC" could get onto the shelves of the average WTO Member's supermarket in 1997, it was subject to a ten per cent tax at the check-out that was not levied on competing domestic products.

Quantitative restrictions and other non-tariff measures create a particularly serious obstacle to exporters from LDCs, because of their more limited means of gaining information about the measures and meeting the procedural requirements that are involved. The same goes for origin requirements in the case of tariff preferences. From the LDCs' perspective, the general rule about overseas market access restrictions is that if there are to be any at all, the simpler and more transparent they are, the better.

Since the *High Level Meeting* in 1997, and in line with its conclusions, a number of WTO Members have notified market access improvements in favour of the LDCs. The WTO has not yet conducted a detailed analysis of these improvements. Anecdotal evidence suggests, however, that the problem is still far from being resolved. Amongst the Quad countries, for example, only 1.2 per cent of tariff lines are subject to non-tariff barriers, yet most of these barriers are found in agriculture and in textiles and clothing, which are products of primary export interest to the LDCs and for which preferential access arrangements are still by no means comprehensive<sup>\*\*\*\*\*</sup>. In the United States, while only 311 of 5,000 tariff lines are above 15 per cent – the average MFN tariff rate for these tariff lines is 21 per cent, and the preferential rate for the LDCs is 18 per cent – yet 15 per cent of LDC exports to the United States face these tariffs<sup>††††††</sup>. And the result of current research in the World Bank suggests that scrapping peak tariffs in the Quad countries could lead to an increase in LDC exports of \$2.5 billion a year, equivalent to 11 per cent of their annual export earnings currently<sup>††††††</sup>. Clearly, there is still much more that the LDCs' trading partners can do.

Today, LDCs still depend on exports of a narrow range of largely unprocessed primary commodities and raw materials. These are susceptible to price volatility on world markets. Their price and income elasticity of demand is low. And their growth has been far more sluggish than world trade growth overall. This is one of the main factors hindering the LDCs' export performance. It also severely limits the stimulus that the export sector can provide to the domestic economy through backward linkage activities. As has been suggested repeatedly in the past, the diversification of their economies and their exports, especially into higher value-added manufactures, is seen as the most promising long-term solution to their increased participation in world trade.

It is from that perspective, as much as from the current *status quo*, that improvements in market access for the LDCs should be considered. Their need for open and predictable access to export markets, on a more geographically diversified basis than is the case at present, will increase as successful policy reforms and capacity-building lead them to higher productive efficiency and economic diversification. In that respect, for the LDCs preferential access is no substitute for bound MFN tariff reductions in products of primary export interest to them.

### Policy reform in LDCs

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§§§§§§ Import quotas, tariff quotas, non-automatic import licensing, prior authorization, import monitoring and surveillance, state monopolies, state trading, and canalised imports.

\*\*\*\*\* Finger and Schuknecht (1999).

†††††† Hoekman, Ng, and Olarreaga (2000).

†††††† Hoekman, Ng, and Olarreaga (2001).

The least-developed countries' ability to profit from the overseas market access opportunities available to them is heavily conditioned by domestic structural and policy-based constraints to expanding their exports. "Mainstreaming" offers a means for the LDCs' development partners to assist them to identify, prioritise, and tackle structural supply-side constraints – inadequate human and institutional capacity, and trade-related infrastructure. Each LDC government needs to be fully committed to, and engaged in, this process – it has to own the mainstreaming exercise if that exercise is to succeed. But where the need for political commitment in LDCs is probably greatest, and the task most difficult, is correcting the domestic policy-based constraints to increased efficiency and competitiveness.

Rich countries can, and do, trade-off economic efficiency in exchange for their political and social values. Europe's Common Agricultural Policy is a case in point. It is one of the many harsh facts of life facing poor countries that they do not have that luxury. They cannot afford the costs of inefficient resource allocation, nor the reduction of inflows of investment and technology that results from protecting uncompetitive domestic producers<sup>§§§§§§</sup>. Yet that does not make the job for them of overturning entrenched commercial or political interests with a stake in protecting current policies any easier than it is in rich countries.

In fact their task is more difficult. In rich countries, the agenda for the next trade Round can be discussed in reasonably comfortable isolation from other economic policy issues. In LDCs, the trade policy agenda is inseparable from the rest of the economic policy agenda. Tariff reductions, for example, can have significant fiscal effects in LDCs because of their dependence on trade taxes within a narrow tax base, and these are linked therefore to macroeconomic considerations. Tax reform needs to be considered alongside tariff reduction<sup>\*\*\*\*\*</sup>. More generally, the success of trade policy reforms can depend critically on complementary, and often costly, policy reforms and on relatively sophisticated and functioning domestic markets if these reforms are to produce a positive response. "Destroying bad jobs in order to be able to create better new ones" may be the academically correct (although not politically saleable) slogan to describe trade liberalization in the rich countries, but where domestic markets do not function well enough to allow that adjustment process to work its way through the economy, out of inefficient protected activities and into more competitive and productive ones, the result may turn out to be "destroying bad jobs and creating unemployment", which is neither politically saleable nor likely to contribute to poverty alleviation<sup>†††††††</sup>.

The task of combining trade policy reform with complementary domestic economic reforms that faces LDCs is enormous. In the example given above, a variety of factors can contribute to the failure of jobs to be created, from government regulations, to rigidities in labour markets, to macroeconomic imbalances, to lack of access to capital, and so on. Do we know anything about what needs to be done first, and in particular whether trade liberalization should figure in the vanguard of the reform effort?

Recently, the answer to that question has become more controversial than it used to be. Over many years, a large number of cross-country empirical studies have documented a strong relationship between openness to trade and growth<sup>†††††††</sup>. The challenge that has been lodged against them concerns (by and large) the direction of the causality that is at play: do more open economies grow faster, as has been the conventional wisdom until now, or do fast growing economies become more open *ex post* as the size of the domestic market begins to constrain their growth prospects? If it is the latter, the implication drawn might be that LDCs would be better advised to devote their scarce

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§§§§§§ Stiglitz (2000).

\*\*\*\*\* IMF (1999).

††††††† Stiglitz (2000).

††††††† World Bank (2001), Box 2.1.

resources and domestic political capital to changing policies that will raise the share of investment in GDP and maintaining macroeconomic stability, than to engaging in trade liberalization<sup>§§§§§§§§</sup>. If it is the former, trade liberalization is an essential element early on in a reform programme, so that scarce investment resources do not get locked up in inefficient protected activities, from which it becomes progressively harder to release them because of the vested commercial and political interests involved.

For LDCs, the most important practical conclusion to be drawn from the debate at this stage is probably that other policy distortions need to be tackled simultaneously if trade liberalization is to yield its promised benefits. There is a lesson in that too for the WTO. Sufficient time must be provided to the LDCs to implement their WTO commitments, in the context of a programme of broader economic reform, if those commitments are to yield tangible benefits to the LDCs in terms of economic development and poverty eradication.

The conclusion is borne out by the positive experience of many developing countries since the late-1980s which have applied a cocktail of economic reform policies to foster stable macroeconomic conditions, openness to trade, and moderate size of government<sup>\*\*\*\*\*</sup>. Trade liberalization and technological change have led to a pronounced increase in openness to competition of these countries during the 1990s. Privatization and more intense competition in domestic markets have increased their incentive to find lower-cost intermediate inputs and to search for new markets abroad. Technological improvements, many imported from abroad directly or bundled up in FDI, have reduced their communications and transportation costs. And through unilateral liberalization and regional and multilateral trade agreements, they have greatly reduced their trade restrictions and distortions. At the same time, their macroeconomic policies have become more prudent, keeping inflation low and fiscal deficits in check. Their balance-of-payments, and particularly current account deficits have become more manageable, and exchange restrictions on current account transactions have been reduced. With these changes, many developing countries have improved their growth prospects, and their tradeable goods and service sectors have considerably increased their potential to contribute to that growth.

In reviewing this experience of the developing countries during the 1990s, the World Bank finds that in certain respects, low income countries have participated in the general move towards creating a more favourable economic policy environment for growth to take place. In the case of tariffs, for example, the average tariff rate for low income countries fell from almost 45 per cent in the early 1980s to 20 per cent in the late 1990s, only slightly higher than the average for the middle-income countries. Even so, notes the World Bank, in spite of significant progress, many of the poorest countries have not put in place the policies necessary to raise living standards by improving (or even maintaining) export shares in traditional markets and encouraging rapid diversification.

The Bank points to two particular areas of economic policy-making which, along with weak export infrastructure, inadequate ancillary export services, and high transport costs – often in part also the result of policy shortcomings – remain important impediments to integration of many of the poorest countries in to the world economy. One is exchange rate instability and overvaluation. Appreciated real exchange rates and high real exchange rate volatility have often been associated with a muted export response to trade liberalization and other reform measures. The second is that institutional weaknesses, such as the absence of effective duty exemption/drawback programmes, coupled with the need to use tariffs on intermediate and capital goods as a revenue source, have acted as an effective tax on exports in many of the poorest developing countries and discouraged investment in the export sector<sup>††††††††</sup>.

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§§§§§§§§ Rodrik (1999).

\*\*\*\*\* World Bank (2001).

†††††††† See also Yeats and others (1997).

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Internal Reform as a Necessary Condition for Realizing the Benefits of Trade Liberalization: the Case of Regulatory Reform and Competition Policy

## **I. INTRODUCTION**

The importance of regulation and competition policy for international trade policy is increasingly recognized. Depending on their content and application, both can make trade easier or more difficult. This accounts for the acceptance of both as important and legitimate subjects for study in the framework of the WTO, even if there is not, as yet, agreement on whether the latter is ready for comprehensive rule-making. It is also increasingly recognized that both regulation and competition policy can be instrumental in the process of economic development. This is reflected, for example, in recent editions of the World Development Report as well as in ongoing work at UNCTAD and, very much, in the discussions that have taken place over the past three years in the WTO Working Group on the Interaction between Trade and Competition Policy. What is perhaps less clear, at least for some participants, is the role that the multilateral trading system should play in promoting sound approaches to regulation and competition policy and the extent to which it should be explicitly concerned with development-related objectives as distinct from trade liberalization *per se*. This is a significant conundrum for the system since, to some extent at least, the case for new initiatives on these subjects in the framework of the WTO rests on development-related as opposed to "pure" trade liberalization considerations.

Arguably, the concept of mainstreaming provides the missing link that reconciles trade liberalization and the role of the system in promoting microeconomic policy reforms that are important for development-related purposes. Mainstreaming refers to the process of integrating trade-related initiatives into the overall matrix of national development plans and poverty-reduction strategies. It recognizes both that trade liberalization *per se* can make a major contribution to development and income growth and that trade-related initiatives can foster and reinforce more specific development-related goals. More broadly, the concept of mainstreaming reminds us that trade and trade liberalization ultimately are not undertaken for their own sake, but for the contribution they make to higher incomes, poverty alleviation and the expansion of socio-economic opportunities – in a word, as a contribution to development.

This paper explores these relationships with reference to the particular case of regulatory reform and competition policy. It takes as a point of departure the premise that internal reform is often a necessary pre-condition for realizing the potential benefits of trade liberalization for growth and development. That is, in many cases, countries will not be well-poised to take advantage of the potential benefits of trade liberalization in expanding incomes and opportunities unless they simultaneously take steps to reduce costs and enhance the efficiency of infrastructure sectors such as telecommunications and transportation; eliminate artificial restrictions on entry, exit and pricing in industries where they exist; and otherwise establish and strengthen incentives for innovation, the creation of efficient management structures and productivity improvement. As such, trade liberalization and domestic reform are intimately linked. There should, consequently, be no objection to new initiatives in the system solely on the ground that they are not concerned with explicit regulation of the conditions of trade. The test, according to this view, should be whether new initiatives make a genuine contribution to development-related objectives and are reasonably related to ensuring that the benefits of trade are actually realized by the participating countries in the system.

More specifically, Part II of this paper explores the role of regulation and regulatory reform as elements of the domestic restructuring that may be necessary to take advantage of the opportunities

afforded by trade liberalization. It makes the case that efficient regulation and, where necessary, reform, can be reinforced both by trade liberalization and by the establishment of effective national competition agencies. A further complication is that regulatory reform without a strong national competition policy often will not be sufficient to ensure the efficient performance of markets. This begins to reveal the extent of inter-linkages among these policies. Part III discusses the role of competition policy in relation to economic development more broadly. It draws, among other sources, on work that has already been completed in the WTO Working Group on the Interaction between Trade and Competition Policy. Part IV broaches the role that international commitments can play in supporting welfare-enhancing internal reforms and effective national competition policies in developing countries, by helping to constrain the role of domestic constituencies that may be unenthusiastic about such reforms. The objective is *not* to defend a particular position in the debate on the need for a multilateral framework on competition policy but to draw out some of the underlying linkages between competition policy, regulatory reform, trade and the development process. Part V provides concluding remarks.

## II. REGULATORY REFORM AS AN ELEMENT OF DOMESTIC RESTRUCTURING

In contemplating the subject of regulatory reform as an underpinning of domestic restructuring, it is first necessary to emphasize that regulation in both developed and developing economies can and often does serve valid public purposes. For example, it is well-established that regulation can be an efficient response to market failures such as imperfect information, the existence of a natural monopoly (a situation in which a market is most efficiently supplied by a single firm) and other such problems.

Nonetheless, it is equally important to recognize that, often notwithstanding its avowed aims, regulation often thwarts rather than promotes efficiency and economic welfare. This is likely to be the case, for example, where it imposes restrictions on entry, exit and/or pricing in non-natural monopoly industries. In fact, experience in both developed and developing countries shows that, in many cases, rather than having regulation imposed on them for the public benefit, incumbent firms have often sought regulation for their own benefit, for the purpose of limiting entry into the industry and helping them to enjoy higher prices for their products.<sup>+++++</sup> Recognition of the significance of such conduct as a formidable barrier to economic development dates back at least to Krueger (1974), and is affirmed in recent analyses by the World Bank and other development-related agencies.<sup>+++++</sup> In the light of this, efforts to remove inefficient regulatory restrictions and establish economic governance and markets are increasingly recognized as being central to the process of development and growth.<sup>\*\*\*\*\*</sup>

The role of regulation, the need for reform and the role that the multilateral trading system can play in this area have been discussed extensively in the WTO Working Group on the Interaction between Trade and Competition Policy, since the inception of the Group in 1997. A number of delegations have shared with the Working Group their national experience with deregulation and the benefits which flowed from it. According to some delegations, and a related study by UNCTAD, this experience has shown conclusively that a commitment to competitive markets, rather than regulatory approaches, as the primary instrument of economic governance yields major benefits for competition, trade and economic welfare.<sup>+++++</sup> Note has also been taken that regulation is nonetheless needed in certain situations, for example in genuine situations of natural monopoly. However, the extent of such situations is becoming smaller as a result of technological changes.

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<sup>+++++</sup> The classic diagnoses of this problem are presented in Stigler (1971) and Jordan (1972).

<sup>+++++</sup> See, e.g., World Bank (1997) and UNCTAD (1998).

<sup>\*\*\*\*\*</sup> See World Bank (1997), World Bank (2000) and Frischtak (1995).

<sup>+++++</sup> UNCTAD (1997).

In the discussion in the Working Group, important links have been made between successful efforts at regulatory reform and the existence of effective competition agencies. First, the Group has been advised that advocacy activities by competition agencies have acted as a catalyst for pro-competitive reforms in both developed and developing countries. Second, the point has been made that the mere removal of regulatory controls or the privatization of former state monopolies – a related form of government intervention - without the simultaneous introduction of competition policy can leave the situation worse rather than better. The reason is that no fundamental change has occurred that creates incentives for improved economic performance.\*\*\*\*\*

Important links have also been drawn between regulatory reform and pro-development trade liberalization. The point has been made in the Working Group that a transition from regulation to reliance on competition policy (including, where required, pro-competitive regulation) can have the important beneficial side-effect of facilitating foreign direct investment and access to markets by foreign suppliers. The following examples of regulatory situations having adverse effects on competition and trade have been advanced: outmoded or unnecessary regulations; a failure by countries to recognize each others' technical standards; state zoning laws or sanitary and phytosanitary requirements that limit entry unnecessarily or serve as disguised tools for excluding competing suppliers; legal systems that facilitate strategic use of courts by firms to harass competitors; and discriminatory R&D funding practices. It has been suggested that the regulations that need to be reviewed could be classified as follows: regulation that openly discriminates in favour of domestic suppliers; regulations that are non-discriminatory on the surface but subtly discriminatory in their substantive requirements; regulations that simply are no longer needed; and poorly designed regulations that are desirable in principle but unnecessarily intrusive. Another categorization that was put forward for regulatory policies that could have negative impacts on trade is as follows: regulations that were unnecessarily restrictive; regulations that contained divergent or duplicative requirements (an important example was where they impose duplicative performance requirements); regulations that serve as instruments of vested interests; and regulations that lack transparency. Various suggestions were made for further work that might be undertaken on this matter, including in the framework of the WTO.\*\*\*\*\*

A word of reflection may be in order on the relevance of these concepts and findings to Least Developed Countries (LDCs). No doubt, the finer points of regulation and microeconomic policy reforms may not always seem relevant to countries suffering from massive public health crises, food and material shortages and political emergencies. Certainly, these will often eclipse microeconomic policy reforms in terms of public and political profile. It may also be the case that, at the outset of the process, much attention needs to be paid to even more basic rules and institutions of a market economy than competition policy, such as the basic rules and institutions relating to property rights and the enforcement of contracts. This said, much experience suggests that the lack of well-functioning markets and market institutions is a principal factor underlying underdevelopment, and the lack of economic and institutional stability that is sometimes observed in LDCs. Moreover, it is

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\*\*\*\*\* WTO (1998).

\*\*\*\*\* WTO (1998), paragraph 110. One such suggestion is that there is an urgent need for empirical research on the consequences for trade and competition of unnecessary, poorly designed and discriminatory regulations. Another is that the Group should give further consideration to the ways in which WTO disciplines attempted to address the trade and competition effects of regulatory policies. It has also been suggested that the Group should give consideration to developing a WTO guideline to provide for regular and systematic review of national regulatory policies in the light of competition policy principles. The view has been expressed that this would help to enhance the transparency and effectiveness of reform efforts and be a useful tool in promoting freer access to markets; and that such a guideline, administered by the WTO, would have significant advantages for developing countries: it would elevate the transparency and legitimacy of reform efforts, provide access to relevant past experiences of other countries, and help to overcome bureaucratic resistance. WTO (1998), paragraph 111.



self-evident that LDCs may not be in position to implement the necessary reforms by themselves. The challenge for the international community is to identify ways of assisting the LDCs to implement the necessary reforms in ways that unambiguously enhance their development prospects.

### III. THE ROLE OF COMPETITION POLICY IN DEVELOPING MARKET ECONOMIES

Much attention has been given in the WTO Working Group on the Interaction between Trade and Competition Policy to the need for, and role of, competition policy in developing countries.\*\*\*\*\*

While not all Members may as yet be persuaded, there is broad acceptance at least in principle of the relevance of competition policy to the development process, including even for countries at early stages of development. A few of the reasons that have been advanced in the Group for the implementation of competition policy are as follows:††††††††††

- An adequate legislative and policy framework is required to protect consumers and industrial users from anti-competitive practices that raise prices and reduce output. In fact, the Group was informed that a large proportion (according to some Members, a majority) of cases of anti-competitive practices in developing country settings involve the supply of intermediate products purchased by other businesses, rather than goods purchased by final consumers. This underscores the adverse impact such practices can have on local production and the importance of an effective competition policy in this regard;
- the suggestion has been made that the role of competition policy in addressing the trade-related effects of anti-competitive practices of enterprises may be particularly important in a developing country setting. For example, the impact of anti-competitive practices in restricting access to markets by firms located in developing countries may be particularly significant;
- the point has been made that the implementation of a transparent and effective competition policy can be an important factor both in enhancing the attractiveness of an economy to foreign investment, and in maximizing the benefits of such investment. In this regard, competition policy can enhance the attractiveness of an economy for foreign investment by providing a transparent and principles-based mechanism for the resolution of disputes involving such investment that is consistent with international norms that are widely accepted internationally. Vigorous competition in markets, reinforced by competition policy, also helps to maximize the benefits of such investment to host countries, by encouraging participating firms to construct state-of-the-art production facilities, to transfer up-to-date technology into host countries and to undertake appropriate training programmes, and by preventing the exploitation of consumers. The suggestion has been made in the debates that these effects may be particularly important in developing countries, in view of the crucial importance for such economies of the technology transfer that can accompany foreign direct investment;
- as noted, the point has also been stressed that competition policy can reinforce, and may be essential to realizing, the benefits of privatization and deregulation programmes and initiatives. The argument here was that, unless appropriate measures are taken to ensure inter-firm rivalry, and to prevent the continuation and/or

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\*\*\*\*\* See Anderson (2000).

†††††††††† Report (1998), paragraph 36.

re-establishment of monopolistic market structures, no fundamental change will occur in the incentives facing firms that will improve their overall behaviour and performance. This benefit of an effective competition policy may be particularly important for countries undergoing transition to a market-based economy, in that they face particular challenges and dilemmas in introducing the necessary pro-competitive reforms to accompany privatization and deregulation programmes.

As a final comment on the relationship between economic development and competition policy, it is increasingly clear that anti-competitive practices, in particular but not exclusively international cartels, not only are more numerous and durable but also impair the process of development in developing countries more significantly than has previously been thought. This is true for at least three reasons:

- First, because in the early stages of their industrialization, and given their narrow domestic industrial base, developing countries have to rely on imports. To the extent that such imports are subject to anti-competitive practices either by domestic firms (for example, an import cartel) or by foreign suppliers of these imports (for example, an export or international cartel), the importing country will be penalized by higher than necessary import prices;
- second, because to achieve economic development, and in view of the fact that they have narrow based domestic markets which leads them to rely on export markets, developing countries will be penalized by international cartels, or by import cartels and by abuses of dominant positions in the countries of export;
- third, because foreign firms feel all the more free to engage in across-the-border anti-competitive behaviour when the countries to which they export do not have a domestic competition law and can neither individually nor through cooperation with foreign competition authorities challenge the firms' market behaviour. Thus, countries which do not have a domestic competition law will be the prime victims of transnational anti-competitive practices.<sup>+++++</sup>

Available evidence shows that, for long periods of time, international markets for goods as diverse as steel products, industrial diamonds, heavy electrical equipment, graphite electrodes, lysine, food additives, vitamins and many others have been subject to established quotas of production or export and or to fixed prices which meant that importing countries were rationed and paid artificially inflated prices for their imports.<sup>+++++</sup> In fact, this is just the tip of the iceberg, since it is known that, currently, in the US there are thirty grand juries investigating international cartels. A common feature of some of these cartels (for example, the heavy electrical equipment cartel) is that they have persisted in countries that lack an adequate competition law and have engaged in systematic predatory pricing or dumping when new entry is threatened by suppliers from developing countries.

An argument that is sometimes invoked by sceptics of the usefulness of competition laws in developing countries is that such laws may in fact be used as a Trojan Horse by multinational corporations to destroy the national economies of developing countries. For example, an official of a developing country which does not have a competition law has made the following argument, in a conversation with one of the authors: "There exists a suspicion that advanced nations do not seem interested in countering international RBPs (restrictive business practices) of TNCs (trans-national corporations). In other words, the EU and the US especially aim at ensuring that developing countries

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<sup>+++++</sup> See Jenny (2000).

<sup>+++++</sup> Useful information on many such cases is contained in U.S., International Competition Policy Advisory Committee (2000).

institute effective antimonopoly laws at the national level but do not seem to be interested in dealing with anti-competitive behaviours and RBPs of their TNCs at the international level."

This argument raises the issue of the limitations of domestic competition laws, without recourse to international cooperation, to solve some of the problems raised by cross-border anticompetitive practices. In any case, the adoption of domestic competition laws is a useful and necessary first step for countries wishing to be in the position to protect themselves against international anticompetitive practices which originate outside their territories but have an effect on their domestic markets. The evidence indicates unambiguously that countries without such laws are intrinsically vulnerable to these practices.

#### **IV. THE ROLE THAT INTERNATIONAL COMMITMENTS CAN PLAY IN PROMOTING REGULATORY REFORM AND COMPETITION POLICY: INTERNATIONAL COOPERATION AS A REMEDY FOR POLITICAL MARKET FAILURE**

In an important recent contribution to the theory of international economic policy-making, Birdsall and Lawrence (1999) make the case that a principal benefit of trade agreements aimed at measures beyond the border can be to facilitate domestic policy reforms, by providing a tool for overcoming domestic constituencies that could otherwise block the reform process. In our view, this is directly relevant to the case of regulatory reform and competition policy. Indeed, Birdsall and Lawrence refer specifically to the case of competition policy, observing that:

"When developing countries enter into modern trade agreements, they often make certain commitments to particular domestic policies – for example, to antitrust or other competition policy. Agreeing to such policies can be in the interests of developing countries (beyond the trade benefits directly obtained) because the commitment can reinforce the internal reform process. Indeed, participation in an international agreement can make feasible internal reforms that are beneficial for the country as a whole that might otherwise be successfully resisted by interest groups. For example, trade negotiations may help mobilize more diffuse but ultimately more representative groups, such as consumers (as well as potential exporters), who will benefit from increased trade and whose interests more accurately represent overall welfare, thereby offsetting the influence of organized producers and workers who compete with imports. In many cases, domestic forces interested in liberalization will find their case strengthened if they can present their policies as fitting part of an international liberalization agreement."\*\*\*\*\*

In other words, an (appropriately-constructed) international agreement might assist countries in overcoming "political market failures" or rent-seeking activities that reduce welfare and impede development.††††††††††

Interestingly, the potential contribution of international agreements in correcting political market failures has been referred to specifically in the WTO Working Group on the Interaction between Trade and Competition Policy, as a key rationale for enhanced cooperation on competition policy at the multilateral level. Political market failures are possible or even likely in the field of

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\*\*\*\*\* Birdsall and Lawrence (1999), p. 136.

†††††††††† On reflection, it seems clear that the role of international agreements in bolstering domestic reforms that are welfare-increasing but politically difficult to achieve is not, in principle, different from the role that they have played in respect of tariff reductions. The theory of international trade suggests that, in principle, it is in countries' interests to eliminate tariffs, even unilaterally. Notwithstanding this, most countries have found it possible to systematically reduce tariffs only with the added leverage provided by international agreements.

competition policy since, in many cases, anti-competitive practices that harm economic welfare are likely to be particularly associated with concentrations of economic power, whereas the interests of the consumers who are the victims of such practices are likely to be more diffuse. This, it has been suggested, may well result in under-investment in competition policy institutions particularly in developing countries. In the course of the Working Group's work, the view has been expressed that cooperation at the multilateral level could be particularly helpful in generating political support for the implementation of effective competition policies at the national level; in ensuring that such policies are applied in a non-discriminatory and transparent manner; in promoting common approaches to particular practices where this seems feasible and warranted; and in promoting educational exchanges regarding the content and sound application of competition policy. Through such initiatives, it has been suggested, cooperation at the multilateral level could contribute to remedying "political market failures" that result in less than optimal support and resources for competition policy. ++++++

To be sure, the foregoing is not the only rationale that has been advanced by the proponents of a multilateral framework on competition policy. Specific objectives that have been advanced include promoting the growth of strong national competition agencies in developing countries, to protect them from anti-competitive practices that impact on their consumers and businesses; promoting (voluntary) cooperation between the competition agencies of participating countries, to assist them in investigating particular cases; and contributing to a greater degree of "balance" in the WTO system between the rights of producers and the protection provided for consumers and other members of society.

The foregoing is not intended to and clearly does not resolve the debate as to whether there is a need for a multilateral framework on competition policy in the WTO and, if so, what would be the parameters of such a framework. Indeed, this is a complex and multifaceted question which is beyond the scope of the present paper. Much would depend on the specific terms of such a framework. Here, it is relevant to note that, as stated above, the current proposals in the WTO focus more on supporting the growth of competition agencies in developing countries than they do on market access objectives *per se*. Moreover, much of what is embodied in the current proposals is already contained in regional trade agreements and bilateral agreements on competition policy to which a growing number of countries are party. In principle, developing countries could gain much from multilateralization of these cooperation mechanisms and the resulting sharing of information and experience across as well as within regions. Notwithstanding this, it is evident that the question is a complex one that can only be resolved through further discussions and debate.

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+++++ WTO (1998).

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## **PANEL B: PRESENTATIONS**

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Please refer to joint presentation made with Mr. Uri Dadush entitled "Tackling the Trade Agenda in the Poorest Countries" in Presentations by Panel D.

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### **Mainstreaming Trade Policy**

#### **1. INTRODUCTION**

The completion of the Uruguay Round of trade negotiations and the impact of globalization on the developing world, have brought to the fore, the need for Least-Developed Countries (LDCs), to examine how best they can position themselves to take advantage of the benefits and minimise the negative impacts that may arise from these two aspects. Due to the perversity of poverty in the LDCs, the need for such a re-examination has been heightened by the need to promote growth and poverty eradication. Such a re-examination has centred around the need to undertake trade policy reforms as they are seen as the best means for LDCs not only to take advantage of the changes taking place in the international trading system and from globalization, but also to engender the growth needed to tackle the problem of poverty.

In this paper we focus on the need for mainstreaming trade policies into development policies, where mainstreaming trade involves the process and methods of identifying and integrating trade priority areas of action into the overall framework of country development plans. Thus trade priority areas of action need to be reflected in poverty reduction and national development plans and strategies. Another reason for not undertaking trade reforms or developing trade policies in isolation is that the benefits of trade reform and liberalization are only fully realised in the presence of mutually supportive policies.

#### **2. THE ROLE OF TRADE IN DEVELOPMENT OF THE LEAST-DEVELOPED COUNTRIES**

##### **2.1 Trade and economic growth**

The role that trade is supposed to play in promoting growth and reducing poverty cannot be overemphasized. Development literature abounds with studies that indicate, both from theoretical underpinnings and empirical studies, the positive links between trade and development. It is argued for example that increased trade, promoted by liberalization policies, acts as a powerful stimulus to economic growth, and that open trade regimes lead to higher rates of economic growth. Trade may facilitate international diffusion of knowledge, thereby speeding up growth. At the same time, trade may also stimulate innovation and growth by expanding the effective market size by producers<sup>§§§§§§§§§§</sup>. While the links between trade and growth are varied and not unidirectional, generally, cross-country studies have indicated that dismantling trade barriers stimulates exports and hence economic growth<sup>\*\*\*\*\*</sup>.

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§§§§§§§§§§ "International Trade Policies: the Uruguay Round and Beyond, " Vol. 1, Principal Issue, *World Economic and Financial Surveys*, IMF, 1994.

\*\*\*\*\* See Kruger (1978), Dollar (1992) and Edwards (1992).

It has been indicated that growth is constrained in many LDCs due largely to structural weaknesses that underlie their poor productive capacities and competitiveness, i.e., supply-side constraints. These include:

- The lack of linkages within and between productive, service and infrastructural sectors which limits the potential for specialization and gains in productivity;
- Insufficiently developed human resources, which lead to a paucity of managerial, entrepreneurial and technical skills;
- Shortcomings in production units related to weak technological capability and adaptive research;
- Deficiencies in the physical infrastructure (e.g. transport, power, and storage facilities) and other support services such as telecommunications, financial services and other technical support service institutions, particularly for marketing and input and outputs; and
- The inability of LDC economies to generate adequate resources for investing in alleviating the above constraints in order to enhance productive capacity.

The expected levels of financial and technical support from the international community, that were meant to complement domestic resources have in turn not materialised.

## 2.2 Trade and poverty reduction

Experience suggests that rapid economic growth translates into sustainable reductions in poverty, and that there is a significant association between trade liberalization and long run improvements in economic growth. Thus there is likely to be a positive link between liberalization and eradication of poverty (Matusz and Tarr ...). Recently, a WTO study (2000) indicated that trade liberalization helps poor countries to catch up with rich ones and that this faster economic growth helps to alleviate poverty. The experience of Korea, is cited as a good example of the link between trade and poverty reduction<sup>+++++</sup>. It is argued for example, that trade reform can lead to an increase in employment in developing countries, according to the Heckscher-Ohlin model. This follows from the fact that developing countries have an abundance of unskilled labour, and that such countries have a comparative advantage in goods that use unskilled labour intensively. Under such circumstances trade reforms that remove policies that favour the import competing sector at the expense of (labour intensive) exports sector, ultimately result in expansion of the latter and contraction of the former. Any increase in the demand for unskilled labour results in a combination of higher wages and employment for this segment of the population. This indeed leads to a reduction in poverty and inequality. Recent studies (Papageorion, et al., 1996; Parker et al., 1995; and Harison and Revenga, 1995) suggest that trade reform has had the expected positive impact on employment in a variety of countries. Thus trade liberalization is expected to impact on the poor from two angles. First, their wages rise as demand for labour increases. Secondly, prices of the goods and services they consume decline as trade removes supply constraints and price distortions. There are fears that in some circumstances liberalization may lead to "de-industrialisation". However, this seems to be the exception rather than the norm and is usually associated with cases where the reforms are not wide enough.

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<sup>+++++</sup> "Trade, Income Disparity and Poverty", WTO, *Special Study No. 5*, 2000

## **2.3 The need for trade reforms**

The need for trade reforms has been well recognised in the development world for the past decade or so. Particularly, the failure of ODA to provide growth and poverty reduction, has made the long "trade and not aid" phrase, the more important among LDCs. Sometimes, trade reforms are opposed to due to fears concerning revenue losses, especially in situations where trade taxes constitute a large chunk of tax revenue. However, evidence tends to suggest that generally, removal of trade barriers (especially quantitative restrictions) leads to an increase in revenue and improved macroeconomic stability.

There is ample evidence that trade reforms undertaken by the developing countries during the 1990s, which focused on trade liberalization, and undertaken as part of integrated packages that include macroeconomic and other structural reforms (including exchange rate systems) lead to increased capital flows (Asia and Latin America) and helped boost productivity and exports. However, it should be recognised that developing countries have not often enjoyed the full benefit of such trade reforms. This is because such reforms have been undertaken unilaterally. As observed by the IMF (1994), developing countries still face a range of tariff and non-tariff trade barriers in industrial country markets. Tariff escalation is a problem especially in such areas as agriculture, textiles, etc.

## **2.4 Why mainstream?**

From the above it is quite clear that trade liberalization can be an instrument for promoting growth and reducing poverty. This is why many developing countries incorporate trade reforms in their development and poverty reduction strategies. Moreover, experience suggests that trade policies are impacted by policies in other sectors. For example, agricultural and industrial policies have an impact on trade policies. In the Gambia, policies within the groundnuts sub sector, have been known to have an adverse impact on trade. Thus, unless policies in these sectors are synchronized with trade policies, trade policy reforms alone will not yield the intended benefits. This is why it is very important that trade policies be mainstreamed into the overall development framework. The Integrated Framework (IF) is now being adopted by many developing countries as a strategy for ensuring that trade policies are effectively streamlined into overall country development frameworks.

# **3. TRADE POLICY IN THE GAMBIA**

## **3.1 Background**

The Gambia is predominantly an agricultural country. Although the agricultural sector contributes only 25 per cent of GDP, it is the source of livelihood for over 75 per cent of the population, who live in the rural areas. The agricultural sector is characterised by low productivity, and this is largely due to excessive reliance on poor technology. Structural and cultural problems also hamper the development of the sector. These include the limitations on women's rights to land ownership, the absence of a rural credit network and the insufficient access of farmers to modern techniques and adequate inputs. The manufacturing sector is small and rudimentary, consists largely of construction and contributes about 10 per cent of GDP. The services sector, which is dominated by the hotels industry and a vibrant informal subsector, contributes about 65 per cent of GDP, and is the main foreign exchange earner.

The Gambia has a limited resource base, and infrastructure is generally underdeveloped and suffers from lack of maintenance. Rapid population growth and increasing urbanization have posed a threat to the environment and put pressure on the limited natural resources, thus aggravating environmental problems such as soil degradation, loss of forest cover, loss of biodiversity, and poor sanitation. The basic social indicators clearly demonstrate pervasive poverty in the country. For



example, only 50 per cent of the population have access to clean drinking water. According to the 1998 Household Poverty Survey, 37 per cent of Gambian households and 51 per cent of the population are extremely poor. At the same time, in the area of education, enrolment rates are low, particularly among girls. In 1995/96 the combined enrolment ratio stood at 35.5 per cent. Literacy levels are very low, with the overall illiteracy level standing at 63 per cent and that for females at 78 per cent (1993). Latest health statistics indicate that although as much as 90 per cent of the Gambian population have access to health services, the majority of the rural population cannot access health facilities if we take into consideration affordability of transport costs and drug recovery charges. The incidence of malnutrition is quite high with children being the most affected group, while under-five mortality estimated at 192 per 1,000 (1993), is one of the highest in the subregion, albeit on a declining trend. In addition, rapid population growth, coupled with slow economic expansion over the years has resulted in a decrease in employment opportunities for a growing labour force, while under-employment and low productivity are rampant in the rural areas. Unemployment, particularly among the youth in urban areas, is a very serious concern.

The country is heavily dependent on foreign trade, which accounts for about 75 per cent of GDP, and relies on imports for capital goods as well as most of its consumer goods. As such, trade policy features very prominently in the country's development strategy.

During the decade following Independence from Britain (1965-1975), The Gambia enjoyed a relatively stable macroeconomic environment, which allowed it to make substantial progress both on the economic and social fronts.

### **3.2 Overview of the Trade Sector**

The Gambia is basically a resource poor Sub-Saharan, mono-crop, subsistence African economy with a small domestic market. The country is heavily dependent on foreign trade and generally relies on imports both for capital goods as well as most of its consumer goods. International trade is stimulated by the strategic location of Banjul as an entrepôt centre, which has been facilitated by the maintenance of low import taxes, anchored on a liberal trading system and the entrepreneurial verve to maintain a competitive edge over neighbouring countries.

#### *Imports*

The FOB value of imports at current prices is projected at D2.36 billion in 1997/98 of which approximately D833.8 equivalent to 35.3 per cent of imports are re-exports. Over the last three years the import trade has grown by an average of 36.2 per cent over the 1997 amount of D1.92 billion, attributable to increases in both the value and volume of imports between 1994/95 to 1996/97. A significant rebound of the tourism trade from its depressed levels of 1994 and an accelerated pace in the implementation of public sector projects substantially contributed to the buoyancy of imports.

The major source of imports are industrial countries especially the United Kingdom, the Netherlands, Germany, France and the United States of America as well as China; Chinese Taipei and Senegal.

The Gambia's import regime is characterized by low and moderate tariff structures within a ban of zero to twenty per cent, without any non-tariff import barriers. The maintenance of an open and liberal trading system has contributed to the recognition of and expansion of The Gambia as an entrepôt and trading gateway for the West African subregion, thereby assuring the availability of a wide variety of tradable goods in the economy at internationally competitive prices.

Tariffs remain the primary means of import protection. However, the number of industries that are protected through excise duties are limited to beer, soap, sugar confectionery, wheelbarrows

and nail manufacturing. The tariff structure is also two-pronged in respect of goods originated from the ECOWAS Zone, which attract moderate tariff levels.

The Gambia has effectively fulfilled its obligations for reduction of its common external tariff under the Uruguay Round Agreements. The maximum duty rate is now 20 per cent, except for relatively few items. The number of import bands have been reduced to 19.

### *Exports*

The value of exports at current prices increased marginally from D1,166 million in 1994/95 to D1,317 million in 1996/97. The export of groundnuts, and its derivatives, the traditional mainstay of the Gambian economy witnessed a decline from D107 million in 1994/95 to D57.5 million in 1996/97. Re-exports, however increased by 21 per cent over the corresponding period.

### **3.3 Trade policy objectives**

“The objective of The Gambia Trade Policy is to maintain an open and liberal trading environment and to better integrate the Gambia into the World economy. In this regard, the thrust of the trade policy is to systematically and progressively pursue the promotion and development of a competitive trading environment and to continuously endeavour to move from low value added primary products to higher value added products and to foster integrated production structures as well as downstream and upstream product and service linkages in support of poverty alleviation and sustainable socio-economic development by increasing the per capita incomes of The Gambian population through increased domestic and international trade.”\*\*\*\*\*

Export promotion and diversification are the main aims of the Gambia’s trade policy, but there are no official export financing, insurance, or guarantee schemes. The share of the country’s exports – even its main exports, groundnuts – in total world trade is small as a result of which the country may be facing elastic demand curves for all its exports. On the contrary, the country has to tackle structural factors that hamper a more efficient and competitive export production and constrain its export performance (Kirkpatrick 1997:40).

The Gambia is a member of the Economic Community of West African States (ECOWAS) and maintains reciprocal trade agreements on most-favoured-nation treatment basis with two countries: United Kingdom and Senegal. Within the ECOWAS Trade Liberalization programme which came into force on 1 January 1990, for a period of 15 years, the ECOWAS scheme postulates the total elimination of customs duties and taxes of equivalent effect, removal of non-tariff barriers and the establishment of a Customs External Tariff to protect goods produced in member states.

At the same time, The Gambia acceded to the WTO on 23 October 1996. This calls for compliance with the WTO Agreements, if the country is to benefit from new trade under the preferential duty free treatment and low most-favoured-nation tariff treatment for imports into the European Union, Japan and the United States of America, within the framework of the Uruguay Round Agreements (URA) as well as any pre- Uruguay round benefits.

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\*\*\*\*\* See The Republic of Gambia (1998), *Trade Policy Framework for the Gambia*.

Country	Duty free treatment (% of imports)		Duty free and low MFN tariff treatment (% of imports)	
	Pre-UR	Post-UR	Pre-UR	Post-UR
European Union	24	38	74	80
USA	10	40	82	85
Japan	35	71	55	78

Source: Blackhurst, Enders, and Francois 1995

From the above, it is imperative that in formulating its trade policies, The Gambia must take cognisance not only of its trade policy objectives but also regional and international trade commitments.

### 3.4 Adjustment Policies and Structural Reforms

The Gambia has been implementing Structural Adjustment Programmes and Policy Reforms for over two decades. Mid-1985, the Gambia launched the Economic Recovery Programme (ERP) in collaboration with the World Bank, the International Monetary Fund (IMF). Other bilateral and multilateral donors, including the African Development Bank (ADB), the Islamic Development Bank (IDB), Kuwait fund, and the European Economic Community (EEC) also provided support to the ERP. The aim of the ERP was to transform the economy into a market oriented one. To this end, the Gambia designed and implemented a reform programme whose main objectives were:

- To restore the basis for sustainable economic growth and a viable balance-of-payments position over the medium term;
- Reintegrate the parallel economy into the official sector;
- Normalize relations with external creditors;

The programme focused on adjustment measures and structural reforms in the areas of incentives policies, fiscal and monetary policies and public sector reform, which were aimed at reversing the declining trend in growth, redressing domestic and external imbalances and stabilising the economy. The following were the key elements:

- A tight fiscal policy involving improved expenditure control and a broadening of the tax base;
- A restrictive monetary policy;
- Strengthening of economic incentives, including the lifting of most price controls and the introduction of a market-determined exchange rate in the context of a liberalized trade and payments system; and
- The divestiture and rationalization of a number of public enterprises.

The economy responded positively to these reforms. Between 1985/90, GDP growth averaged about four per cent per annum. The exchange rate stabilised and the fiscal deficit, including grants, fell to five per cent of GDP. At the same time arrears in external payments were wiped off and gross official reserves rose to the months equivalent of import cover. These developments, coupled with the progress that was achieved in the areas of administrative and civil service reforms,

culminated in the holding of a Round Table for the Gambia in July 1990. At this Round Table, the donors endorsed the launching of a Programme Sustained Development (PSD), which focused on consolidating the gains of the adjustment process, thus far, and to achieve a long run expansion of the productive capacity of the economy to support a significant improvement in the living standards of the population. Promotion of the principles of a free market economy and development of a strong and vibrant private sector, were the 'kingpins' of the PSD.

Up until 1993, The Gambia was heralded as one of the "star performers" in as far as undertaking economic reforms and adjustment was concerned. The results were there to show for it. By 1993, the domestic and external imbalances were practically eliminated. For example, real GDP growth averaged 3.3 per cent during the period 1985/88 to 3 per cent in 1992/93. At the same, the average annual inflation rate was reduced from 46 per cent in 1986/87 to 6.

The Gambia's external position improved considerably. The gains in competitiveness, coupled with the enhanced price incentives had a positive impact on diversification of the production and export base, thereby leading to a build up in gross official reserves to about five months of import cover, and elimination of external payment arrears.

However, these positive developments were rather short-lived. It must be indicated that notwithstanding the improvements in the economic and financial situation, The Gambia continued to be confronted with major structural, institutional and financial constraints. The economy is characterised by a narrow economic base and heavy dependence on external assistance. A high population growth rate (3.5- 4 per cent per annum), high level of illiteracy (about 73 per cent) and food insecurity, make the economy highly vulnerable to any domestic or external shocks.

In addition, the gains realised from the structural and economic reforms initiated in 1985/86 were short-lived. From mid-1993, the Gambian economy suffered from a series of exogenous shocks.

On the external front, in August 1993, repurchase of the CFA Franc were suspended and border controls were tightened by Senegal, and subsequently in January 1994 the CFA Franc was devalued as part of a broad adjustment programme in the CFA Franc zone. The developments significantly dampened the Gambian re-export trade, which declined in real terms by about 24 per cent in 1993/94 and 13 per cent in 1994/95. Unfavourable terms of trade on the domestic front, an unduly fiscal stance, increasing structural weaknesses and diminished private sector confidence, coupled with the military take over, in July 1994, dealt a same blow to economic prospects in The Gambia.

A combination of the above factors resulted in a drastic deterioration in the economic and financial situation in the country. Real GDP registered a negative annual growth rate of four per cent in 1994/95, while gross investment fell from 21 per cent of GDP in 1992/93 to 16 per cent in 1994/95. Re-export trade and tourism, both declined drastically, while the country's overall balance of payments moved into a deficit for the first time in nearly a decade (see Table 1.).

The implementation of the Programme for Sustained Development (PSD) came to a halt following the July 1994 *coup d'état*. The unfavourable travel advisory that followed the coup reduced the number of tourists into the Gambia by more than fifty per cent. At the same time, the Gambia's external development partners (except the UN family) suspended all project and budgetary aid.

### **3.5 Trade policy reform**

Trade reforms were important components of both the ERP and PSD. The trade reforms that were initiated during the ERP were consolidated during the PSD and strengthened during the post 1994 era. These reforms were largely changes to the tariff regime.

Generally speaking, the trade and tariff reforms of the Gambia are underpinned by a liberal market oriented economic structure, responsive to shifts in demand. Import duties on international trade represent a significant portion of Government revenue, consequently, fluctuations in international trade impact on government revenues. The share of international trade taxes in total tax revenue is estimated at 57 per cent of total revenues in 1999; reflecting a decline of 12 per cent from its traditional contribution of approximately 70 per cent in previous years due in part to the tariff reforms and the political crisis in the subregion which adversely affected the re-export trade. Although international trade taxes have declined in relative terms, it remains the largest source of government revenue. The introduction of the sales tax in 1990 replaced the import tax and led to the abolition of the export taxes. §§§§§§§§§§. It goes without saying that the Gambia relies greatly on international trade taxes, a situation that may not be viable in the long run given the current trend in international trade negotiations and the ongoing regional integration efforts of which the Gambia is an active participant. Future reform efforts should therefore focus on diversifying the fiscal revenue.

It should be pointed out that considerable progress was achieved in the Gambia during the ERP and PSD in terms of trade reforms, including the following:

- The total elimination of quantitative restrictions;
- rationalization of import duties;
- abolition of the import tax;
- the introduction of a sales tax;
- the abolition of export taxes; and
- the replacement of all but three specific duties with ad valorem duties.

During the post PSD and ERP era, reforms have continued progress has continued to be made, and these include the following:

As an integral part of its tariff harmonization exercise, and effective from January 1999, all duty rates above 20 per cent have been reduced to 20 per cent and a revenue tax introduced on cigarettes, vehicles, alcohol, beverages, soap, wheelbarrows, sugar confectionery and nails.

The objective of the current tariff structure is to provide a secure revenue base for Government and to minimise the level of distortions within the structure of the economy. The new tariff structure consists of 19 tariff rates ranging from zero for essential consumer goods such as rice, raw materials and government imports to a maximum of 35 per cent revenue tax on vehicles. Other revenue taxes are charged on the following commodities as follows:

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§§§§§§§§§§ See, DOSTIE (1998) , Trade Policy for The Gambia: Towards a Proposal for a New Trade Regime-Tariff Reform; Banjul.

	Duty	S/Tax	Rev-Tax	Env-Tax
a) Cigarettes	20%	10%	D80/ctn	D13.62/kg
b) Vehicles - New	20%	10%	20%	-
from 1000cc - 2000cc	20%	10%	35%	-
from 2000cc - above				
c) Used vehicles of less than D25,000	D10,000	10%	-	D1,000
d) All alcoholic beverages	20%	10%	D25 p/Litre	-
e) Soap	20%	10%	D5.5/kg	-
f) Wheelbarrows	20%	10%	5%	-
g) Sugar confectionery	20%	10%	5%	-
h) Nails	20%	10%	5%	-

According to the overall trade restrictiveness measure presented by the IMF (1997), the Gambia could be classified as a country with a relatively open tariff system and an open non-tariff barriers regime.

As a result of and in fulfilment of its obligations as a Member of the WTO, the Gambia has begun the process of making its trade classification, customs valuations and pre-shipment inspection systems comply with the requirements of the Uruguay Round Agreements. To this same end, the Standard International Trade Classification (SITC) system was replaced by the Harmonized System (HS) nomenclature in 1996, which is currently in force. The Department of State for Trade, Industry and Employment has initiated the process for the review of its domestic laws and regulations on verification of the quality, quantity and price of goods and their customs classification to conform to the Agreement on Pre-Shipment Inspection (PSI).

After the introduction of the flexible exchange rate system in 1986, all specific import duties were converted into *ad valorem* equivalents in line with the Brussels Definition of Value (BDV) developed by the World Customs Organization. The overall structure of import tariffs have since been significantly modified to avoid excessive taxation of intermediate inputs and other anomalies while average duty rates have been lowered. The general duty rate of 6 per cent applied to all imports was eliminated in 1988 following the introduction of the national sales tax at the rate of ten per cent, which remains applicable to a broad range of goods and services, with the exception of telecommunication services which attract a sales tax of 15 per cent.

Beginning in 1999, further simplification and rationalization of the import tariff structure was embarked upon by significantly reducing the number of import duties and their rates ranging from zero per cent to 20 per cent. The zero duty rate will be applicable to a few selected essential commodities. However, a limited number of excise taxes have been introduced on petroleum products, wheelbarrows, sugar, confectionery, nails, soap, alcohol, tobacco and vehicles. An environment tax has also been introduced on tobacco and used vehicles.

Government intends to change its system of custom valuation from the current BDV and adopt the Uruguay Round Agreement on customs valuation<sup>\*\*\*\*\*</sup>. Where necessary, the Government of The Gambia will take action to ensure conformity of its trade-related policies with Uruguay Round obligations, while seeking to encourage domestic trading activity through the maintenance of low tariffs on commodities that are re-exportable.

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\*\*\*\*\* Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994

It is important however, to realise that the trade reforms were not undertaken in isolation. Important reforms were undertaken concurrently in other areas. As such, the accomplishments of the ERP period *inter alia* included:

- Full liberalization of the foreign exchange system;
- elimination of all external debt arrears;
- dismantling of subsidies and distortions in key markets such as basic foodstuffs, fuel and groundnuts; and
- rationalization and divestiture of the public enterprise sector,

The Gambia's approach to policy reform has been comprehensive. Some of the development priorities to which these reforms have been directed include:

- To attain and maintain a real growth rate of at least five per cent a year;
- To stimulate and encourage greater private sector participation in the economy, placing continued emphasis on agriculture, tourism, financial services, processing and light manufacturing industries;
- To ease the debt burden on the country's limited resources by prudently managing the existing debt and minimising the growth of new debt;
- To address the task of environmental protection, including the issues of deforestation, soil management and solid waste disposal with renewed vigour and improved technology;
- To continue the development of a modern road network to facilitate the speedy and efficient movement of goods and people throughout the country;
- To provide reliable electricity, water and telecommunications services at competitive prices to households and businesses;
- To rehabilitate, maintain and protect public assets; and
- To intensify efforts to secure greater regional economic cooperation in the context of the protocols of ECOWAS.

In this regard, the reform agenda in the Gambia has included a broad range of issues which have an impact on trade, and include areas of privatization/divestiture, competition law, deregulation, investment promotion, industrial policy, tax reforms, customs valuation, the exchange rate system, trade finance, institutions and infrastructure, and the legal and regulatory framework. In addition to the above, trade reforms in the Gambia have been undertaken in full cognisance of the role of the re-export trade in the economy.

It is important to analyse the contribution of re-exports in a pragmatic context. These make a significant contribution to total exports, but they are, in the short to medium term, vulnerable to political exigencies and changes in trade policies in neighbouring countries. As demonstrated in recent years, there was about a fifty per cent fall in imports meant for re-exports, and revenues from customs duties fell drastically after the suspension of the convertibility of the CFA Franc outside the

CFA Franc Zone in 1993, and immediately after the 1994 CFA Franc devaluation, which reversed overnight the cost advantages of the Banjul port over Dakar's and episodes of border closures and/or restrictions to the movement of goods around the same time. Earnings from this source might dry up sooner rather than later if programmes, which are being implemented to address distortions to trade in neighbouring countries, are completed. The introduction of a pre-shipment inspection programme (PSI) towards the end of 1999 dealt a severe blow to the re-export trade to the extent that the programme has since been suspended. However, this overly dependence on the re-export trade should be particularly worrying to the Gambia as the WTO obligates Member countries to scale down protectionist measures in the near future.

Total Exports, Re-exports, and Domestic Exports, 1993/94-1995/96 (value in D'000)

	1993/94	1994/95	1995/96
Total exports	389,516	365,160	228,442
Re-exports	89,231 (23)	91,505 (25)	33,404 (14.6)
Domestic exports	300,284 (77)	273,654 (75)	195,037 (85.4)

Source: Kirkpatrick, 1997, p. 32

Notes: Figures in parentheses refer to percentages.

*Source:* Amjadi, A,U. Reinke and A Yeats, 1996.

#### **4. MAINSTREAMING TRADE POLICIES IN THE OVERALL DEVELOPMENT FRAMEWORK**

From the foregoing, it is quite clear that trade plays an important role in the Gambia's economy. This has not only necessitated that trade policy occupies a central role in the country's development agenda but also that a comprehensive approach to policy reform is undertaken and in such a way that trade policy is mainstreamed in the overall development framework.

In this section, we examine how this has been achieved or is being achieved in The Gambia, and what instruments have been used to that effect, and at what cost if any.

To begin with, The Department of State in charge of trade policy matter, including formulation, implementation, and enforcement and monitoring is the Department of State for Trade, Industry and Employment. Coordination is made through dissemination of information that relates to other State Departments for action. Respective roles of their State Departments on tariff policies and other policies directly affecting exports and imports of goods and services are decentralised in the sense that once the policy is in their respective domains, the responsible Department of State will formulate, implement, enforce and monitor it but with some degree of consultations with other State Departments that have roles in exports and import of goods and services. It is not likely to experience overlapping of activities among institutions because every institution has a defined function.

There are only two State Departments whose roles have a bearing on tariff policies. They are the Department of State for Finance and Economic Affairs (DSFEA) and the Department of State for Trade Industry and Employment (DSTIE). The DSFEA is the custodian of government finances and any reduction or increases in tariffs must be introduced and defended by Secretary of State for DSFEA in Cabinet and Parliament. The DSFEA is also responsible for coordinating other financial and macro-economic policies of government. The DOSTIE's role in tariff policy is consultative with the DSFEA and also in trade policy formulation to propose to the DSFEA tariff reduction for



purposes of encouraging trade in certain commodities. Other policies of DSTIE relate to formulation of industrial policies, labour relations and energy policies, etc. The private sector institution which is associated with the formulation of trade policy is the Gambia Chamber of Commerce (GCCCI). The GCCCI is associated in the form of consultation with government and also its roles in acting as a medium for transmitting the concerns of the private sector to government.

At the same time a number of institutions play a role in the implementation of trade-related projects at the local level. They are:

The Department of State for Trade, Industry and Employment;  
 The Gambia Chamber of Commerce and Industry;  
 The Department of State for Agriculture;  
 The Department of State for Fisheries and Natural Resources;  
 The Department of State for Health;  
 The National Environment Agency;  
 The Department of State for Justice;  
 The Department of State for Finance and Economic Affairs;  
 The Department of Customs and Excise; and  
 The Gambia Ports Authority.

#### **4.1 Instruments For Mainstreaming**

So far three main instruments have been used in the Gambia for mainstreaming trade policies in the overall development framework. These are:

- Vision 2020
- The Integrated Framework
- The Strategy For Poverty Alleviation

##### **4.1.1 Vision 2020**

In order to consolidate the economic benefits of its Economic Recovery Programme (ERP) and Programme for Sustained Development (PSD), Government has embarked on a follow-up long term socio-economic development agenda referred to as Vision 2020, whose overriding objective is to guide the process of economic transition and transformation from structural adjustment to sustainable growth and to move The Gambia from the status of Least-Developed Country to a middle income country by the vision year of 2020.

Regarding policy, the aim of Vision 2020 is to reconfirm the Government's commitment to sustaining the liberal market-based economic policy framework and to reiterate the Government's belief that the private sector is the engine for accelerated economic growth. Vision 2020's mission statement is as follows:

"To transform The Gambia into a financial centre, a tourist paradise, a trading, export-oriented agricultural and manufacturing nation, thriving on free market policies and a vibrant private sector, sustained by a well educated, trained, skilled, healthy, self-reliant and enterprising population, and guaranteeing a well balanced eco-system and a decent standard of living for one and all, under a system of government based on the consent of the citizenry".

The above clearly indicates the central role trade policy plays in the Gambia's long term development strategy. It is therefore not coincidental that an ongoing exercise to operationalise the Vision 2020 - supported by UNDP - is being coordinated by the Department of State for Trade, Industry and Employment. Under this exercise, all sectoral policies are being reviewed in the aim of aligning them with the Vision 2020 objectives. A ten-year action plan (2001-10) will be developed, to serve as a guide for the development of sectoral and multi-sectoral programmes. Given the prominence of trade policies within the vision, the exercise gives a very good opportunity for ensuring that all sectoral policies take trade policy objectives into consideration.

#### **4.1.2 The Integrated Framework**

The Gambia is participating in the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF) project. Following a needs assessment in 1999, a Round Table was held in Geneva in November 1999, with the support of UNDP and UNCTAD. While the exercise was coordinated by DOSTIE, all the relevant institutions in Government as well as other stakeholders such as the Gambia Chamber of Commerce and Industry (GCCI) and NGOs, participated. The need assessment revealed the lead role of trade policy in the development agenda of the Gambia. The exercise helped the Gambia to articulate its trade policy, investment policy and other supportive policies including the legal and regulatory environment.

The projects that were identified in the Technical Cooperation Programme, cut across all sectors, proving once again, both the need for a comprehensive approach to development and the need to ensure that trade issues are included in the relevant sectoral programmes.

#### **4.1.3 The strategy for poverty alleviation**

In accordance with the World Bank/IMF requirement that a poverty reduction strategy paper be a prerequisite to assessing financial and technical assistance. The Gambia launched the preparation of a Strategy for Poverty Alleviation (SPA) II, which is a follow up to SPA I, that formed the basis for the PSD.

A comprehensive database on poverty has been developed and a number of sectoral studies have been completed, including the European Union (EU) groundnut study, the United Nations Development Programme (UNDP), food security survey and IDA supported public expenditure reviews of the education and health sectors. Other PERs are to follow in the areas of agriculture, health and local government.

Based on the long-term objectives of Vision 2020, five pillars and programme areas have been identified:

##### **Pillar I            Enhancing the productive capacity of the poor**

Programme Area 1	Macroeconomic Growth Strategy
Programme Area 2	Income Generating Activities.
Programme Area 5	Food Security
Program Area 7	Creation of a Poverty Reduction Trust

##### **Pillar II            Improving access to and the performance of social services**

Programme Area 4	Social Service Delivery
Programme Area 6	Improving Public Resource Management

##### **Pillar III           Building Capacities at Local Levels for People Centred Development Management**

Programme Area 3	Redistributive Activities
Programme Area 8	Improving Participation in Local Decision-Making

**Pillar IV          Promotion of Participatory Processes and Good Governance**

Programme Area 6	Improving Public Resource Management
Programme Area 8	Improving Participation in Local Decision-Making
Programme Area 9	Coordination and monitoring of Poverty Reduction Strategy
Programme Area 10	Information, Education and Communication

**Pillar V          Provision of Economic and Social Infrastructure**

Programme Area 3	Redistributive Activities
Programme Area 7	Creation of Poverty Reduction Fund
Programme Area 4	Social Service Delivery

An important feature of SPA II is the participatory approach that was adopted in its formulation. All major stakeholders, including government Departments of State, donors, NGOs and the Private sector contributed to the formulation of SPA II, which covers a three-year period.

It should be emphasised that SPA II represents the Gambia's medium-term development framework. In this respect all sectoral and multi-sectoral strategies, policies and programmes will be guided by it.

## **4.2      The role of multilateral agencies**

It goes without saying that LDCs cannot address the structural and policy weaknesses that undermine their productive capacities and competitiveness alone. Multilateral agencies, and indeed the whole international community have a crucial role in assisting LDCs in the following areas:

- Improved access for LDCs products
- debt service payments
- capital flight
- investment, and above all
- capacity building.

For LDCs to benefit from the ongoing improvements in the international trade environment and from globalization, they need to be able to formulate, implement and monitor appropriate policies not only in the area of trade, but across the board. In the Gambian case, the six partners cooperating under the Integrated Framework, and indeed other development partners, including bilateral and multilateral donors have played a very important role in assisting the country to formulate the various policies and manage the whole reform programme.

## **5.      CONCLUDING REMARKS**

In conclusion we would like to indicate that the theoretical case for mainstreaming trade policies into the overall development framework not only for the promotion of growth but also for

poverty eradication is very strong. At the same time, the experience of the Gambia has given as a practical example of how trade policies can be mainstreamed into the overall development framework. The use of a Long-term Perspective Plan (NLTPS or Vision 2020 in our case), the Integrated Framework and the Poverty Reduction Strategy Paper (SPAII), can underpin this mainstreaming.

It is our cherished hope that the efforts of the Gambia in this respect will bring about the desired results of promoting growth and reducing poverty.

## **PANEL C: PRESENTATIONS**

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### **Mainstreaming Trade into Country Development and Poverty Reduction Strategies: An Asia-Pacific Perspective**

#### **1. Introduction**

Trade is usually considered as an engine of growth as it has been a major driving force behind the economic success of many countries around the world including some developing countries in the Asia-Pacific region. Some countries in the region, in particular, newly industrialized economies (NIEs) or the so-called “Asian tigers” that shifted their economic policies from inward-looking and import substitution strategies to outward-looking and export-oriented policies in the 1960s and 1970s have been able to achieve remarkable economic growth and living standards and less poverty in a relatively short period of time. A number of other developing countries (e.g., Thailand, Malaysia), usually called “second-tier NIEs” that have followed the same path have been able to produce similar rates of growth from mid-1980s to 1990s. These countries are recovering steadily from the economic and financial crisis which swept across the region in 1997-98. Many other developing countries including LDCs in the Asia-Pacific region are basing their own development paradigms on the trade strategies followed by the NIEs.

Currently there are 13 LDCs in the Asia-Pacific region, comprising of five countries in South Asia (Bangladesh, Bhutan, Nepal and Maldives plus Afghanistan), three in South-East Asia (Cambodia, Lao People’s Democratic Republic and Myanmar) and five in the Pacific (Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu). These countries are at different levels in terms of both resource endowment, industrialization and economic development. They also differ significantly in terms integration to the world economy and openness of trade. Out of 13 LDCs in the region only four are Members of the WTO (Bangladesh, Maldives, Myanmar and Solomon Islands) while most of remaining LDCs are in the process of accession. Some have made substantial progress while some are at a very initial stage. Undoubtedly, WTO membership is an important prerequisite for these countries to integrate fully into the world trading system without being further marginalized in a globalized world with growing interdependence.

Governments have an important role to play in the process of integration into the world trading system. It is the responsibility of the government to create a conducive environment for trade and investment by introducing sound economic policies including trade reforms and implementing them. In some countries these policies are implemented as part of structural adjustment policies. Most governments also use short and long-term development plans and poverty reduction strategies to achieve the objectives of economic reforms. The purpose of this paper is to examine the extent to which governments in LDCs in the Asia-Pacific region have been able to incorporate appropriate trade-related policies in their economic reforms, development plans and poverty reduction strategies. The paper is structured as follows: Section 2 provides an overview of LDCs in the region, looking at both general characteristics and the extent of integration of these countries. Section 3 reviews the recent trade policies followed by the concerned countries. The next two sections look at development plans and poverty reduction strategies, followed by some concluding remarks in the final section.

## 2. An overview of LDCs in the Asia-Pacific region

Thirteen out of 48 LDCs are in the Asia-Pacific region. They rank lowest in terms of some economic and social indicators such as per capita income, average rate of growth and adult literacy ratio and highest in terms of some others like poverty. Some of these are reflected in Table 1. For example, per capita income of LDCs in the Asia-Pacific region varies from US\$70 for Afghanistan to US\$3,657 for Myanmar while the average per capita income of all LDCs in the region is US\$906 compared with US\$1,205 of all developing countries. Similarly, LDCs are the poorest group in the world. People in absolute poverty varies from 35 per cent for Myanmar to 60 per cent for Nepal, Samoa and Solomon Islands and then to 90 per cent for Bhutan. The average percentage of people in absolute poverty for all LDCs in the region is 55 which is nearly double of that of all developing countries (31 per cent). An interesting feature emerging from the table is that LDCs in the Asia-Pacific region are performing better than the other LDCs in the world. For example, the average per capita income of LDCs in the region is nearly four times higher than that of all LDCs in the world (US \$235).

Table 1. Selected Socio-Economic Indicators

Country	Per capita GDP 1997 US\$	Average rate of GDP growth (1990-1998) (%)	Population (millions) (1998)	Adult literacy ratio (1995) (%)	People in absolute poverty (%)
<b>South Asia</b>					
Afghanistan	70	..	21.4	31	53
Bangladesh	339	3.1	124.8	38	48
Bhutan	182	4.2	0.6	42	90
Maldives	1 255	3.6	0.3	95	40
Nepal	218	2.4	22.9	36	60
<b>South-East Asia</b>					
Cambodia	294	2.3	10.7	35	-
Lao PDR	194	3.7	5.2	57	46
Myanmar	3 657	..	44.5	83	35
<b>Pacific island</b>					
Kiribati	700	1.6	0.1	..	-
Samoa	1 156	0.9	0.2	..	60
Solomon Islands	925	0.3	0.4	..	60
Tuvalu	1 373	..	..	..	-
Vanuatu	1 415	-0.5	0.2	..	-
<b>All LDCs in Asia-Pacific</b>	<b>906</b>	<b>2.1</b>		<b>52</b>	<b>55</b>
<b>All LDCs</b>	<b>235</b>	<b>0.9</b>	<b>613.5</b>	<b>48</b>	<b>65</b>
<b>All developing countries</b>	<b>1 205</b>	<b>3.1</b>	<b>4 696.8</b>	<b>70</b>	<b>31</b>
<b>Developed countries</b>	<b>27 402</b>	<b>1.4</b>	<b>885.3</b>	<b>..</b>	

Source: UNCTAD, *the Least Developed Countries 2000 Report and Country Profiles*.

Turning to the integration of LDCs into the world trading system, it is a well-known fact that LDCs have been historically marginalized from the mainstream world economy. Not only is their



Indonesia (53), Malaysia (194), Philippines (80) and Thailand (90).

Table 2. Trade Integration of Selected LDCs of the Asia-Pacific Region

Country	Percentage of trade to GDP		Main exports
	1990	1999	
Bangladesh	24.78	32.59	Ready-made garments, knitwear & hosiery products; raw jute, tea, leather, frozen shrimp & fish
Bhutan	51.39	63.91 <sup>1</sup>	Fruits, electricity
Maldives	131.15	118.57	Fish & fish products; ready-made garments
Nepal	24.88	41.27	Carpets; ready-made garments
Cambodia	32.15 <sup>2</sup>	63.21 <sup>3</sup>	Ready-made garments; logs & sawn timber; rubber
Lao PDR	30.02	92.54 <sup>4</sup>	Wood products; ready-made garments; electricity; coffee; tin
Myanmar	2.47	1.34	Fish & fish products; teak; rubber

Source: *International Finance Statistics Yearbook 2000*, IMF.

<sup>1</sup>1997, <sup>2</sup>1993, <sup>3</sup>1998, <sup>4</sup>1998.

†††††††††††††††† For example, in the case of the Lao People's Democratic Republic, exchange rate depreciated from 718 Kip per US dollar in 1993 to 7600 Kip per US dollar in 1999.

barriers and standards related to quality, safety, health, environment and labour. Although the provisions under the Agreement on Technical Barriers to Trade and the Agreement on the Application of Sanitary and Phytosanitary Measures are expected to provide solutions to most problems related to standards, the evidence suggests that LDCs do not use these provisions effectively (ESCAP, 2000).

The second initiative of the WTO high-level meeting in 1997 was the setting up of the Integrated Framework for Trade Related Technical Assistance to LDCs with a view to coordinating technical assistance activities by all six international agencies. Table 3. shows the status of the implementation of the Integrated Framework for LDCs in the Asia-Pacific region. With the exception of three countries, all other LDCs in the region have completed need assessment reports, the first step of the process of Integrated Framework. Most countries, however, have not been able to hold trade related donor meetings to discuss possible areas and projects for technical assistance, that was to lead to the finalization of a multi-year programme of technical assistance. In sum, it is clear from the information given in the Table that after lapse of more than three years since its adoption, the countries in the region have not yet benefited from the programme.

**Table 3. Integrated Framework for Trade-Related Technical Assistance:  
Implementation Status for Least-Developed Countries  
of the Asian and Pacific Region**

WTO membership category	Country needs assessment	Integrated response	Trade-related meeting	Multi-year programme
<b>Members</b>				
Bangladesh	October 1997	Published November 1997	Held on 22.1.2000 in Dhaka	Document prepared & presented at the TRM
Maldives	September 1997	Published February 1998	Not held yet	Not yet prepared
Myanmar	Completed October '98	Published in 1998	Not held yet	Not yet prepared
Solomon Islands	October 1997	Published April 1998	Joint regional trade related meeting for the Pacific Islands being explored for mid-2001	Not yet prepared
<b>Observers</b>				
Bhutan	Completed April 1998	Published September 1998	TRM scheduled for November 2000	Not yet prepared
Cambodia	Completed June 1998	Published September 1998	Not held yet	Not yet prepared
Lao PDR	Completed September 1997	Published March 1998	Not held yet	Not yet prepared
Nepal	Completed September 1997	Published October 1997	Not held yet	Not yet prepared
Samoa	Completed September 1997	Published April 1998	Joint regional trade related meeting for the Pacific Islands being explored for mid-2001	Not yet prepared
Vanuatu	Completed September 1997	Published October 1997	Joint regional trade related meeting for the Pacific Islands being explored for mid-2001	Not yet prepared
<b>Others</b>				
Afghanistan	Not done yet	Not applicable	Not applicable	Not applicable
Kiribati	Not done yet	Not applicable	Not applicable	Not applicable
Tuvalu	Not done yet	Not applicable	Not applicable	Not applicable



Source: Web site of WTO's Integrated Framework Administrative Unit as on 1 January 2001.

### 3. Domestic trade policy reforms

#### (a) Evolution of trade policies

LDCs in South Asia (Bangladesh, Bhutan, Maldives and Nepal) traditionally followed a development strategy with greater reliance on import substitution along with many other developing countries in the region. Since the early 1980s, there have been some significant changes in their trade regimes, with the direction of policy away from import substitution towards export-orientation and outward looking trade and industrial strategies with a view to integrating their economies into the world economy. In general, policy reforms included the liberalization of imports and investment, relaxation of price controls and exchange rate reforms. Some of recent policy changes, in particular, trade policy reforms have been carried out under the South Asia Preferential Trading Arrangement (SAPTA), which concluded two rounds of trade negotiations involving substantial reductions in tariffs and non-tariff barriers while the third round of negotiations is currently under progress. These policy reforms have contributed to the transformation of these primarily agrarian economies to relatively more industrial and service-oriented economies (Table 4.).

Table 4. Sectoral Composition of Production in SAARC Member Countries (as per cent of GDP)

Region/country	Agriculture		Industry		Services	
	1980	1997	1980	1997	1980	1997
SAARC*	37.8	24.8	25.0	30.2	37.2	45.0
Bangladesh	49.4	32.4	14.8	10/2	35.8	48.4
Bhutan	56.7	36.2	12.2	28.0	31.1	35.9
India	38.1	24.3	25.9	31.9	36.0	43.8
Maldives	31.0	22.0	6.0	17.0	63.0	61.0
Nepal	61.8	41.0	11.9	19.1	26.3	39.8
Pakistan	30.6	24.2	25.6	26.4	43.8	49.4
Sri Lanka	26.6	18.3	27.2	32.3	46.2	49.4

Source: ADB, *Asian Development Outlook*, 1997 and 1998.

Research and Information System for the Non-Aligned and Other Developing Countries, *SAARC Survey of Development and Cooperation 1998/99*.

Policy shifts in trade can be easily observed by looking at evolution of trade regimes at individual country level. For example, in the mid-1980s, Bangladesh started shifting its trade strategy from an inward-orientation to an outward-oriented policy by introducing, inter alia, liberalization of trade and foreign exchange regimes. By the end of 1980s, it moved away from the "positive list" system to a more liberal "negative list" system, in which the number of items have been reduced progressively since then. With the acceleration of trade liberalization in the 1990s, the highest rate of import tariff was reduced from 350 per cent in 1991 to 40 per cent in 1999 and the number of tariff bands were reduced from 17 to 4 during the same period making the tariff structure much more simplified. The average import-weighted tariff declined from 24 to 14 per cent during the same period. These changes in nominal tariffs have contributed to significant reductions in effective rates of protection (ERP) (WTO, Trade Policy Review, 2000).

Recently the government of Bangladesh has initiated a number of actions to strengthen the capacity of trade-related infrastructure and institutions to facilitate the process of integration of the economy into the world trading system. This includes the launching of a long-term Customs and Tax Modernization Program and improving the capacity of the Tariff Commission to provide guidance to the government and the private sector on matters related to the WTO.

Since 1980s, Nepal has embarked upon a trade policy reform package which includes reductions in both tariff and non-tariff barriers. Tariff rates as high as 250 per cent in 1980s were reduced substantially leaving the highest rate at 110 per cent and multiple tariff bands were reduced to six bands which simplified the tariff structure significantly with the budget for 1995/96. Similarly, quantitative restrictions on trade were also removed gradually from the mid-1980s and almost all import items were placed under Open General License after abolishing the import license auction system in 1993.

LDCs in South-East Asia (Cambodia, Lao People's Democratic Republic and Myanmar) are economies that are in the process of transition from centrally planned economic system to market-oriented systems. Therefore, the trade regimes of these countries remain at a lower scale of openness and transparency. While Myanmar is a Member of the WTO, Cambodia and Lao PDR hold observer status and are in the process of accession to the WTO. Recently, the three countries have made considerable progress in terms of trade liberalization. To begin with, Cambodia, a country that had been ruined largely by war and political unrest for decades and became stable only in the early 1990s, has introduced a package of economic reforms which includes policies aimed towards free trade, increased foreign investments and market-based foreign exchange rates. State monopolies have been privatized and price controls affecting domestic trade have been largely removed. Although Cambodia's trade is relatively liberal, ministerial authorization is required for importation of certain products including pharmaceutical products. Currently, the simple average of all tariff items is 18.6 per cent and the trade-weighted average stands at 16.5 per cent which is relatively low in comparison to LDCs in South Asia. On the export side, there is a quota on exports of rice, and ban on exports of unprocessed and sawn timber since 1995. There are also some moderate export taxes of 5 to 10 per cent on certain products including cut and sawn wood, precious stones and rubber.

Historically, Lao PDR had a Soviet-style command economy system with state enterprises and cooperatives, centralized trade, investment and production. The country also had high barriers on internal and external trade. An important shift of policies took place in 1986 with the introduction of "new economic mechanism" (NEM) aimed at creating better conditions for private sector activity and placing increased emphasis on market forces in the allocation of resources. The ownership of farms and the right of selling goods in the open market were given to farmers. Some policy changes were introduced to make foreign trade more liberal through lifting some trade barriers and replacing non-tariff barriers with tariffs. Currently, there are six bands of tariff rates ranging from five per cent for promoted goods such as heavy equipment and machine tools to 40 per cent for automobiles. In addition to import tariffs, excise taxes are imposed on a wide range of products ranging from 104 per cent on luxury cars to 60 per cent on alcohol. In addition to both import tariffs and excise tax, importers have to pay turnover of tax of five to ten per cent on most imported products. Putting all these taxes together, the foreign trade regime of Lao PDR remains relatively restrictive compared with many other LDCs. However, the recent accession of Lao PDR to ASEAN and its application for the membership of WTO in 1998 are expected to facilitate the faster integration of the economy in to the world trading system.

In sum, during the past decade, the Asia-Pacific LDCs, in particular, Asian LDCs have embarked upon policy reforms liberalizing their trade regimes significantly. For example, a recent

ESCAP study on the implementation of the Programme of Action<sup>+++++</sup> shows that eight (four South Asia, three South-East Asia and one Pacific Island countries) out of 13 LDCs in the region have undertaken tariff reductions and rationalizations of tariff structures and five (three South Asia, two South-East Asia) countries have abolished quantitative restrictions on imports. The study also shows that these countries have initiated some limited measures related to the other aspects of trade regimes such as expansion of the supply base and supply capacity of exports, deregulation and legal reforms, export promotion and private sector development.

## **(b) Regional integration**

Governments of LDCs in the region appear to have understood the potential benefits of joining regional initiatives including regional trading arrangements (RTAs). They are members of one or more RTAs: Afghanistan (Economic Cooperation Organization-ECO), Bangladesh (SAPTA, BIMST-EC<sup>++++</sup>, Bangkok Agreement), Bhutan, Nepal and Maldives (SAPTA), Cambodia (AFTA), Lao PDR (AFTA, Bangkok Agreement), Myanmar (AFTA, BIMST-EC), Solomon Islands and Vanuatu (MSG<sup>++++</sup>, PARTA<sup>++++</sup>, SPARTECA<sup>++++</sup>), Kiribati, Samoa and Tuvalu (PARTA, SPARTECA). In addition, most of these countries have entered into bilateral agreements to promote trade and investment. These regional and bilateral agreements are increasingly seen as "fast-track" approaches to free trade. However, it is of vital importance to pursue these as "building blocs" or "stepping stones" of a wider trade liberalization strategy promoted by the WTO.

## **(c) Overall direction of trade policies**

Next, we look at the major objectives of trade policies being followed by LDCs in the region in the most recent period that demonstrate the overall directions of trade policies and the major laws and regulations dealing with exports and imports that indicate the priority accorded by policy makers to trade. This information can be used as indicators showing the extent to which respective governments have pursued a liberal trade environment. The information given in Appendix A has been extracted from the needs assessment papers prepared by countries under the Integrated Framework.

According to the stated objectives in the needs assessment papers, the overall direction of trade policies of LDCs in the region appears to be towards liberal trade regimes, while one country (Maldives) has gone far beyond that and mentioned "free trade" as an objective. Most countries have stated export diversification and export growth as a major objective while some countries seem to recognize the role of the external sector in the national economy. Enhancing private sector participation has been mentioned as an objective by a number of countries. Some countries mentioned integration with the global and regional trading system as a desired objective while none of the countries mention the membership of the WTO as a long-term objective of trade policies. This is surprising given the fact that only four out of 13 LDCs in the region are WTO Members and that countries are required to undertake extensive reforms in the trade sector in the process of accession to the WTO.

Overall, although respective governments in the Asia-Pacific LDCs have been able to make some progress towards making their economies more liberal in the context of both global and regional integration initiatives, substantial changes in their trade policy regimes are required for integrating

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<sup>++++</sup> Review of Implementation of the Programme of Action for LDCs for the 1990s: A Synthesis Study, ESCAP, 2000 (draft).

<sup>++++</sup> Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation.

<sup>++++</sup> Melanesian Spearhead Group Trade Agreement.

<sup>++++</sup> Pacific Regional Trade Agreement.

<sup>++++</sup> South Pacific Regional Trade and Economic Cooperation Agreement.

these economies into the world trading system. For example, in the case of LDCs in South Asia, while some remarkable shifts are taking place in their trade policies, much more need to be done to make these regimes more liberal and transparent. These include further tariff reductions, phasing out of quantitative restrictions, and increasing the transparency of related policies such as customs administration, tariff concessions, import surcharges, subsidies, other incentives and so on.

#### **4. Development plans, poverty reduction strategies and trade**

The preceding section has analysed the extent to which LDCs in the Asia-Pacific region have been able to mainstream trade by introducing appropriate trade policies to promote outward-oriented strategies and facilitate effective integration of their economies into the world trading system. In order to make trade truly mainstream, governments need not only to include trade as a priority area of action in other major policy documents such as national development plans and poverty reduction strategies but also to implement them as planned.

##### **(a) National development plans and trade**

We attempt below to examine how far countries have been able to include trade as an objective or strategy in their development plans. We do this by looking at some country cases since all the latest national development plans are not readily available for a cross-country comparison.

We start with **Bangladesh**, where the national development planning system moved away from long term plans to three-year rolling investment plans. In addition, the government issued the New Development Perspective (NPD) which has become the economic manifesto of the government. The NPD recognizes the need for an accelerated and sustainable social and economic of Bangladesh, according to which the major national goals include the following:

- Human resource development;
- increased employment opportunities, particularly for rural areas;
- strengthening of the national economy through development of the rural economy with priority on agriculture;
- promotion of competitive efficiency;
- promotion of joint enterprises with a focus on agriculture, small trade and industries;
- promotion of private enterprises based on competitive efficiency with a thrust on export-oriented industries;
- promotion of export-led growth.

This list of national goals clearly demonstrates the importance that the government attaches to export promotion and related goals such as private enterprise development and promotion of competitive efficiency.

**Nepal's** national planning system dates back to 1956. Table 5. presents major objectives and strategies of national development plans of Nepal for the last four decades. It shows that while consecutive national plans had standard objectives such as economic growth, employment, income distribution and efficient use of resources, trade diversification and expansion was included as a strategy in all national plans starting from the Fourth (1970-1975). In its Ninth plan (1998-2002) Nepal recognizes the need to accelerate economic growth through, inter alia, developing the base for

industrialization, promoting trade and investment opportunities with neighbouring countries and at the regional level. However, liberalization of trade and investment was not mentioned as a major strategy in any of the plans.

Table 5. Main Objectives and Strategies of National Development Plans for Nepal

<b>Plans</b>	<b>Main objectives</b>	<b>Major strategies and policies</b>
First (1956-1961)	<ol style="list-style-type: none"> <li>1. Increases production and create employment</li> <li>2. Raise standard of living of common people</li> </ol>	<ol style="list-style-type: none"> <li>1. Village development</li> <li>2. Agriculture development</li> <li>3. Development of infrastructure</li> </ol>
Second (1962-1965)	<ol style="list-style-type: none"> <li>1. Increase production to meet the need of expanding population</li> <li>2. Provide additional Employment</li> <li>3. Provide social justice and distribution of the increased production</li> </ol>	<ol style="list-style-type: none"> <li>1. Development of infrastructure</li> <li>2. Agriculture development</li> <li>3. Social justice</li> </ol>
Third (1965-1970)	<ol style="list-style-type: none"> <li>1. Promote welfare of the people</li> <li>2. Regulate the ownership and control of the resources of the community to bring equitable distribution of wealth</li> </ol>	<ol style="list-style-type: none"> <li>1. Faster growth in agricultural Production</li> <li>2. Institutional reform</li> <li>3. Price stabilization</li> <li>4. Development of economic infrastructure</li> <li>5. Industrial development</li> <li>6. Regional development</li> </ol>
Fourth (1970-1975)	<ol style="list-style-type: none"> <li>1. Maximize output</li> <li>2. Establish the base for sustained and long-term economic growth</li> </ol>	<ol style="list-style-type: none"> <li>1. Mobilization of internal Resources</li> <li>2. Concentration of limited Resources</li> <li>3. Incentive for investment in private sector</li> <li>4. Trade diversification</li> <li>5. Social justice</li> </ol>
Fifth (1975-1980)	<ol style="list-style-type: none"> <li>1. Increase mass-oriented Production</li> <li>2. Maximize the use of Labour resources</li> <li>3. Promotion regional Balance and integration</li> </ol>	<ol style="list-style-type: none"> <li>1. Mobilization of industrial resources</li> <li>2. Changes in investment pattern</li> <li>3. Adaptation of labour-intensive technique</li> <li>4. Industrial management</li> <li>5. Economic stabilization</li> <li>6. Trade promotion and Diversification</li> </ol>
Sixth (1980-1985)	<ol style="list-style-type: none"> <li>1. Increase production at Faster rate</li> <li>2. Increase productive Employment opportunities</li> <li>3. Meeting the minimum needs of The people</li> </ol>	<ol style="list-style-type: none"> <li>1. Priority on agriculture Development</li> <li>2. Emphasis on cottage and small-Scale industries</li> <li>3. Emphasis on export promotion And tourism development</li> <li>4. Conservation of natural resources And development of water</li> </ol>

Plans	Main objectives	Major strategies and policies
		Resources 5. Increased the absorptive capacity Of the economy
Seventh (1985-1990)	<ol style="list-style-type: none"> <li>1. Increase production at higher Rate</li> <li>2. Increase opportunity for Productive employment</li> <li>3. Fulfill the minimum basic needs Of the people</li> </ol>	<ol style="list-style-type: none"> <li>1. Overall priority to the Development of agricultural Sector</li> <li>2. Development of forest resources And soil conservation</li> <li>3. Development of water resources</li> <li>4. Curb the population growth rate</li> <li>5. Promotion of exports</li> <li>6. Improve the management of the Economy</li> </ol>
Eighth Plan Approach Paper (1993-1997)	<ol style="list-style-type: none"> <li>1. Sustainable economic growth</li> <li>2. Poverty alleviation</li> <li>3. Rural development and Regional balance</li> </ol>	<ol style="list-style-type: none"> <li>1. Agricultural intensification and Diversification</li> <li>2. Development of rural Infrastructure</li> <li>3. Employment generation and Human resource development</li> <li>4. Export promotion and Diversification</li> <li>5. Energy development</li> <li>6. Macroeconomic stabilization</li> <li>7. Better monitoring and evaluation</li> <li>8. Public administration reform</li> </ol>

Source: *Development Planning in Asia* – Asian Pacific Development Centre.

**Maldives** with a tiny population, consisting of many small islands (1,190) and relatively limited natural resources depends heavily on a few export products including tourism and fish products. In the National Development Plan for 1994-1996, trade was not mentioned as a major objective while promotion, facilitation and liberalization of investment was a major objective under the sectoral plan for trade and industry. However, liberal trade policy, export orientation, diversification and promotion were included as major strategies under the plan. The Government's commitment to maintain a liberal trade regime through relaxation of import and export controls and reducing tariffs was emphasized in the plan. The Government appears to have attached great importance to exploitation of marine resources with export-orientation given the small size of the domestic market. It also emphasized the need for seeking "opportunities for the provision of high value added, low volume products and services in those areas where it has a comparative advantage" (page 2). Some promotional activities suggested in the document were setting up of a data bank to provide export guidance, the provision of incentives and organization of export fairs. In addition, a number of major projects such as the compilation of a trade data base to facilitate the process of trade policy formulation and establishment of an offshore service centre were mentioned under major programmes and projects. Projects went beyond the traditional areas to new areas such as intellectual property rights. The main objectives of this project was to "introduce trademarks, copyrights, patents, and industrial design law, and to encourage designers and producers to increase productivity".

**Bhutan**, a landlocked country with a small population and limited land suitable for agricultural production because of the extremely mountainous terrain is geographically isolated from major ports and markets. High transport costs and limited infrastructure have been identified as major

constraints to export trade. It has introduced a number of development plans of which the Eighth Five-Year Plan (1997-2002) has the following major objectives: self-reliance, sustainability, preservation and promotion of cultural and traditional values, national security, balanced development, improving the quality of life, institutional strengthening and human resource development, decentralization and community participation and privatization and private sector development. Similar to national development plans in most other LDCs, international trade is not mentioned as a major objective of the plan. However, creation of a conducive policy and legal framework for promoting trade and industrial development was a major strategy under the trade sector of the plan. Specifically, the major objectives of external trade are to promote trade and improve the balance of trade with India and to expand trade with SAARC and other countries. It appears that the country attaches great importance to neighbouring countries as trading partners. There are also a few special projects/programmes in the area of trade, which include the project on Bhutan trade development and the project on improvement of trade and transit facilities (i.e., road links). Most importantly, the accession to the WTO has been mentioned as a special project. It said that "Bhutan may join the World Trade Organization in the near future in order to keep pace with the ever-changing international trading environment and avail benefits from the globalization process" (page 139).

For **Cambodia**, overall national development strategies are given in a number of important documents: the National Programme to Rehabilitate and Develop Cambodia (NPRD), the Five Year Socio-economic Development Plan (SEDPI), the Triangle Strategy, the Royal Government Platform for the Second Term (1998- 2003) and the Policy Framework Paper (PFP). Trade issues are included in some of these documents either as an objective or strategy. For example, one of the objectives of NPRD is to integrate Cambodia's economy into the region and the world. Similarly, one of the three areas of the government's Triangle Strategy is Cambodia's integration into the region and normalization of relationships with the international community in order to attract more foreign assistance and FDI. Cambodia became a member of ASEAN and is expected to join the WTO in the near future.

Trade in **Vanuatu**, a small Pacific Island country, is constrained by isolation from major markets, small domestic market, limited availability of raw materials, lack of skilled manpower and local entrepreneurial capability and scarcity of capital (Republic of Vanuatu, 1991, page 281). According to the Second National Plan (1987-1991), the government appears to have understood the problems associated with import substitution policy. It claimed that import replacement activities were not successful because the production processes were characterized with high proportion of imported inputs, low domestic value added, and relatively low productivity of labour (page 287).

#### **(b) Poverty reduction** \*\*\*\*\* **and trade**

Although there is no direct relationship between trade and poverty, trade as a major driving force of economic growth can reduce poverty by raising average per capita income and affecting income opportunities of poor people. With regard to the relationship between trade reforms and poverty, the recent WTO study shows that "trade liberalization is generally a positive contribution to poverty alleviation-it allows people to exploit their productive potential, assist economic growth ... " (page 6). It emphasizes the need for introducing appropriate compensatory measures to minimize the short-term negative effects of trade policy reforms. Similarly, the World Bank in its World Development Report (2000) recognizes importance of market reforms to promote opportunities, in particular, export opportunities for poor people. In this context, LDCs, the most poverty stricken group of countries in the world, should incorporate trade in their poverty reduction strategies and implement as planned.

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\*\*\*\*\* Poverty Reduction Strategy Papers have not yet been prepared for any least developed country in the Asia-Pacific region. A number of countries including Cambodia, I-PRSPs are being prepared.

It is a well-known fact that East Asian countries have been able to reduce poverty by embarking upon broad-based trade-led growth strategies as can be seen in Table 6. For example, the Republic of Korea, a rapidly industrializing country with average economic growth around eight per cent over 1980s reduced the percentage of people in absolute poverty from 23 in 1970 to five in 1990. Poverty incidence of all six countries declined from 35 per cent in 1970 to ten per cent in 1990. These achievements in poverty reduction were mainly due to the policies promoting broad-based economic growth focusing not only on urban areas but also rural areas. Agricultural development policies were an important part of growth strategies followed by some of these countries as more than 75 per cent of populations of these countries are in rural areas (Johansen, 1993). LDCs in the region can benefit enormously from the valuable experience of advanced East Asian countries, in particular in mainstreaming trade into in poverty reduction strategies.

**Table 6. Estimated Absolute Poverty, 1970-1990:  
Selected East Asian Countries (per cent)**

Country		Incidence of poverty		
		1970	1980	1990
China	Total	33	28	9
	Rural	39	--	11
	Urban	5	--	2
	Percentage poor in rural areas	97	96	95
Indonesia	Total	60	29	15
	Rural	58	28	14
	Urban	73	29	17
	Percentage poor in rural areas	82	80	66
Malaysia	Total	18	9	2
	Rural	21	--	4
	Urban	10	--	1
	Percentage poor in rural areas	85	85	85
Philippines	Total	35	30	21
	Rural	42	35	27
	Urban	20	18	11
	Percentage poor in rural areas	85	75	77
Rep. of Korea	Total	23	10	5
	Rural	28	9	4
	Urban	16	10	5
	Percentage poor in rural areas	84	37	20
Thailand	Total	26	17	16
	Rural	30	19	20
	Urban	9	5	4
	Percentage poor in rural areas	94	94	94
Six countries	Total	35	23	10
	Rural	40	27	12
	Urban	13	9	5
	Percentage poor in rural areas	93	92	87

Source: World Bank Discussion Paper, *Poverty Reduction in East Asia: the Silent Revolution*, 1993.

*Note:* Except for China, estimates for 1990 are projections. The incidences are based on official poverty lines for China, Indonesia, Malaysia and the Republic of Korea; official subsistence lines for



the Philippines and lines slightly lower than the official ones of Thailand. Absolute poverty lines allow 2,150 calories per day, 90 per cent from grains, and non-food basic needs or other baskets costing the same.

Poverty reduction needs a concerted effort in which government can play a critical role in introducing appropriate policies and actions in national development strategies. In this regard most LDCs in the region have introduced poverty reduction as an objective of national development plans. For example, the ninth development plan of Nepal recognized poverty eradication as its major development objective. Promotion of trade and investment was mentioned as a major strategy to accelerate economic growth and then to reduce poverty. In the case of Cambodia, poverty reduction by integration of the Cambodian economy into the region and the world has been recognized by major development strategy documents such as the Royal Government's Platform for its Second Term (1998-2003). It is believed that effective integration of the economy into the world trading system would have a positive impact (both direct and indirect) on poverty alleviation. In the case of Bangladesh, according to the three-year rolling investment plan (1994-96), the major development objective of the government is poverty alleviation through inter alia productive employment creation and development of the rural economy with a priority on agriculture.

In sum, by looking at the national development plans of some selected countries, LDCs in the region appear to have understood the importance of mainstreaming trade into their national development strategies. These countries have been able to incorporate trade as a priority area of actions in national development plans reasonably well, which is more apparent in the last two decades where some advanced developing countries in the region that had followed trade-oriented development strategies, achieved remarkable economic growth and poverty reduction.

## **5. Role of ESCAP**

ESCAP is of the view that it is imperative for the LDCs in the region to be an integral part of the world trading system in order to bring these economies to mainstream economic development with economic growth, improved standards of living and less poverty. ESCAP as a cooperating Agency of the Integrated Framework, will continue to assist LDCs, both WTO Members and the countries yet to join by strengthening the capacities of both their human resources and institutions to deal with WTO related issues including market access in a number of ways:

- (a) As mentioned before, only four out of 13 LDCs in the region are WTO Members while the remaining countries are in the process of accession. Countries find it extremely difficult to meet the requirements of the long accession procedure including the preparation of a memorandum on the Foreign Trade Regime involving a comprehensive review of trade and related policies and the submission of answers to thousands of questions raised by the Member countries of the WTO. The LDCs in the region possess neither the capacity nor the resources required to deal with matters related to accession. In this context, ESCAP assists the countries which are yet to become Members by organizing training workshops on accession related issues in collaboration with WTO. The main purpose of these workshops is to enhance understanding of concerned trade officials on the accession procedure and to provide them an opportunity to learn the best practices from the countries that have been able to accede recently.
- (b) Market access is a major issue of concern to all developing countries including LDCs. While there is slow progress in the implementation of decisions taken at the high-level meeting organized by 6 co-agencies in 1997 at the WTO with regard to duty free access to exports from LDCs, their export opportunities are further constrained

by various other restrictions including standards related to quality, safety, health, environment and labour. These barriers are even more severe for products which LDCs have been promoting as part of their export diversification plans (e.g., textile and clothing, fish products, leather). In this context, ESCAP has been assisting LDCs in developing the capacities of their human resources and institutions to exploit market opportunities in both developed and developing countries. For example, ESCAP recently organized a national workshop on enhancing export opportunities through environmentally sound business development in Kathmandu for relevant government officials and private enterprises. In addition, participants from LDCs are included in the WTO/ESCAP trade policy training courses which are expected to be organized jointly by WTO and ESCAP on a regular basis. The purpose of these training courses is to facilitate the more effective participation of Asian developing economies in the negotiation and implementation of WTO agreements. In the first 3-week trade policy course on the WTO and the multilateral trading system for Asian developing economies which was held at ESCAP from 8 to 26 May 2000, trade policy makers from seven LDCs (Bangladesh, Bhutan, Cambodia, Lao PDR, Maldives, Myanmar and Nepal) participated. In addition, a number of other activities, including the meetings of senior officials dealing with trade matters have been organized by ESCAP, usually prior to WTO ministerial meetings. The last such meeting was an ESCAP/UNCTAD/ADB Meeting of Senior Officials on the Future WTO Agenda and Developing Countries at Bangkok from 23 to 25 August 1999, to assist developing countries of the ESCAP region in their preparations for the Third WTO Ministerial Conference and future multilateral trade negotiations.

- (c) ESCAP accords priority to regional and subregional initiatives such as regional trading arrangements (RTAs) as building blocs of a broader trade liberalization strategy promoted by the WTO. In this regard, ESCAP not only provides technical assistance to initiatives such as BIMST-EC of which the two of the five members are LDCs (Bangladesh and Myanmar) but also functions as the secretariat of the Bangkok Agreement of which Bangladesh and Lao PDR are members. BIMST-EC is a sectoral development programme that includes trade and investment while the Bangkok Agreement is a preferential trading arrangement promoting trade through exchange of tariff concessions among members.
- (d) ESCAP also supports a number of special programmes with a particular focus on trade and investment. For example, ESCAP has developed a comprehensive programme for private sector development, the so-called “Hi-Fi” plan,<sup>\*\*\*\*\*</sup> with generous support from the Government of Japan, for the countries in the Greater Mekong Subregion (GMS) which includes three LDCs (Cambodia, Lao PDR and Myanmar). One major objective of this plan is to build human and institutional capacities in trade policy making, trade promotion, trade facilitation and foreign direct investment.

## 6. Concluding remarks

The paper has two major conclusions. Firstly, although respective governments in the Asia-Pacific LDCs have been able to make some progress towards making their economies more liberal in the context of both global and regional integration initiatives, substantial changes in their trade policy regimes are required for integrating these economies into the world trading system. While some remarkable policy shifts are taking place in their trade policies, much more need to be done to make

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<sup>\*\*\*\*\*</sup> Hi-Fi plan focuses on 4 areas: H –human resource development, I –institutional capacity building, F –facilitation (trade), I –investment.

these regimes more liberal and transparent. These include further tariff reductions, phasing out of quantitative restrictions, and increasing the transparency of related policies such as customs administration, tariff concessions, import surcharges, subsidies, other incentives and so on. Secondly, LDCs in the region appear to have understood the importance of mainstreaming trade into their national development strategies. The countries have been able to incorporate trade as a priority area of action in national development plans reasonably well, which is more apparent in the last two decades where some advanced developing countries in the region that had followed trade-oriented development strategies, achieved remarkable economic growth and poverty reduction.

It is somewhat puzzling to observe that while all these trade policy reforms together with other structural policy reforms such as financial sector reforms, privatization and exchange rate reforms and inclusion of trade as a priority area of action into national development plans have been taking place at a greater scale than ever before, the people in LDCs are still amongst the poorest in the world. This can be attributed to many factors including political instability, lack of government commitment to the implementation of policies and plans, inadequate financial resources and lack of trained human resources and institutions. Most importantly, in order to benefit from sound trade policies and development plans, a clear government commitment to the implementation of such policies/plans as well as clearly defined implementation strategies are needed.

Successful implementation of policies/plans depends largely on the capacity of human resources and institutions to deal with these issues efficiently. For example, many LDCs in the region neither have human resources nor institutions to carry out trade policy reforms that they are required to implement under the structural adjustment programmes of the World Bank and IMF. Similarly, LDCs in the region do not have institutions with well-trained human resources to handle the complicated process of WTO accession which requires extensive knowledge and experience not only in the preparation of memorandum on trade policy regimes and provision of answers to the questions related to it, but also in the accession procedure. Establishment of institutions capable of dealing with trade policy reforms and the WTO accession such as Tariff Commissions are urgently needed in LDCs in the region. At present, in most LDCs in the region, these issues are dealt with by many government institutions including the Ministries of Finance, Planning, Trade and Industries and Department of Customs and the Central Banks, an institutional mechanism which clearly lacks coordination. In this regard, ESCAP will continue to assist these countries by building and strengthening the capacities of both institutions and human resources to facilitate the process of their integration to the world trading system.

The world community including advanced developed and developing countries and international and regional agencies can play a critical role in bringing these countries to mainstream economic development and in capacity building to face the challenges of globalization, liberalization and the new economy. In order to facilitate faster integration of LDCs into the world trading system, the world community should ensure a full implementation of the Integrated Framework initiative allow duty-free access to all products from the LDCs and ensure a fast-track accession of LDCs to the WTO.

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## APPENDIX A

Main Objectives of Trade Policy and Related Laws  
and Regulations of Selected LDCs

Country	Major objectives of trade policy	Major laws and regulations on trade policy
<b>South Asia</b>		
Bangladesh	<ul style="list-style-type: none"> <li>Promote rapid export growth through reducing and ultimately eliminating the anti-export bias prevalent in the economy.</li> </ul>	<ul style="list-style-type: none"> <li>Imports and Exports (Control) Act, 1950.</li> <li>Importers, Exporters and Indentors (Registration) Order, 1981.</li> <li>Customs Act, 1969.</li> </ul>
Bhutan	<ul style="list-style-type: none"> <li>Enhance the contribution of the trade sector to the national economy by promoting internal and international trade with increased private sector participation through the creation of an environment conducive to growth of trade.</li> <li>Expand trade on a sustained basis and gradually reduce trade imbalances.</li> <li>Diversify the export base through the identification and development of exportable products in such a manner as to make the trade sustainable and competitive.</li> </ul>	<ul style="list-style-type: none"> <li>Trade licence rules and regulations.</li> <li>Export and import regulations.</li> <li>Tariff and non-tariff regulations.</li> <li>Trade Agreement with India and Bangladesh.</li> <li>The Agreement on the South Asian Preferential Trading Agreement (SAPTA).</li> </ul>
Maldives	<ul style="list-style-type: none"> <li>Free trade.</li> <li>Foreign investment.</li> <li>Service related products, including tourism.</li> </ul>	<ul style="list-style-type: none"> <li>Law on Foreign Investment (No. 25/79).</li> <li>Law on Exports and Imports (No. 31/79).</li> </ul>
Nepal	<ul style="list-style-type: none"> <li>Enhance the contributions of trade sector to national economy by promoting international trade with the increased participation of the private sector through the implementation of an open and liberal atmosphere.</li> </ul>	<ul style="list-style-type: none"> <li>Export and Import Control Act – 1957 (Consolidated).</li> <li>Customs (sixth amendment) Act – 1996.</li> <li>Customs Regulations – 1969.</li> <li>Export and Import Rules – 1977.</li> <li>Trade Policy – 1992.</li> </ul>
	<ul style="list-style-type: none"> <li>Diversify trade by identifying, developing and producing new exportable products.</li> </ul>	

Country	Major objectives of trade policy	Major laws and regulations on trade policy
	<ul style="list-style-type: none"> <li>• Expand trade on a sustained basis to achieve gradual reduction in trade imbalances.</li> <li>• Promote trade in coordination with other sectors of the economy.</li> </ul>	
<b>South-East Asia</b>		
Cambodia	<ul style="list-style-type: none"> <li>• Establish a liberal trade regime.</li> <li>• Increase integration with the regional and global trading system.</li> <li>• Promote investment.</li> <li>• Support the development of export-oriented industries.</li> <li>• Expand employment opportunities.</li> <li>• Spur economic growth to reduce poverty.</li> </ul>	<ul style="list-style-type: none"> <li>• Customs Law.</li> <li>• Law on Investment.</li> <li>• Sub-decree on Implementation of the Investment Law (1998).</li> <li>• Chamber of Commerce Law (1995).</li> </ul>
Lao Peoples' Democratic Republic	<ul style="list-style-type: none"> <li>• Shift from the production for subsistence to the production for export markets.</li> <li>• Integrate the national economy to that of the region and world economy.</li> <li>• Encourage local and foreign investors to produce for exports.</li> <li>• Improve the living conditions for the people by introducing new trading techniques.</li> <li>• Tariff reduction, administrative procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• Customs Law.</li> <li>• Law on the Promotion and Management of Foreign Investment in the Lao PDR.</li> </ul>
Myanmar	<ul style="list-style-type: none"> <li>• Proper evolution of a market-oriented economic system.</li> <li>• Wider participation of the private sector in foreign trade.</li> </ul>	<ul style="list-style-type: none"> <li>• Imports and Exports (Temporary) Act, 1947.</li> <li>• State-owned Economic Enterprises Laws.</li> <li>• Union of Myanmar Foreign Investment law.</li> <li>• The Central Bank of Myanmar Law.</li> <li>• Tariff Act.</li> <li>• Income Tax Law and Commercial Tax Law.</li> <li>• Customs Act.</li> </ul>

Country	Major objectives of trade policy	Major laws and regulations on trade policy
<b>Pacific island countries</b>		
Solomon Islands	<ul style="list-style-type: none"> <li>• Development of export activities.</li> <li>• Participate in the globalized economy and avoid the risk of economic marginalization.</li> <li>• Increase the international competitiveness of the economy.</li> <li>• Maintain and increase export levels for the currently dominant commodities</li> <li>• Develop new trading opportunities on “niche” markets for products of ecological value with export potential.</li> <li>• Develop tourism by enhancing the quality of the domestic products.</li> </ul>	<ul style="list-style-type: none"> <li>• Customs and Excise Act.</li> <li>• Income Tax Act.</li> <li>• Foreign Investment Act.</li> </ul>
Vanuatu	<ul style="list-style-type: none"> <li>• Establish an open trading regime.</li> <li>• Enhance the machinery of governance.</li> <li>• Redefine the role of the public sector (with a focus on efficiency).</li> <li>• Promote private sector-led growth while induce greater social equity.</li> </ul>	<ul style="list-style-type: none"> <li>• Import Duties (Consolidation) Act.</li> <li>• Import of Goods Control Act.</li> <li>• Business Licence Act.</li> <li>• International Business Companies Act (1992).</li> <li>• Registration of United Kingdom Trade Marks Act and Registration of United Kingdom Patents Act.</li> <li>• Foreign Investment Act.</li> <li>• Investment Code.</li> </ul>

Source: Website, *Needs Assessment paper, Country-specific Round Tables: Documentation.*

## **PANEL D: PRESENTATIONS**

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## Tackling the Trade Agenda in the Poorest Countries

[illegible]

Globalization has become a central issue for developing countries in recent years. Properly managed, integration into the world economy has been shown to be a powerful instrument in achieving and sustaining high rates of economic growth and reducing poverty. However, during an era of rapid global integration, many developing countries, especially the poorest and smallest among them, have shown only modest progress in per capita incomes, declining export shares in world markets, and, in too many instances, sharp economic regression. Bridging the growth performance gap between the poorest countries and the rest remains one of the central challenges facing the international community. This note traces a policy agenda designed to deal with the impediments to trade integration in the poorest countries.

## 1. Trends in the poorest countries: Some lessons+++++

Trade liberalization and export development have been a prominent element of reforms undertaken in developing countries during the 1980s and 1990s. These reforms helped reduce border protection in many countries. By the end of 1990s, average tariffs were significantly lower than in the late 1970. The incidence of quantitative restrictions, and non-tariff barriers (NTBs) was also greatly reduced - import quotas and foreign exchange licensing and controls were removed in most countries - a great achievement. At the same time, other supply side constraints to efficient trade integration were recognized and reforms were implemented in the regulatory structures, privatization of production and services, elimination of State monopolies, and in improving the functioning of key trade institutions. Similar attempts were made to improve macroeconomic policymaking; fiscal deficits and inflation fell on average, and more competitive exchange rates were adopted.

Reducing distortions in the incentive regime by lowering trade barriers - the traditional focus of the reforms in the 80's and 90's - along with reforms in the domestic incentive structures, helped many countries to achieve higher growth rates. Among small, low-income countries that managed to avoid conflict, per capita GDP and export growth accelerated during the 1990s. Even with this acceleration, the growth rates in poorer countries were much lower than other middle-income developing countries and much lower than the industrial ones. Although the reforms did lead to greater exports and supply response in many of the countries and in many products, the responses were not large enough and broad enough to place these countries into an accelerating growth path and reverse the increases in poverty. Many low-income countries have not been able to use trade as an engine of growth, as some of the more successful East Asian Countries have done.

Thus, although the poorest countries are clearly integrating to the world economy, the benefits accruing to them have been disappointing. The share of the poorest countries in global trade declined from 0.8 per cent in 1980 to 0.4 per cent today. The GEP 2001 projects that per capita incomes in sub-Saharan Africa will only expand by only 0.5 per cent in the coming decade. In many of the poorest countries there is an urgent need to 'get trade integration right' as this is a vital engine for growth and poverty alleviation.

†††††††††††††††† The authors are respectively Economic Advisor and Director of the Economic Policy and Prospects Group, World Bank.

\*\*\*\*\* This section draws heavily on “Global Economic Prospects 2001”, Chapter 2.



The experience of the 1990s makes it clear that integration of the poorest countries is a multi-faceted challenge. It has a national dimension - the policies and institutions needed for trade to be an instrument of pro-poor growth; and a global dimension - the promotion of development through international cooperation on trade-related issues. Realizing the potential gains from trade is a complex and difficult process. Success in integrating into the world economy is not universal, in part because not all countries reformed trade policies sufficiently, but also because there are many complementary policy reforms at the national level, required to support trade reforms and barriers exist in accessing world markets. Measures to create an enabling environment for supply-side responses to changed incentives are needed. 'Behind the Border' barriers to trade integration - for example, measures that restrict international competition in distribution and transport services - can be as, if not more, important obstacles than border barriers such as tariffs and NTBs.

To a significant extent this has been recognized in the reform programmes. The emphasis on measures to improve the business environment, support private sector development, improve legislation and regulations pertaining to property rights, investment, contract enforcement, and so forth, and to enhance the functioning of the financial sector are among the key elements of reform strategies in most markets. However, the absence of a strong supply response in many countries suggests that anti-export biases remain. Trade measures are not adequately complemented by other reforms, and that greater efforts are needed to ensure that reform programs deal with the bottlenecks.

Finally, access to the main markets for the products of the low-income countries have to be improved. This is especially important in agricultural products, where the inability to diversify into other agricultural products together with reforms to improve supply response have actually led to a greater concentration of exports in traditional agricultural products, leading to lower prices and greater vulnerability to price fluctuations.

These interrelationships among different dimensions of reform programmes have highlighted the importance of integrating the policies of trade reform within the development strategies of each country. Furthermore, these strategies need to evolve in line with the developments in the countries, especially in light of the outcomes of the reform measures already undertaken.

## **2. Reform process: The poverty reduction strategy papers (PRSP)**

The experience of the 1990s also holds important lessons on *how* to integrate these issues within the development programmes of low income countries. Externally driven programmes, however well designed, have not been very successful and awareness has grown that ownership by the country is a critical determinant of success even in the best designed programmes. Furthermore national consensus around these programmes, is absolutely essential for sustainability and consistency in implementation. \$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$

In recognition of the importance of ownership, the new approach for generating a development strategy is embodied in the Poverty Reduction Strategy Papers (PRSP) being undertaken in most of the low-income countries \$\$\$\$\$\$\$\$\$\$\$\$\$\$. PRSPs were launched in 1999 and are country-driven, comprehensive, results-oriented, with a long term view of development and developed in coordination with national civil society and donors.

The PRSP process at the country level is driven by the governments. It starts out with the participatory process (including central government agencies, parliament, civil society, external partners and the public) coming to an understanding the nature of poverty in each country. The

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\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$ These conclusions have also been cited by the evaluation of the Integrated Framework  
 \$\$\$\$\$\$\$\$\$\$\$\$\$\$ UNDP has a similar structure with its UNDAFs.

participatory process then leads to choosing poverty reduction objectives, defining strategies to achieve these objectives and finally monitoring outcomes, evaluating impacts and adjusting the process as needed. This later provides feedback for a better understanding of poverty and how to alleviate it.

It is expected that the PRSP process will assist each eligible country – IDA/HIPC/PRGF (respectively: International Development Association/Highly Indebted Poor Countries/Poverty Reduction and Growth Facility) to formulate a poverty reduction strategy that includes efforts to benefit from integration into the global economy.

Currently, efforts on the PRSP front are centering on so-called Interim-PRSPs. Interim PRSPs (I-PRSPs) launch the process and enable countries to access Fund PRGF assistance and reach HIPC Decision Points. The I-PRSP is primarily a description of existing poverty reduction strategy (PRS) and a plan for preparing a full PRSP.

Full PRSPs require more time and effort, including broad-based participation. Revised on a three-year cycle with annual progress reports. After July 2002, full PRSPs will form the basis for Bank's Country Assistance Strategies for IDA countries.

As of early January 2001, twenty-six I-PRSP and three PRSPs were completed<sup>+++++</sup>. In the Africa Region, twenty Interim PRSPs (I-PRSPs) have been discussed by the Bank and IMF Boards.<sup>+++++</sup> Three full PRSPs have been discussed so far by the Boards.<sup>+++++</sup> Six more Africa I-PRSPs are likely to be discussed by the Boards in the first half of 2001.

The early I-PRSPs have provided important information. First, quantified estimates of income poverty and targets for poverty reductions have been acquired in several countries. Secondly, the numbers show that poverty is multi-dimensional and predominantly rural – though highest among specific excluded/disadvantaged socio-economic groups.

To date many countries are responding very favourably to the invitation that they take the initiative. The development partners support these principles and many are willing to build their own programmes on basis of PRSPs. However, major challenges remain, such as: country capacity constraints - including preparatory capacity; availability of good and up-to-date data; and a clear understanding of expectations for I/PRSP content and process. Weaknesses have also been noted in the coherence between the macro framework and the PRSP, lack of detailed and costed poverty reduction programmes and actions and risk assessment. Tensions are inherent and unavoidable in the PRSP process as countries have to balance importance of transparency, accountability, good governance, empowerment of poor; the quality of the document versus timeliness; and country ownership versus assessment and support by partners. This tension is heightened by the need for clarification on the role of development partners and the expectations of the World Bank and IMF.

The World Bank and the IMF have taken initiatives to facilitate the PRSP process. These include capacity building (joint missions, training - country personnel and World Bank/IMF staff);

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<sup>+++++</sup> The countries who have completed an I-PRSP are Albania, Madagascar, Benin, Malawi, Bolivia, Mali, Cameroon, Moldova, Chad, Mozambique, Gambia, Nicaragua, Ghana, Niger, Guinea, Rwanda, Guinea Bissau, Sao Tome and Principe, Guyana, Senegal, Honduras, Tajikistan, Kenya, Tanzania, Macedonia, Zambia. The countries who have completed a PRSP are Burkina Faso, Uganda and Tanzania.

<sup>+++++</sup> Benin, Cameroon, Chad, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Tanzania, and Zambia are self-standing I-PRSPs while Mauritania and Uganda included I-PRSPs in HIPC decision point documents.

<sup>+++++</sup> Uganda, Burkina Faso, Tanzania.

Finally, while country ownership and vision is essential, support of external partners is critical for the effectiveness of the PRSP process. Donors can help Governments build capacity to formulate participatory poverty reduction strategies; and engage in extensive discussions within PRSP countries. It would strengthen the quality and ownership of such programmes. It is desirable that any effort, both by the international organizations and other donors, be coordinated and integrated into the PRSP process. Therefore, arrangements for individual projects with separate government agencies, which have been the basic mode of operation historically, need to be modified to operate through the consultations and discussions in the preparation of the PRSP.

Although the specific constraints facing each country are different, ongoing analyses have highlighted a set of issues that have been identified as key constraints to global integration in low-income countries. In this context, it is useful to make a threefold distinction among the country's border barriers to trade, the 'behind the border' barriers, and barriers in accessing global markets. Each type of barrier implies a policy agenda. The first focuses on creating incentives for efficient growth by reducing the average level and the dispersion of border protection, eliminating NTBs, and strengthening the public institutions to ensure that goods cross frontiers with low transactions costs, i.e., efficient customs regimes that do not create anti-export biases. The second revolves around creating regulatory standards and policy regimes that ensure that supply responses to liberalization are efficient, equitable and enduring. Important issues here include liberalization of trade in service sectors to enhance competitiveness, policies to promote access to information and technology, and strengthening institutions to benefit from participation in regional and multilateral trade arrangements. The third focuses on reducing tariff, and regulatory barriers within the framework of international trade negotiations, especially reducing the barriers against the exports of the poorest countries, which require additional support to reverse long periods of stagnation and weak institutions<sup>+++++</sup>.

Border trade barriers continue to be high in three regions: Africa, MENA and South Asia. Average (unweighted) tariffs in these regions are in the 20 per cent range or higher, and still have far to fall in order to attain the ten per cent average found in East Asia, Latin America and Europe and Central Asia. Within this category, there are three major elements:

Determining the incidence of the tariff structure and the implications of this incidence - for the poor, for employment, for regions, etc. - is important in mobilizing support for reform. There is a need to undertake analysis of the economic implications and effects of prevailing trade policies. One useful instrument here is the WTO Trade Policy Review Mechanism, which generates a comprehensive set of data on existing policies. Complementing such studies with analysis of the

\*\*\*\*\* This section draws heavily on “Global Economic Prospects” 2001, Chapter 2.  
+++++ These also include issues of complying with WTO procedures, design and enforcement  
of standards etc.

effects of policies - something that is not done by the WTO - would help support reform efforts. As the periodicity of WTO reports is very low - at least six years for most low-income economies. But the policy environment in these countries are changing very rapidly due to regional and unilateral policy changes. It would be well worth complementing these reports with more frequent studies of the trade and investment regime. Working with local partners in this regard would help create capacity and ownership of such efforts. Currently, very little is being done systemically on this. As a result our knowledge is limited and civil society in developing countries with an interest in reform remains relatively ill-informed.

*Customs administration.* Experience of successful countries suggests that triggering rapid trade growth and integration in low-income economies requires strengthening customs regimes and administration to reduce transactions costs, anti-export bias and corruption. Customs clearance related transactions costs can be a major factor impeding investment in tradable sectors, especially in activities that are time sensitive or where it is important to be integrated into global production networks that operate on the basis of just-in-time supply chain management. From a poverty reduction and growth perspective it is critical that high priority be given to customs clearance and streamlining and the elimination of red tape. Although these areas may be covered by the World Bank in its country dialogue and operations, a concerted effort is needed if an integrated approach towards diagnosis and reform is to be adopted. Potential partnerships and synergy with organizations that have expertise in this area (WCO, other donor supported programmes, industry associations) should be exploited to a better degree.

*Anti-export bias and export promotion.* In countries where tariffs continue to be needed for revenue mobilization, it is crucial that exporters have access to imported intermediate inputs at world market prices in order to be competitive. This requires well-functioning tariff duty regimes that efficiently refund duties paid on imported inputs, or, preferably, allow exporters to import inputs duty free (so-called temporary admission or green channel treatment). Implementing such systems requires training and institutional strengthening. Very few low-income countries in Africa and the transition economies have functioning exemption/drawback regimes, increasing anti-export bias.

*(b) The 'behind the border' agenda - complementary policies for poverty alleviation*

A strategy for sustained trade expansion and growth must be framed within an appropriate macroeconomic incentive environment and be embedded in a comprehensive development and poverty reduction strategy. Complementary institutional reform efforts and improvements in the legal and regulatory environment that increase investor confidence are vital for trade liberalization to serve as an engine of growth. Key elements of the associated 'behind the border' trade agenda include adoption of efficient regulatory regimes and institutions that support the participation of national firms on international markets and measures to enhance their competitiveness by providing access to crucial service inputs. Much is being done in these areas under the rubric of Private Sector Development, however, the international dimension of private sector development activities is often neglected: e.g., fostering international competition on service markets (e.g., transport); seeking to use reforms to expand exports of services; or making a link between proposed reforms and a country's commitments or negotiating position in the WTO.

*Market-friendly, pro-development regulation and trade.* Modernization of developing country standards systems, including institutions and infrastructure related to goods production and sanitary and phytosanitary standards is a critical part of the new global trade environment. Efficient and market-driven standards systems can aid export competitiveness and product quality. Meeting international standards for quality and health and safety is increasingly a precondition for contesting international markets. Many low-income countries are not adequately equipped to deal with product standard requirements. This is an area that is becoming a major constraint for firms in many countries

and that can require major investments. Recent examples where standards have constrained exports include Ugandan fish and South Asian shrimp exports to the EU.

*Trade in services.* The efficiency of service sectors is a key determinant of the competitiveness of national firms. Liberalization of trade and investment in services should therefore be a major element of policy reform strategies. An efficient and well-regulated financial sector is necessary to finance investment and ensure resources are deployed where they have the highest returns; telecommunications are a vital intermediate input and crucial to the dissemination and diffusion of knowledge, transport services contribute to the efficient distribution of goods within a country, and are particularly important in influencing a country's ability participate in global trade (the cost of international transport is often higher than the applicable tariff); and business services such as accounting and legal services are important in reducing transaction costs. Research has shown that the gains from eliminating barriers to trade in services that facilitate trade can easily be a multiple of those associated with merchandise liberalization. While sectoral projects and adjustment programmes are frequently undertaken in services sectors, these are rarely an integral part of an 'integration' strategy and tend to neglect the beneficial effect of allowing foreign entry and ensuring that markets are contestable.

Efforts to strengthen private and public institutions that support export development - access to credit, modernization of product-standards systems and conformity assessment infrastructure to ensure export market norms are satisfied; and improving the quality and reducing the cost of service sector inputs - transport, telecoms, insurance, finance, etc. are often pursued on a sector-by-sector basis. What is lacking is an overall framework that identifies priority areas from an integration perspective (areas where the pay-off for reform is largest). Careful analysis of the prevailing economic structure and production chain - focusing on the relevant upstream and downstream markets - is necessary, but is often not undertaken.

*(c) The global trade agenda*

It is important to provide an intellectual framework, data, and analysis to assist LDCs to maximize the development pay-offs from participating in international agreements and multilateral rule-making. Through this research, the development implications of existing trade barriers and multilateral disciplines (including potential agreements that have been proposed and are the subject of discussion) can be clarified thus ensuring that development becomes the benchmark for negotiated agreements. There are four key thematic areas where substantial research and analysis is required. As at the national level, there is a border and a non-border dimension to the global agenda. The major border issue concerns the impact of market access barriers on developing country trade.

*Market access for goods and services.* Protection in OECD countries currently imposes costs on developing countries that exceed aid flows. Benefits to developing countries from abolishing their own protection are also significant. If current policies restricting trade in services, labour, capital and knowledge are considered, as well as the effect of instruments of contingent protection (anti-dumping measures, safeguards) and regulatory regimes that give rise to transaction costs (conformity assessment for standards), it is clear that the benefits of reducing market access barriers are enormous.

Greater market access for the developing countries in general and to the LDCs in particular, have to be one of the cornerstones of the global strategy. While benefits from a global reduction in tariffs, especially in agricultural commodities, are very great, the political economy of further reforms indicate that significant breakthrough in the short run is not likely. A modified strategy which has a greater chance of success is to push for the opening of the markets, especially in agricultural products, to the LDCs, as the first step in the next round of negotiations. This will have small repercussions on the economies of the industrial and richer developing countries but will have a significant impact on

the exports and incomes of the LDCs<sup>\*\*\*\*\*</sup>. This might give the needed boost to LDCs in reversing their marginalization.

*Institutions to promote and protect trade in knowledge.* The relative weakness of efforts in recent years to pursue projects in areas such as intellectual property has impeded the ability of the international community to take a stance on a number of the major issues confronting developing countries in the trade area. This should be an area of focus for research as well as investment and TA projects.

*Rule-making - the global 'regime'.* A key issue for developing countries is to ensure that global rules that are negotiated in multilateral bodies support the development process. One message that emerges strongly from recent research is that one size fits all - the basic WTO approach - is not appropriate in a number of areas where there are substantial implementation costs and critical institutional development needs. Developing a position on priority areas for global cooperation and reform is important to support autonomous reform actions that are taken by developing country governments. In doing this we must draw on country-level experience in determining what types of cooperation (rules of the game) will support the development process.

*(d) The poverty dimension*

Research on trade, growth and poverty has been carried out under two frameworks. First is the estimation of the links between openness and growth, and growth and poverty. In both of these links, there is strong evidence that more open trade regimes are associated with faster growth and there is also a strong link between growth and poverty reduction. Second is the measurement of the adjustment costs and benefits of trade liberalization episodes. Existing research on the adjustment costs of liberalization is mainly focused on the industrial countries and suggests that these costs are not large, and the shocks that occur tend to be short-lived.

The disappointing growth performance of many LDCs in the 1990's and absence of significant progress in poverty reduction despite significant trade liberalization have generated some skepticism with regard to these findings.

While the overall direct impact of trade liberalization on the poor as a group might not be very large, and its long run effect may be expected to accelerate growth and reduce poverty, its impact on individual groups in the short run might be significant. Surveys show that the poor are very diverse. Thus, trade and other associated reforms which affect relative prices and employment opportunities can reallocate income among vulnerable groups that receive their incomes from different activities. Thus, segments of the poor may be hurt by trade liberalization.

Further efforts are needed to analyse the winners and losers in the transition process and adjust the policies, wherever possible, to take into account the political economy of income redistribution. Programmes supporting liberalization have often been complemented by efforts to strengthen social safety nets, but little has been done to determine what the impact of trade reform on the poor would be. Since some of the poor are likely to be so poor that any decrease in incomes imposes extreme hardship, it is important to identify which of the poor may be adversely affected by reforms and determine the most appropriate set of pro-poor policies to complement trade reform.

The knowledge and tools required to answer some key questions is still inadequate.<sup>\*\*\*\*\*</sup> However, progress is being made. First, as a part of the PRSP process,

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<sup>\*\*\*\*\*</sup> As expected, our findings indicate that largest gains to LDCs occur when they are given preferential access to the QUAD markets.

there is much better information on the nature, characteristics, and structure of poverty in most of the LDCs, along with the income sources of most of the poor. Second, there are large number of episodes of liberalization undertaken over the last decade that yield important clues on the transmission mechanisms of trade reforms. Third, contrary to earlier focus, the service markets in general appear to play a key role in the determination of poverty outcomes. The growth impact of services liberalization can be significant and can help offset adjustment costs of goods liberalization as many “imports” of services must be locally produced and are labour intensive. Finally, the evidence indicates that the effects of trade reforms through the consumption of the poor are much less significant than the effects of trade reform on the income streams. This suggests that focus should heighten on the income effects of reforms and narrows the set of issues to be tackled.

#### **4. Implementing the Integrated Framework: Some issues**

The preceding sections show that much can and needs to be done to help poor countries derive the benefits of globalization. It is also clear that policies of trade integration need to be both owned by the country and consistent with the broader poverty reduction strategy. In this light, three aspects appear especially important in supporting trade-related reforms and technical assistance under the Integrated Framework. These are: analytical underpinnings of the trade integration strategy; dissemination and advocacy; and funding and division of labour.

*Analytical underpinnings* Any effort to support the integration of low-income countries into the world economy must start with a diagnosis designed to identify the main impediments to integration. The analytical challenge is jointly to evaluate the incentive regime (focusing on the impact of trade, tax and exchange rate policies on relative prices) and the key ‘behind the border’ issues. The latter that have proven to be of great importance in determining the success or failure of integration efforts, and are increasingly being placed on the agenda of international negotiations. Driving the integration agenda therefore requires development and testing of diagnostic tools that will assist countries to identify priority areas for reform. This analytical/diagnostic work must be done jointly with teams that are based in the countries and that are completely familiar with the economic landscape.

Though the PRSP must remain country-driven, donor institutions can assist in its formulation by identifying impediments, suggesting possible solutions, and more generally providing critical inputs to the strategy formulation process. One possibility is to support “Trade Integration Studies” that assess the remaining constraints to successful globalization and the impact of eliminating these constraints on economic growth and poverty reduction. Consequently, priority areas for action identified by the country in the PRSP may include trade-policy and trade promotion-related action. Decisions on whether and when the analysis is needed, and on its scope, should evolve from the country’s setting of development priorities within the context of the PRSP.

The World Bank’s trade group, in cooperation with IF partners, will seek to undertake a few PRSP country-specific “integration strategies” on a pilot basis in coming months. There already is considerable interest on the part of some country departments in supporting these pilots. These exploratory discussions have confirmed that efforts to ‘mainstream trade’ must center at first on building tools that are useful to country authorities and to the staff, and on convincing country authorities that investing resources in the trade area will have significant development payoffs. Integration studies should be undertaken with significant input from local institutions, will need to be

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Work is ongoing in the context of the PRSP sourcebook and trade and poverty research to answer more of these questions.

highly tailored, and will need to draw as much as possible from the existing stock of knowledge and update it. \*\*\*\*\*

Another important rubric for analytical support is the evolution of market access and of WTO rules as they affect the developing countries. The global agenda in these fields is large, complex and politically sensitive. Similar issues often arise in the context of regional agreements, which are proliferating. More research (and associated policy implications) is needed on market access, the development relevance of international rule making efforts, mechanisms to foster the acquisition, protection, and generation of knowledge and related assets, and on the link between trade liberalization and poverty. Progress on the Integrated Framework requires that research in these areas should respond to, and be informed by, the national trade strategy/needs that prevail in low-income countries. Furthermore, the 'feedback loop' from research to operations must include recommendations related to micro elements such as the business environment and also cover the institutional-legal regime, including both product standards and intellectual property protection. Research in these areas needs to be leveraged through policy messages and tailored to the specific conditions prevailing in individual countries. Analysis must be integrated more deeply into dialogue with governments and made more country-specific.

Especially since many of the issues which comprise the global trade agenda are controversial, it is important that basic facts, analytical exercises, and the implications drawn for policies affecting the poorest countries be documented as systematically as possible. Research in these areas, adequately disseminated, can help generate a global consensus on policy measures. The various IF working group meetings and workshops could usefully devote some time to discussion of the intersection of the global trade agenda and development policy in the poorest countries.

*Dissemination and advocacy* A critical new aspect of the revised IF is the emphasis placed on the quality of the country dialogue and on creating a consensus within civil society on growth and poverty reduction strategies. In short, the measures proposed on trade integration agenda will have to be placed on the table and participants will need to buy in. More intensive consultation and dissemination will be necessary. The mere existence of a compelling study would not guarantee its inclusion in the growth strategies adopted.

Broad dissemination, including seminars and close cooperation with the country teams working on the PRSPs will be critical for the successful inclusion of the trade policies and institutional reforms into the development strategy. Again, the exact modalities of what needs to be done will depend on the specific circumstances of each country. Therefore, an explicit dissemination strategy will need to be developed for each trade integration study.

Similarly, the policy implications of research on global issues needs to be disseminated both in developing as well as in industrial countries. Instruments range from briefing the key ministers to educating the public on the outstanding issues through the mass media.

*Funding and division of labour.* Identifying more explicitly the appropriate division of labour among agencies is important to implementing the IF effectively. One of the reasons cited for disappointing progress under the original IF was lack of clarity among agencies with respect to their respective roles. Which agency will carry out what activity? How will they participate in the PRSP process? In which countries? How will the findings be discussed and general agreements on the appropriateness of the recommendations be reached?

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\*\*\*\*\* Earlier efforts included work being done under "Trade Expansion Project" for a group of countries. Given the changes in the policy regimes, and more limited resources, these studies will be more focused and made more country specific.



A issue related to this is the organization and funding of the diagnostic studies and their dissemination. Currently resources allocated to these tasks by the international organizations are very limited, and diagnostic studies are competing for attention with other research and policy work. Thus, critical decisions have to be made on the sources of funds, changes in own budgets in the participating agencies, and the institutional arrangements for their use.

The PRSPs and the trade integration studies are expected to generate proposals for policy and institutional reforms as well as to unveil physical investment needs. Once these programmes and projects are identified and sequenced, they will need to be prioritized and funded. While it is expected the CGs and UN Round Tables will be the primary vehicles determining funding, it is also important to leave adequate room for funding key trade-related activities.

## ANNEX

### Outline for a Trade Integration Study

Each trade integration study will have to be tailored to the specific needs of each country, and to the framework proposed by the country itself. However, there are certain areas that have been identified as important constraints for the integration of LDCs. These areas will probably be reflected, in one form or other, in the integration studies. As a general principle, the starting point of all the studies will be the reforms undertaken and the activities that have grown in response to the reforms. The basic question will be the specific policies and other interventions that are needed to expand and broaden the response that is taking place, or was expected to take place under the reforms. The study will also have to focus on the sectors and areas where the interim PRSPs have identified as the key areas where the countries have decided to focus.

Integration studies will typically have five components:

**First** is a review and analysis of the country's growth and integration performance in historical and international perspective. Particular attention will be paid to indicators of integration vis-à-vis those of comparator countries, such as the export and import to GDP ratios, the FDI to GDP ratio, the speed and extent of export diversification. The analysis of these indicators will be forward as well as backward looking, and involve assessing the relative importance of domestic policies and external factors accounting for observed trends.

**Second** is the macroeconomic environment and the country's investment climate, especially the behavior of the real exchange rate during the process of liberalization. Research has identified real exchange rate behavior as a key determinant of the supply response in liberalization episodes. Appreciation and high volatility of real exchange rates lead to import surges and reduce the profitability of export and import substitution activities. More important, by increasing uncertainty about future profitability, high real exchange volatility lowers investment in tradable activities. In this section the areas that can be covered are:

- Historical behavior of real exchange rates and its impact on the supply response, especially on the key activities and subsectors.
- Institutional arrangements for exchange rate management, especially whether they are designed to be flexible, and reflect the underlying productivity of the real economy.
- The structure and constraints in efficient operation of the foreign exchange markets, and whether they can be improved to yield more competitive and stable real exchange rates.

**Third** component focuses on international policy environment and specific constraints that the exports from each country face in the international markets. In many countries policy recommendations on export promotion have been made without paying attention to the trade restrictions in the importing countries. This section will have three dimensions.

The documentation of the specific set of trade restrictions (and preferential trade arrangements) that exist in industrial country markets for the existing and potential export products. This will allow the LDCs to have reliable information to argue for greater market access in the global forums, as well as adjust their policy interventions as not be penalized by the restrictions in the world markets.

- Analysis of the implications of greater market access for the existing and potential export commodities. ++++++
- Benchmarking of these countries both on their policy reforms and their performance vis-à-vis other developing countries both within its region and other regions.

**Fourth** component focuses on the key sectors where some export response has taken place, or is expected to take place, and analyse the constraints that these sub sectors face in expanding to the rest of the world. It will cover primarily the specific internal constraints that these product groups face. These analyses will be focused on the priority subsectors, which will be determined after the initial consultations, in line with the broad priorities that are being incorporated into the PRSPs ++++++. While these constraints will vary among countries, there are a series of common constraints that have been identified:

- Transaction costs such as transportation, customs facilitation, duty free access to intermediate inputs, availability of export credit and availability and cost of communications and energy. Research indicates that these constraints and higher costs are as important in making the products from LDCs less competitive as the level of efficiency within the firms.
- The regulatory environment for the subsectors such as the rules of entry and exit, inspections, and other regulations that constrain the ability of the firms to adjust.
- To the extent relevant, constraints posed by the global rule making such as the product and other standards, intellectual property protection, new customs rules and valuation, etc.

**Finally**, the impact of the recommended policies on the level and structure of poverty will be evaluated. The availability and the coverage of the poverty assessments will determine the nature and the extent of this part. To the extent that the income streams of the poor and their sector of origin are available, the quality and the precision of the analysis will be broader. Under such circumstances, analyses of winners and losers from the policy changes can be explicitly analysed and specific policies to minimize their impact on the poor can be developed.

**Susan Prowse**, Senior Economic Adviser, Department for International Development (DFID), UK

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+++++ While the implications of trade liberalization for the developing countries have been made on an aggregate and regional basis, there are very country specific analyses of the constraints and benefits each country face in the industrial country markets.

+++++ For example, in the initial discussions on the trade integration study for Madagascar, four areas were identified as the priorities; these are: Garments, tourism, Mining (large and small) and Agriculture. The report is expected to analyse the key policy and institutional constraints on the expansion of these sectors, and provide specific recommendations and options on how to overcome these constraints.

## **PANEL E: PRESENTATIONS**

**Richard Carey**, Director, DAC/OECD Secretariat.

**Chiedu Osakwe**, Head, Secretariat Working Group for LDCs/IF, WTO.

"The Challenges of Technical Assistance: A Policy Framework, Funding and the Moral Hazard"

*(Discussion draft)*

### **Introduction**

What is technical assistance, and how important is it in assisting the integration of LDCs into the multilateral trading system and the global economy? Can it assist LDCs to meet some of the challenges of globalization and take advantages of its opportunities? What roles should agencies, donors and the LDCs themselves play in the delivery of technical assistance? What are the current problems in the delivery of trade-related technical assistance?

Technical assistance is the means for building human, institutional and infrastructural capacity. It encompasses programmes and projects, designed to enable the attainment of key defined objectives, such as for integration into the multilateral trading system, and the global economy. The objectives and positive outcomes of technical assistance activities should be considered as public goods, activities that produce benefits, which cannot efficiently be delegated or left to private enterprise alone. National governments and external agencies need to step in to provide this international and national public good. Technical assistance is a vital component of a series of support measures for the Least-Developed in building capacity for trade development, and for accelerating their integration into the trading system and the global economy. However, it is only supplementary to domestic efforts at efficiently allocating resources and investing in such critical areas as education, human and institutional capacity-building.

The problem is that over time, technical assistance has been delivered, almost randomly, frequently indiscriminately and on a stand-alone basis. There continues to be an increasing vertical multiplicity of technical assistance initiatives (programmes and projects), with little horizontal coordination. Technical assistance has been delivered with little thought to a coherent overall development policy framework, in which trade priority areas of action need to be integral, to improve the chances of accelerated growth for poverty reduction and development. Furthermore, the uncoordinated rush to respond to the ever-increasing cascade of technical assistance demands has lent itself to the risk of a moral hazard, in which distortions in behaviour have arisen because of the virtual guarantee of receiving technical assistance. In addition, ownership of programmes and projects is not optimal and in many cases absent. In the prevailing situation, technical assistance is largely delivered outside of a policy framework; there is a reluctance to share costs with technical assistance providers; and, in some cases, there is no negative consequence to be suffered for deliberate errors of management.

The challenge, therefore, facing technical cooperation today is to achieve better coordination, amongst all stakeholders of the multiple initiatives; to deliver technical assistance within a coherent policy framework, focused on increasing growth and alleviating poverty; and, to ensure that in the design of technical assistance programmes and projects, the risk of a moral hazard is not created, in which distortions will arise because of the virtual guarantee of technical assistance, which neither requires ownership nor insists on shared costs.

Technical assistance should aim to assist LDCs to implement their multilateral obligations and commitments and, at the same time, enable them to grow and eliminate poverty, through integration into the global economy, and by making use of the opportunities of an open, rules-based system. Consistent with these aims, technical assistance should be targeted at building-up LDCs' capacity to effectively participate in a new Round of Multilateral Trade Negotiations, based on a development agenda, which addresses all outstanding issues in a systematic, fair and comprehensive manner. These objectives of technical assistance are consistent with the original IF objectives.

The basic aim of the Integrated Framework (IF), as conceived and adopted at the High Level Meeting in October 1997, was to "seek to increase the benefits that LDCs derive from the trade-related technical assistance (TRTA) available to them". It was envisaged that there were gains and savings to be made from better co-ordination among providers of technical assistance, and that a "demand-driven" approach, with the needs being identified by the LDCs themselves would serve the objective of increasing the efficiency of technical assistance delivered not just by the six core agencies, but from other multilateral, regional and bilateral sources. Notwithstanding the design, 3 years of IF implementation made evident several problems, which are now being addressed.

The lessons drawn from the five Round Tables that were held showed that there were additional and missing elements in some of the means applied, and in the absence of an overarching framework. The design had not provided for prioritization and sequencing of trade-related TA. It did not provide for a policy framework or define a process for mainstreaming trade into the overall development plans and poverty reduction strategies of LDCs. The IF was also an unfunded mandate, at the time. The emphasis, at the time, was simply on LDCs' Needs Assessments.

The concept and issues involved in mainstreaming are discussed in depth in several of the papers prepared and to be presented at the IF Seminar – The Policy Relevance of Mainstreaming Trade into Country Development Strategies: Perspectives of LDCs. However, the re-thinking and lessons to be drawn following from the Seminar, are useful not just for LDCs, but for the core agencies and donor community at large as well, who should draw and build best-practices, in ensuring that appropriate linkages and mainstreaming in aid and trade policy frameworks are re-inforced from the perspective of donors and agencies too.

#### Technical Assistance for LDCs - The WTO Perspective

With 29 LDCs as Members, and a further nine currently in the process of accession to the WTO, LDCs as a group constitute a substantial proportion of existing and future WTO Membership. The Marrakesh Agreement establishing the WTO is mindful of the vulnerable position and special needs for economic development of LDCs. The WTO Agreements, Ministerial Declarations and Decisions, accordingly include a number of provisions in favour of least-developed and developing country Members. Of these, provision upon request of

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§§§§§§§§§§§§§§§§§§§§ The High Level Meeting (HLM) on Integrated Initiatives for the Least-Developed Countries' Trade Development, Geneva, 27-28 October 1997.

§§§§§§§§§§§§§§§§§§§§ Paragraph 2, WT/LDC/HL/1/Rev.1

†††††††††††††††††††† See for example DAC/OECD Secretariat "Capacity Development for Trade in the New Global Context" DAC (2000), for initial work and progress reported in preparing a set of Guidelines on Capacity Development for Trade.

†††††††††††††††††††† As of 31 December 2000, there are 140 WTO Members, a further 28 countries are in the process of accession.

§§§§§§§§§§§§§§§§§§§§ There are 146 special and differential provisions in the different WTO Agreements. The provisions in favour of developing and some specifically for LDCs can be classified into five categories a) measures aimed at increasing trade opportunities; b) provisions safeguarding the interests of the

technical assistance, by the WTO Secretariat and by Members on a bilateral basis, is called for in the Agreements and is needed in many instances for the full and effective implementation of WTO Agreements. With transition periods expiring, this task has assumed a greater urgency, as LDCs are at various stages of implementation of their rights and obligations as embodied in the WTO Agreements. Moreover, technical assistance and capacity building is also needed for effective participation in future rounds of multilateral trade negotiations and integration into the rules-based trading system. Priority and resources committed in this regard by all concerned stakeholders assumes significance. The Guidelines for WTO Technical Cooperation, adopted by the Committee on Trade and Development, \*\*\*\*\* accords p r i o r i t y for WTO technical assistance to LDCs. Nearly 40 per cent of all WTO technical assistance resources are focussed on LDCs.

The Integrated Framework is an indispensable mechanism for meeting the technical assistance needs of LDCs. However, as pointed out by Mike Moore, Director-General, WTO;

"For the WTO to be an effective partner in this process, we need to increase our resources for technical assistance and training. Even with much greater involvement in future of the Bank and the Fund, providing assistance in all matters relating to implementation of WTO obligations remains the responsibility of the WTO and its Members. That is why I am continuing to look to improve and regularize the funding of the WTO's technical cooperation activities. We need a regular budget sufficient to enable us to plan two or three years ahead and respond to increasing demands. We have made some progress here, and new avenues for resources are being studied". ++++++

The programme for the delivery of the technical assistance to LDCs,+++++ and priorities identified are based on needs assessments,+++++ individual requests from LDCs as well as priorities identified in seminars and courses organized for LDCs. It is expected that the "mainstreaming" of trade priorities into the LDCs overall development objectives as envisaged in improvements suggested for the IF, initially on a pilot basis, would also guide future delivery of assistance provided by the WTO. The technical assistance aimed at human and institutional capacity-building for better understanding of and participation in the multilateral trading system, includes different modes of delivery described hereunder, including co-ordination and joint programming under the aegis of JITAP and the IF:

1. Trade Policy Courses: Since the HLM, on an annual basis, a three-week Short Trade Policy Course specifically for participants from LDCs has been organized by the WTO. The next three-week Trade Policy Course is scheduled in September 2001, in Geneva. In addition, the WTO organizes regular three month Trade Policy Courses thrice a year, where LDCs also participate.

2. National Seminars: Seminars in individual LDCs have been organized, to provide an overview on the multilateral trading system and disseminate information on the functioning, basic rules and principles of the WTO and its Agreements. Some seminars have been organized jointly with other organizations such as with the participation of the ITC (Chad, Madagascar and Rwanda) and with UNDP (Djibouti and Niger).

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developing/LDC Members; c) flexibility of commitments; d) (extended) transitional time periods and; e) provision of technical assistance.

\*\*\*\*\* WT/COMTD/8.

+++++ "Coherence in Global Economic Policy-Making. WTO Cooperation with the IMF and the World Bank", Mike Moore, Director-General, Statement to Informal Meeting of the General, 18 January 2001.

+++++ A programme of TRTA for LDCs in 2001 is contained in WT/LDC/SWG/IF/7/Rev.1.

+++++ IF Needs Assessments and Integrated Responses contained in WT/COMTD/IF/1 to

3. Regional Seminars: Specialized regional seminars focusing in depth on specific WTO Agreements and provisions, have been held, at which LDCs' officials and representatives from the private sector and academic institutions have participated. Most regional seminars held and planned are focussed on specific subjects, for example on customs valuation, agriculture (mandated negotiations), market access, trade and environment and TRIPS. Cooperation with regional and sub-regional organizations in preparation of these activities has been pursued.
4. Technical Missions: technical missions typically are carried out for assistance in meeting notification obligations, issues relating to the adaptation of LDCs' legislation or implementation of commitments to WTO disciplines, and assistance in WTO accession.
5. Establishing modern data processing facilities ("Reference Centres"): In response to requests for assistance to establish modern data processing facilities and provide better communication and information technology links, the WTO Secretariat has begun work to install computers and Internet links in the trade or commerce ministries of least-developed and other developing countries. To date, WTO has opened "Reference Centres" in 39 LDCs.
6. Joint Integrated Technical Assistance Programme (JITAP): The Joint Integrated WTO/UNCTAD/ITC Technical Assistance Programme for Selected Least-Developed and Other African Countries (JITAP) was initiated in May 1996. This programme currently covers eight developing countries, including four least-developed: Benin, Burkina Faso, Tanzania and Uganda. It responds to the need of least-developed and other African countries to be assisted in the expansion and diversification of their trade and in the process of their integration into the multilateral trading system. In 1998, a Common Trust Fund (with a proposed budget of approx. US\$10 million) was established to finance country projects by the three organizations involved.

The modes of delivery and programming have and continue to evolve, in the face of changing demands and requirements for the effective delivery of technical-cooperation. \*\*\*\*\* The WTO was and is not conceived as a development-cooperation agency. Our budget and resources available for technical assistance reflects this. However, with an expanding Membership (the majority of which are either developing or LDCs), the demand placed on the Secretariat for technical assistance has outstripped the supply and existing capacity to deliver. Meeting ad hoc requests, is second-best to developing and delivering feasible multi-year programmes of assistance, formulated and mainstreamed into the LDCs overall development and poverty reduction strategies.

As discussed in greater detail in the sections of the paper focussing on the policy framework and funding issues, there are potential synergies that link trade reform and liberalization, with economic growth and an increase in employment, these opportunities when realized, can in turn form an integral part of the poverty reduction strategy. Trade priorities should and must not be seen in isolation of development objectives, for this reason, the technical-assistance should be provided within a policy context to assist openness, growth-friendly and market-oriented trade regimes, in a manner that can further assist LDCs to better participate and integrate into the multilateral trading system and global economy.

### Policy Framework

The importance of appropriate linkages of the IF and trade-capacity building priorities to the overall development architecture, in the context of Poverty Reduction Strategy Papers (PRSPs), the

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\*\*\*\*\* Issues pertaining to programming, delivery, funding, monitoring and evaluation, have been discussed extensively by WTO Members, including at the "Days of Reflection on Technical Cooperation" in July 2000.

" ... to make every effort to support the integration of trade, trade-related technical assistance, and capacity-building into the national development strategies and plans of LDCs. This would be ensured principally through such instrument as Poverty Reduction Strategy Papers (PRSPs) and would influence other development frameworks such as the United Nations Development Assistance Framework (UNDAF). In doing so, these efforts will ensure dynamic interaction and dialogue among LDCs, donors and agencies, fully respecting country ownership. "

Several of the papers presented at the seminar, examine the mechanics of operationalizing the concept of mainstreaming and the need for an appropriate policy framework. The DAC Secretariat, in preparing the Guidelines on Capacity Development for Trade, also include: (a) the importance of mainstreaming trade into country-specific poverty reduction strategies (PRSPs); (b) facilitating the emergence of a strong country-level trade policy process; (c) identifying needs and constraints; and (d) providing a roadmap for effective donor policies and instruments.

Trade reforms and liberalization are essential for growth, poverty alleviation and development for LDCs, and for their effective integration into the multilateral trading system and the global economy. However, it must be noted, as mentioned in the recent White Paper on International Development, that while there are potential gains from trade, trade openness is a necessary but not sufficient condition for poverty reduction. The extent to which trade openness contributes to poverty reduction depends on broader economic and social circumstances and policies. Trade policy needs to

##### Papers by Richard Carey: on DAC/OECD, Good Practices and Guidelines on  
Development for Trade; M. Ataman Aksoy and Uri Dadush: Tackling the Trade Agenda in the  
Countries; Richard Eglin: Mainstreaming and Economic Policy Reform and; SWG on IF/LDCs and  
Rajpatirana: Policy Relevance of Mainstreaming Trade with Country Development Strategies.



be situated within the wider development context. \*\*\*\*\* Mainstreaming is the potential means of immersing trade and trade policy into the broader development paradigm.

### Funding

Bearing in mind the ever-increasing demands for TRTA, the resources both financial and human, which are available for the delivery of requested assistance, are not be enough to fund all needs and priorities. The needs and demands exceed available resources. The total funding of nearly US\$190 million, requested at the five IF Round Tables held to date ++++++ would suggest that while an "unfunded mandate" may not be acceptable, incremental resources would at best be useful in alleviating some, not all, of the trade-capacity needs of LDCs.

Mainstreaming TRTA and trade-integration strategies into the PRSPs and UNDAF, and the subsequent presentation of identified and coherent priorities at World Bank Consultative Group (CG) or UNDP Round Tables respectively, is the more realistic option for further resource mobilization under the IF. However, mainstreaming and in-country coordination in itself have costs. Estimates range from between US\$200,000 to 300,000 needed per country. The establishment of an IF Trust Fund, on a pilot basis, is in this regard is a useful first step.

Viewed in the context of resources needed for sectors such as health, education, housing, basic infrastructure - assistance and funds for trade-related capacity building and technical-assistance constitutes just about four per cent of all ODA. There are a number of multilateral, regional organizations and bilateral agencies providing technical assistance, and a listing of the main sources are compiled in the WTO "Guide to Sources of TRTA". ++++++

The allocation of funding for TRTA varies across organizations. The WTO Secretariat's annual budget, allocates about Swiss Francs [ ] million to technical cooperation, ++++++ though this is supplemented by extra-budgetary resources and voluntary contributions to WTO Trust Funds of up to 10 million Swiss Francs. Apart from the regular budget of 30 million Swiss Francs, the International Trade Centre (ITC), provides technical assistance of approximately US\$12 million through extra-budgetary contributions, some 40 per cent of this assistance is provided to LDCs. UNCTAD, with an annual operational budget of approximately US\$50 million, expends about US\$24 million for technical assistance, financed from extra-budgetary resources. 40 per cent of this assistance is for LDCs. The IMF allocates over 18 per cent of its budget for technical assistance, although not all for trade-related technical assistance. In 2000, concessional lending by the World Bank totalled US\$15.3 billion. UNDP's, portfolio of on-going trade-related projects and programmes is budgeted at over US\$140 million, including cost-sharing and counterpart funds.

Bilateral donors have also begun to significantly raise emphasis and understanding of the importance of trade issues, among officials dealing with ODA. For instance, the White Paper on International Development, prepared by DFID, reaffirms the commitment of harnessing the gains from trade, as a vehicle for making globalization work for the poor. Significantly assistance for trade-

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\*\*\*\*\* "Eliminating World Poverty: Making Globalization Work for the Poor", December 2000, DFID.

+++++ IF Round Tables have been held in Bangladesh, The Gambia, Haiti, Tanzania and Uganda.

+++++ Guide to Sources of TRTA, Version 1 (Nov 2000), is available at the WTO website (www.wto.org).

+++++ The WTO's Annual Budget is about Swiss Francs 125 million.

related capacity building is also to be doubled.\*\*\*\*\* This trend bodes well for the future. LDCs should seize the opportunities by ensuring appropriate and coherent domestic policy frameworks in order to absorb the evident expanding opportunities.

### Conclusions – facing up to the Moral Hazards

From 24 countries originally classified by the UN as LDCs in 1971, there are 48 countries at present classified as LDCs.\*\*\*\*\* Only one country, Botswana, in 1994, has graduated out of LDC status. Reversing this trend is and should be a priority among the development community at large and the LDCs themselves. For example, Lao PDR, at its Seventh Round Table Meeting, undertook as its over-arching development goal to graduate from the group of LDCs by the year 2020, through sustained growth with equity.\*\*\*\*\* Such initiatives on the part of LDCs' themselves should be commended and supported. Intentionally or otherwise, incentives should not exist for countries to opt to become categorized as LDCs, or to seek to delay their exit.

LDCs' share in world trade has been declining and is currently less than 0.5 per cent. The challenges they face are compounded by a vicious circle (the poverty trap) of low incomes, low savings, and inadequate investment, leading to aid dependence and debt burden.\*\*\*\*\* The attention and focus on alleviating supply-side and policy constraints for effective integration and participation in the multilateral trading system is long overdue and welcome. Coupled with existing and proposed preferential market access for LDCs exports, a basic framework for the integration of LDCs is shaping up. LDCs themselves, together with the support of their development partners, must now rise to the challenge to work to graduate out of their current predicaments.

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\*\*\*\*\* "Eliminating World Poverty: Making Globalization Work for the Poor", December 2000, DFID. The Government of UK plans to double funds committed to trade-related capacity from the present 15 million Pound Sterling to 30 million Pound Sterling over the next three years.

\*\*\*\*\* The designation of a country as least-developed by the UN is based on a meeting a number of agreed economic and social criteria. Originally set in 1971, the benchmarks are periodically revised. The indicators currently used are: a) per-capita GDP; b) augmented physical quality of life index; c) economic diversification index; and d) population.

\*\*\*\*\* Government Report to the Seventh Round Table Meeting, November 2000, Vientiane, Lao PDR.

\*\*\*\*\* The "Development Finance Problem" see UNCTAD – Least-Developed Countries 2000 Report.

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**PANEL F: WRAP UP**

**H.E. Mr. Jonathan Fried**, Senior Assistant Deputy Minister, Department of Finance, Canada,

**CONCLUDING REMARKS BY MR. JONATHAN FRIED,**  
**SENIOR ASSISTANT DEPUTY FINANCE MINISTER, CANADA**

Integrated Framework Joint Agency Seminar:  
The Policy-Relevance of Mainstreaming Trade into Country Development Strategies  
– Perspective of the Least-Developed Countries

*World Trade Organization, Geneva*  
*29-30 January 2001*

In Panel F: the Wrap-up session, the seminar noted the concluding remarks by Mr Jonathan Fried, Senior Assistant Deputy Finance Minister of Canada, on his personal responsibility. The remarks are as follows:

A sustainable development strategy requires, *inter alia*, approaches that are pro-poor and pro-growth to achieve the globally agreed poverty reduction targets for 2015:

- pro-growth, because private savings and investment generate wealth necessary to fund public goods and investment in social infrastructure; and
- pro-poor, because developing appropriate macroeconomic, fiscal and regulatory frameworks necessarily entails adjustment to a globalized economy which in turn requires investment in health, education and social infrastructure. This is required to look after the most vulnerable and to ensure equitable income distribution.

Improving the ability of LDCs to take advantage of the benefits that liberalized trade can provide is, in most countries, subject to the empirical evidence, a key element supporting the creation of a pro-growth environment.

Trade should properly be "mainstreamed" into national development plans, i.e. trade should be integrated into development strategies, while recognizing the efforts already made by many LDCs to lower trade barriers autonomously, acknowledging discussions at the WTO on mainstreaming trade into development and noting the prospects for improving market access in all countries through the early launch of new trade negotiations.

Mainstreaming trade must be seen as but one part of a pro-growth development strategy, supporting a stable macro-economic and fiscal policy framework and pro-competitive regulatory policies and rule of law through enforcement of contracts.

Sequencing is key. Trade benefits will not likely flow to LDCs unless trade liberalization is synchronised with the development of a sound economic framework at home and alongside appropriate social infrastructure.

Country ownership is essential. This requires effective coordination across ministries in government, and partnership between the government and private sector participants in the economy, as well as partnership between the recipient government and donor agencies.

Donor coordination among bilateral donors, within and between multilateral and regional agencies and even at the country level "on the ground" is lacking and in need of improvement. There are too many reports and frameworks and there is too little coordination.

The general mood of the seminar was supportive of the IF as a promising platform that, if implemented well as a shared responsibility among donors, recipients and multilateral agencies alike, can promote mainstreaming of trade and improved donor coordination within a country-owned Poverty Reduction Strategy Paper (PRSP) framework through the country assistance strategy (CAS) process. It might also provide a model for cost-saving in delivery of trade related technical assistance and capacity-building through improved coordination.

Funding of a trust fund to permit an improved IF process to be tested on a pilot project basis was broadly supported.

As with any well-administered program, ongoing evaluation is key. The case studies on trade-related technical assistance in Asia-Pacific and Sub-Saharan African countries provide important lessons for future programs, including regarding the autonomous liberalization undertaken and proposed by both developed and developing countries.

The Trade Policy Review (TPR) process could be enhanced to provide better guidance to LDCs on trade rules and liberalization within the broader context of national development plans. World Bank, IMF and bilateral country directors could be invited to participate in the TPRs.

Improved statistics would be of immeasurable assistance to donors.

The results of this seminar as well as its papers and presentations should be forwarded to those responsible for preparations for the Third UN Conference on Least-Developed Countries (LDC-III), the UN Conference on Financing for Development, and bilateral, regional and multilateral donor agencies.

#### **NOTE**

Participants agreed to request the Director-General to circulate the outcome of the seminar to:

- the Okinawa Workshop on Trade-Related Capacity-Building, 2-4 March 2001;
- Third United Nations Conference for Least-Developed Countries, Brussels, 14-20 May 2001;
- The Meeting on Financing for Development (FFD); and to,
- other multilateral and regional institutions and bodies.

Chiedu Osakwe<sup>\*\*\*\*\*</sup> and Sarath R ajapatirana<sup>+ + + + +</sup>

Maximum speed is required by developing countries, including the Least-Developed in mainstreaming trade into development plans and poverty reduction strategies. There is no greater challenge that faces LDCs today than increasing growth rates for poverty alleviation and development. Although the evidence is clear and unambiguous on the benefits from trade reform and liberalization, however, openness to trade is only one of the pieces of a complex puzzle. Supportive companion policies are required for the full benefits of trade reform and liberalization to be fully enjoyed. The Integrated Framework for Trade-Related Technical Assistance is a vital mechanism for assisting the process mainstreaming trade priority areas of action into development and poverty reduction strategies. This joint paper explores approaches to mainstreaming, the core issues and how mainstreaming is actually undertaken.

The Heads of Agencies of the six core Agencies, at their 6 July 2000 meeting, re-affirmed their commitment to the Integrated Framework, and noted the success achieved in coordination of the work of these agencies. They agreed to support mainstreaming, as an important aspect of assisting the integration of LDCs into the trading system, to grow, alleviate poverty and develop.

The proper strategies need to be identified for mainstreaming the IF using such development vehicles as the Poverty Reduction Strategy Papers (PRSPs), the United Nations Development Assistance Framework (UNDAF) and the Country Assistance Strategy (CAS). The six core Agencies agreed that the World Bank, as part of its mandate, will assume responsibility for mainstreaming. The challenge is twofold: it involves not only how best to integrate the IF into these instruments and development vehicles, but also a clear understanding of the processes and the steps required for a successful mainstreaming of trade priority areas of action into national plans for development and poverty reduction.

This paper outlines some of the core issues, the approaches and the processes that are key to successful mainstreaming, for which the World Bank has responsibility, and on which UNDP will also play a key role because of operational country presence. The paper, *inter alia*, examines the policy-relevance of mainstreaming from a developing country perspective. It is not, however, exhaustive. There are several limitations. It also recognizes the challenges that confront the core agencies, external donors, the LDCs themselves, and other stakeholders.

This seminar is the first attempt to address the subject of mainstreaming a trade integration agenda into country development and poverty reduction strategies. We hope that the issues we have raised and approaches suggested, will generate more ideas and a refinement of the best way in which to address this urgent challenge. We hope to develop the ideas contained in this paper in future seminars.

\*\*\*\*\* Head of the Secretariat Working Group for LDCs and the Integrated Framework.  
+++++ Head of the Independent Team that reviewed the Integrated Framework (IF) for  
the Core Agencies. See Report: WT/LDC/SWG/IF/1, 29 June 2000.

## I. INTRODUCTION

The representatives of the six core agencies<sup>+++++</sup> of the Integrated Framework for Trade-Related Technical Assistance to the Least-Developed Countries (IF) met on July 6, 2000 to discuss the mandated review<sup>++++</sup> of the IF done by an independent team. While accepting the principal recommendations of the review, the representatives reaffirmed their commitment to the IF. The IF has as its primary objective, the integration of the Least-Developed Countries (LDCs) into the world economy in a manner supportive of overall economic development objectives, and in particular poverty reduction. Despite reforms, the continued weakness in the performance of the LDCs over the past decade makes the attainment of the objectives of the IF more important than ever before. Moreover, the increasing evidence that greater integration with the world economy is crucial for economic growth underscores the important role that the IF can play in meeting the challenge of poverty reduction. In fact, the IF is the only vehicle available to the core agencies and other stakeholders to coordinate work related to the objective of integrating the LDCs to the world economy. In a survey conducted in connection with the mandated review of the IF, all the stakeholders indicated their support for the IF despite the fact that they had noted many weaknesses in the implementation of the IF in the past.

It has been increasingly realized by all stakeholders that the IF could become an effective mechanism for assisting the delivery of trade-related technical assistance and capacity building only if it is an integral part of the overall development strategy. In fact, this was the principal recommendation of the mandated review of the IF. The IF had been outside the mainstream of identifying, implementing, evaluating and monitoring development strategy and performance. As a result, the implementation of the IF had been weak. Mainstreaming is, at once, the means, process and strategy of improving the IF and of laying down the basis for achieving its aims. There are now instruments available to take a comprehensive approach to development strategy formulation, implementation and monitoring of development performance through Poverty Reduction Strategy Papers (PRSP) coordinated by the World Bank and implemented through the Country Assistance Strategies (CAS) and the United Nations Development Assistance Framework (UNDAF). The IF supports the inclusion of trade policy elements in these instruments. These instruments are country-driven and are developed through participatory processes. By folding the IF into the PRSP process as agreed by the core agencies, the IF naturally becomes an instrument that would take a comprehensive approach to the articulation of trade policies.

The contribution of trade policies for higher levels of economic growth and poverty reduction was well appreciated by the High Level Group that created the IF in 1997<sup>++++</sup>. There is now even greater evidence than before, that openness is good for growth and poverty reduction<sup>++++</sup>, even though there could be short-term costs to reforms for some

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<sup>++++</sup> International Monetary Fund (IMF), International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), International Bank for Reconstruction and Development (World Bank) and World Trade Organization (WTO).

<sup>++++</sup> Review of the Integrated Framework for Technical Assistance for Trade Development of Least-Developed Countries, Report: WT/LDC/SWG/IF/1, 29 June 2000.

<sup>++++</sup> WTO, High Level Meeting on Integrated Initiatives for the Least-Developed Countries' Trade Development, WT/LDC/HL/1/Rev 1, October 1997.

<sup>++++</sup> David Dollar and Aart Kraay, "Growth is Good for the Poor", March 2000 (draft); Jeffrey Frankel and David Roemer, "Does Trade Cause Growth" American Economic Review, 89(3), 379-399;

Sebastian Edwards (1998), "Openness, Productivity and Growth: What do We Really Know, Economic Journal 108 (March) 383-398; Anne O. Krueger, "Why Trade Liberalization is Good for Growth?", Economic Journal 108 (March), 1513-1522 ; Francisco Rodriguez and Dani Rodrik, (1999) "Trade Policy and Economic

segments of the poor. Consequently, trade issues must play an important role in poverty reduction strategies, where, in defining national development strategies, efforts will be made to provide safety nets to the poor who may be adversely affected in the short run by trade reforms. But it is also true that most cases of poverty are also associated with isolation and lack of access to the world markets. While the PRSP is to be the main instrument to address poverty reduction issues, at the present time there is no guarantee that trade issues would be included given the process in which the PRSP are prepared.

The present paper examines the core issues related to mainstreaming trade into overall development strategy making. It is limited in scope since it looks at policy relevance of mainstreaming from the perspective of LDCs. It does not include the challenges to the core agencies, external donors and other stakeholders. In addition, the issues identified and discussed in the paper are intended to provide a suggestive road map for considering issues related to mainstreaming rather than provide final answers. These must come from wider discussions, from those that are planned for the expert seminars on mainstreaming the IF.

Following this introduction, Section II examines companion policies to support trade policy reforms. Section III discusses mainstreaming trade issues within country development strategies. Section IV looks at issues relating to the coordination of trade priority areas of actions into the existing development vehicles such as the PRSP and the UNDAF. Section V provides two national experiences in addressing trade issues. Section VI examines issues related to the building of a domestic constituency for mainstreaming and Section VII discusses what could become the best practices in mainstreaming, drawing on the discussions in the earlier sections.

## **II. TRADE AND COMPANION POLICIES: MACROECONOMIC AND REGULATORY POLICIES**

The success of liberalizing trade to integrate economies into the world economy depends not only on trade policies but also on a host of companion policies. A trade liberalization attempt without appropriate companion policies is unlikely to succeed. Studies of trade liberalization done since the 1980s<sup>\*\*\*\*\*</sup>, show that trade liberalization has failed in many instances due to the lack of appropriate companion policies rather than due to the faulty design of trade policies themselves. Of course, trade policies can fail by themselves, if they are poorly designed, but the empirical evidence available to date indicates that the absence of companion policies is the principal reason for a reversal of trade liberalization. Companion policies include both macroeconomic policies as well as policies that affect the allocation of resources among different sectors and markets.

Macroeconomic disequilibria as indicated by rising inflation, large fiscal and current account deficits in the external account and overvalued exchange rates have been responsible for many failures of trade policy reforms. In the meantime, poor regulatory frameworks inhibit the movement of resources to activities and sectors made profitable by trade reforms. Thus the lack of credibility of macroeconomic policies and barriers to entry and exit could create problems for investment and resource movements in line with trade reforms.

Exchange rate policies assume a crucial role in a trade liberalization. This is because trade liberalization could lead to a trade deficit since imports respond faster than exports to a change in

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Growth: A Skeptic's Guide to the Cross-National Evidence", Center for Economic Policy Research Working Papers, No: 2143; Alan Winters, "Trade Liberalization and Poverty," February 2000 (draft).

\*\*\*\*\* Anne O. Krueger, (1984) "The Problems of Liberalization" in A.C. Harberger (Ed) World Economic Growth, International Center for Economic Growth, San Francisco; Michael Michaely, D. Papageorgiou and A.M. Choksi (1991), "Liberalizing Foreign Trade: Lessons of Experience in the Developing World," Blackwells, Oxford.



relative prices. Moreover, the situation prior to trade liberalization is usually one of an overvalued exchange rate maintained with import restrictions, thus a liberalization which allows the allocation of resources based on prices implies a change in a fundamental macroeconomic price such as the real exchange rate. Unless, the exchange rate system is one of a flexible regime, a change in the exchange rate is needed to restore equilibrium. A continuation of an overvalued real exchange rate also makes the exports of the liberalizing country non-competitive in which case the trade liberalization will not lead to an increase in exports. What would seem to be a much-needed accompaniment to trade policy reforms is a stable and competitive real exchange rate. For this to be brought about stable macroeconomic policies are a necessity.

Another companion policy that may be needed is fiscal reforms to ensure that there are new sources of revenue as tariff revenues could fall with trade liberalization, which is by no means inevitable. The replacement of quantitative restrictions (QRs) with tariffs, getting rid of tariff exemptions, the depreciation of the exchange rate and the reduction in smuggling would help to maintain or even raise revenues. Moreover, rising GDP growth with reduced distortions and increased investment could raise revenues. In some countries, especially among the LDCs where government revenues are more dependent on tariff revenues than in other developing countries, new sources of revenue need to be found. This implies fiscal reforms. It is also true that a decline in revenues may also improve resources allocation where tariffs have led to large wedges between domestically produced and foreign goods and services. Of course, public expenditures could be reduced and better targeted than in the past, which would help to overcome any of the short-term revenue problems that could arise.

Regulatory policies will influence the availability and the best use of existing facilities such as transport, communications and port facilities. Improper regulatory policies prevent the best use of existing and scarce facilities much needed for the participation in the world economy. They must support trade reforms in a number of ways. The inefficient use of already insufficient road and communications networks imposes high costs on an economy, depriving the country of the ability to compete well as the border barriers are reduced. Thus policies that influence costs beyond the border need to be put in place to obtain the best results from trade liberalization. Otherwise, excess costs act as non-trade barriers and prevent the improvement of resource allocation which is the main object of a trade reform.

Labour and other market factor reforms must accompany trade reforms to ensure that the resource reallocation attempted by the trade reform actually takes place. Regulatory reforms that ensure mobility of labour markets and capital markets enhance the resource allocation effects sought by a trade liberalization. Rigid labour markets or unavailability of working and long-term capital would prevent the reallocation of resources into more competitive activities as well as investment in line with new incentives. The resulting inelasticity of supply prevents the full benefits of trade reform from being realized. Capacity-building to participate in the world economy assumes a major role in the support of trade reforms.

Mainstreaming becomes an important means of coordinating and integrating trade policies with companion policies. It allows policy makers and all the stakeholders to take a comprehensive approach to trade reform and to consider policy prerequisites for successful trade reforms in a single framework. Thus in the process of PRSP preparation, macroeconomic, regulatory and capacity building policies would be considered in a single framework. This would lead to proper prioritizing and sequencing of all reforms. Thus mainstreaming trade policies within overall development strategies is imperative for the success of trade reforms.

### **III. MAINSTREAMING TRADE WITH COUNTRY STRATEGIES: CONCEPTS OF MAINSTREAMING, CORE ISSUES, APPROACHES TO MAINSTREAMING, IMPLEMENTATION MECHANICS AND COSTS OF MAINSTREAMING:**

Mainstreaming as a means, process and a strategy aims to link trade policies to the overall development strategy of a country. As the mandated review of the IF report has noted, IF processes in the past have been largely outside the mainstream of development strategy formulation, resource use and foreign assistance decision-making at the country level. Consequently, the IF did not receive a high profile in the minds of many stakeholders, including those at the country level. Furthermore, since it was essentially an unfunded mandate, it was seen more as an add-on rather than an important initiative to bring the LDCs to participate in the world economy by realizing the synergies to be created by the coordination of the activities of the six core agencies in LDCs. While it did help to coordinate the work of these agencies, it did not lead to the realization of the full benefits that were expected by the architects of the IF. This happened because the IF was not in the mainstream of development policy making.

The concept of mainstreaming in this context is the integration of trade strategy into overall development strategy. This implies, in practice, that trade policies and facilitation and creation of trade institutions are factored into the overall development strategy and resource use. It is therefore, a matter of not merely including trade issues in documents to satisfy a mandate, but actually considering what trade issues are, prioritizing them and including them in a country strategy. The IF review noted the sentiments of the LDC policy makers who were surveyed for the review. While they completely endorsed the objectives of the IF, they felt that the IF was neither sufficiently demand driven nor country owned and was unadapted to different country situations and incapable of being implemented and monitored within a single framework. By folding the IF into the PRSP process, many, if not all, the objectives of the IF, could be realized.

Trade issues could form a part of the core elements in a PRSP on the basis that an existing protectionist regime creates an obstacle to poverty reduction due to a host of reasons, namely: (a) that it does not allow the use of labour intensive techniques since protection would have prevented a country from exploiting its comparative advantage with a resource endowment of large pool of labour, thus reducing the opportunities for employment to the poor (who have neither physical nor human capital to raise their living standards); (b) a restricted import regime taxes exports activities of the country that have a comparative advantage in the production of particular products such as agricultural exports. This would limit the income of the rural poor; (c) the high protection induced domestic prices of manufactures help to keep real income of the urban poor lower than the alternative of having a more open trade regime in which prices cannot diverge greatly from world prices.

In the preparation of a PRSP, a country can define its trade objectives and targets such as to increase the proportion of traded goods in national income, lower average tariff rate to a level more in line with its competitors and reduce the variance in protection by moving towards a uniform tariff. In addition a PRSP can target a low coverage of quantitative restrictions compared to the prevailing coverage, say to a low level such a one to two per cent of all tariff lines. The PRSP could articulate a trade reform strategy with a proper sequencing of reforms to take into account appropriate companion policies to give credibility to the reform process.

The rationale for folding the IF into the PRFP process is that a number of similar goals could be shared. The PRSP process is build on five principles: it is country-driven, comprehensive (by definition it must include structural reforms that encompass trade reforms), it is meant to be focused on the medium and long-term strategies, it must be result oriented and coordinated with partners. These are indeed the principles that the LDCs and other stakeholders also expected from the IF as found in the survey conducted in connection with the mandated review and in the interviews of the major stakeholders. Another principle that is implicit in the PRSP (but was not clarified in the IF) was that the centre of action has to move from foreign capitals to country's domestic capitals and more particularly to the Ministry responsible for coordinating development efforts and seeking foreign assistance. This means that the nerve centre must be at the Ministries of Development,

Finance or Planning rather than the Ministry of Trade or Commerce. The mandated review of the IF recommended that the IF also should move to the main development policy implementing Ministry.

The core issues related to IF mainstreaming are the following:

(a) Incentives for mainstreaming:

The reason for mainstreaming the IF at the country level is that the stakeholders will have increased participation opportunities. Thus the main stakeholders at the country level, the central Ministry officials, Trade or Commerce Ministries and the private sector agents can work together in formulating overall development strategies that include trade-related policies and technical assistance. The core agencies that have a country presence can participate at ground level as can bilateral donors. This will create incentives for the country to include trade elements in the overall policy framework. By including trade policy issues in the PRSP and UNDAF - instruments that influence assistance levels received by LDCs – countries may be induced into integrating their economies within the world economy. For example, the World Bank's level of country assistance would be based on the development strategies defined in the PRSP. Increased efforts by the LDCs to integrate into the world economy would be rewarded by access to a higher level of assistance.

(b) Complementarity of IF and the PRSP:

One question that has been asked with respect to the recommendations made in the mandated review for mainstreaming is why would the IF be needed if the activities related to technical assistance are included in overall development strategies and implemented centrally rather than at a trade ministry. In other words, could the PRSP not, in some ways, become a substitute for the IF since it should look at development strategies overall. However, the IF would be more of a complement than a substitute, since it would help to ensure that the trade policies and related technical assistance are included in the consideration of development strategies. The IF has a well recognized mandate to integrate LDCs into the world economy. Mainstreaming reconciles the two principles, one of a comprehensive approach to the formulation of development policies while fulfilling of a special mandate to integrate these countries to the world economy. The most important aspect is that these two goals are highly complementary. As the PRSP would be jointly assessed by the World Bank and the IMF, their assistance and support programmes would be coordinated, thus allowing trade strategy, balance of payments and exchange rate policies to be evaluated and coordinated.

(c) Timing of the IF:

Given that the PRSP would be folded into the IF, the IF could follow the PRSP cycle, which is generally considered as being every three years. Since the PRSP process was implemented only last year, it has been decided to prepare an intermediate PRSP. The PRSP process provides for an annual review of country strategies. The monitoring of progress of the IF implementation would be automatically linked to the PRSP cycle. The WTO's Trade Policy Review Mechanism (TPRM) - which examines in depth countries' trade policies - and the World Bank's Economic and Sector Work (ESW) could both prove useful aids in monitoring the progress of the IF. This would allow for continuity in the review of trade policy formulation, trade institution building and trade facilitation.

(d) The cost of mainstreaming:

Mainstreaming will ultimately cut costs by reducing the double expenditure associated with the past process whereby the Ministries of Trade and Commerce dealt with the core agencies, bilateral donors and domestic stakeholders, as this would now be carried out by one central Ministry. The fixed costs of the PRSP would cover a part of the IF. This would save the high costs of sending delegations to Geneva to discuss IF issues and also the cost associated with a multi-phased IF processes that existed in the past. However, since trade issues will be included in the PRSP process, there would be costs associated with hiring expertise, financing studies and undertaking feasibility studies for trade facilitation.

(e) Financing of IF related activities:

The Integrated Framework Trust Fund (IFTF) can provide financial assistance to mainstream the IF into the PRSP by financing the trade-related technical assistance<sup>\*\*\*\*\*</sup>. It could either be launched as a pilot scheme or a scheme that could start with immediate effect. It would finance assistance to prepare trade policy aspects of a PRSP at the country level as well as studies that will enable the country to participate more effectively in the multilateral trading system. Thus financing would be available for such activities as the preparation of trade policy studies, project preparation for both trade facilitation and institutional development. The access to these funds can be provided to the LDCs and the core agencies to hire the expertise needed for the purpose.

#### **IV. COORDINATING THE INTEGRATION OF TRADE PRIORITY AREAS OF ACTION INTO EXISTING DEVELOPMENT VEHICLES (PRSPS, CGS, UNDAF AND UNDP ROUND TABLES)**

The representatives of the core agencies at their July 6, 2000 meeting agreed that the mainstreaming effort will be led and coordinated according to the principles of the Comprehensive Development Framework (CDF) with the participation of core agencies and other stakeholders based on the work done in the Needs Assessments (NA) and subsequent work. This would involve formulating country specific integration strategies as a part of the mainstreaming process. These activities will feed into World Bank Consultative Groups (CGs) and UNDP Round Table meetings (RTs) where countries present their medium-term policy frameworks and financing needs, including trade-related assistance for support by the donor community.

The integration of the IF into existing vehicles can be attempted by several approaches. One way to approach the mainstreaming process is by making priority lists in the NAs that have been already prepared for some forty countries and updating them to take into account new developments and approaches agreed upon at the July 6, 2000 meeting. Another approach is to start afresh, since many of the NAs that had been prepared neither reflected overall development strategies nor had a poverty focus. But the results of both approaches need to be discussed with the society at large, given the link of the IF to the PRSP. One important way of ensuring that trade issues are incorporated into the PRSP process is to include a chapter in PRSP that deals with the link between trade issues and poverty reduction. The content of the chapter would include an identification of the main constraints on integration of the LDCs into the world economy due to policies, institutions and trade facilities, including market access issues and issues related to the assessment of trade related capacity creation.

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\*\*\*\*\* Such a proposal has been made by a group of bilateral donors. See "Integrated Framework- Proposal for a Pilot Scheme" (Draft 18/12/00)

There is a built-in coordination of existing development vehicles once the IF is folded into the PRSP. The PRSP vehicle itself is derived from the Comprehensive Development Framework (CDF), that has an economy-wide and society-wide approach to economic development. PRSPs are prepared by a country and are based on CDF principles on their own volition. A joint assessment is made by the World Bank and the IMF after the PRSP is prepared. Depending on the strategies articulated by the participatory processes in the PRSP, a CAS is prepared which reflects the country's own strategies and targets for policy and institutional change. The CAS provides a resource envelope for the country. The resource envelope provided by the World Bank would reflect the extent of policy reform and the Government's commitment to reach the targets for poverty reduction set out in the PRSP. CGs are the forums to discuss the strategies with donor participants. Similarly, when the UNDP is the lead actor in a country, a Round Table (RT) would be the forum to discuss trade-related technical assistance.

Finally, a PRSP has a built-in evaluation and monitoring system and specific benchmarks for monitoring safety nets to safeguard the well-being of some segments of the poor who may be adversely affected by the reforms. In fact, such an approach to trade policy making, would elicit much support from all the stakeholders.

Issues relating to the Coordination and Integration of Priority Areas are the following:

- (a) Prospects that trade issues would be included in a PRSP or UNDAF:

At present, there is no built-in system that trade issues would be included in PRSP and the UNDAF. For instance the three PRSPs completed to date: Burkina-Faso, Tanzania and Uganda have not addressed trade issues explicitly. This is partly because there is no built-in mechanism to coordinate the work of the core agencies outside of the IF. Folding the IF into the PRSP process is one important way of coordinating the trade-related issues in the LDCs. However, the PRSP process is new, it was only initiated last year. There has not been a systematic way to incorporate trade issues into them. Few other PRSPs, now under preparation could include trade elements in them, but presumably not in a systematic way as would be needed to realize the goals of the IF. In addition, there is a built-in bias against including trade issues that arise from the political economy factors (see Section 6 below). This is why the incorporation of the IF into the PRSP is crucial to give the opportunity for trade-related issues to be discussed with society at large and included in a development strategy. The coordination of these efforts at country level should lead to improved dissemination of the IF's objectives.

- (b) Coordination of trade priorities:

One of the main weaknesses of the implementation of the IF in the past was that it was not systematically incorporated into the formulation of overall development strategies. They were also not discussed and evaluated in main development forums except in very few cases. Consequently, proper coordination among the major stakeholders was not attained. The IF did however help to coordinate trade work within the core agencies and as a result contributed to their efforts. One way of improving coordination of the main stakeholders of the IF is to include a special session in CGs and RTs on trade-related technical assistance issues. Along with the provision of including a chapter on trade-related issues in the PRSP, this approach would reinforce the need to coordinate the work of a wider group of stakeholders, whether they be country officials, bilateral donors or core agency officials. As discussed in Section (5) below this approach of including the IF in the CG proved to be successful in Uganda.

## (c) Coordination through dissemination:

As proposed above (Section IV) IFTF can be used to finance strong dissemination efforts among domestic stakeholders, demonstrating the importance of trade issues for growth and poverty reduction. Such studies can, in addition, identify the obstacles to a country increasing its exports due to protection in importing countries. This would help to disseminate trade issues beyond the CGs and RT forums. These studies could also help with the preparation of a country to have better access to developed country markets, preparation for accession to the WTO and for participation in a new round of multilateral trade negotiations to further promote the interests of the LDCs. These efforts could help to disseminate more widely the plight of the LDCs and help them to bring to the attention of a wider audience the specific constraints they face and how others can help them to overcome these constraints through greater market access and assistance to develop improved programmes for trade development and capacity building.

## **V. TWO NATIONAL EXPERIENCES IN MAINSTREAMING TRADE INTO DEVELOPMENT AND POVERTY REDUCTION STRATEGIES**

The two contrasting experiences in the implementation of the IF are Bangladesh and Uganda. Uganda has already produced a PRSP while Bangladesh is in the process of doing one. The experiences discussed below pre-date the PRSP. Nevertheless they help to focus attention on the issues of mainstreaming the IF at the national level.

In the Bangladesh case there was no mainstreaming. The IF was implemented by the Ministry of Commerce. By contrast, in the Uganda case the IF was handled by the Ministry of Tourism, Trade and Industry (MTTI) rather than by the Ministry of Finance. In Uganda the IF process was “mainstreamed” in the sense that it was included in CG process from the start. This was due to the interest of some of the core agencies in the field who took the lead to support the MTTI. In fact, of the five countries that had completed the IF process by April 2000, Uganda was the only country, that was able to receive financial support for the IF.

However, even in the case of Uganda, the IF was not mainstreamed in the sense that it was not implemented by a Ministry that was responsible for an overall development strategy formulation. Consequently, it seems less of a continuous effort than one that would have produced a stronger link to an overall development strategy. The CG discussion of the IF appeared to be on a one time basis. Perhaps, that might be the reason why trade issues are not highlighted in the PRSP prepared by Uganda.

In terms of the quality of the NAs and other documentation, those prepared by Bangladesh were superior not only to that of Uganda but to the vast majority of the NAs that have been prepared. One reason was that in the case of Bangladesh funds were available from a World Bank Export Diversification project to fund the preparation of the NA. Moreover, Bangladesh had well-trained personnel at the Centre for Policy Dialogue which prepared the NA. On the other hand, in the case of Uganda, the NA was done mostly by one dedicated individual who after preparing the NA went on to another assignment. Thus there was no continuity to the IF process in Uganda, as in many other countries. Certainly, individual projects have been undertaken under the auspices of the JITAP, but they were not sufficiently linked to overall development strategies. In the case of Bangladesh, as in that of Uganda, the IF did raise the profile of trade policy issues, but there was less action at the national level, since the IF remained outside the mainstream. It did however, lead to an important dialogue among some stakeholders, such as the dialogue between the private sector and the Ministry of Commerce. However, there was little to show in terms of tangible results of the IF, either in

changed policies or funding. The process worked to some extent but the results did not appear to be commensurate with the effort expended.

The factors that led to the mainstreaming IF in including it in the CG in Uganda was due to the government decision to do so, and the support it received from the donor community in the country. It was, however, not the result of a systematic approach to including trade issues in an overall development strategy, rather, it was due to taking a good step in the IF process. In the event, trade issues did get an airing among all the stakeholders at the national level. In Bangladesh, the Ministry of Commerce implemented the IF without much coordination with Ministry of Finance. The IF was neither mainstreamed nor included in the CG process.

While the IF evoked some interest in trade issues, they did not take a centre stage in the Uganda PRSP. In this sense, Uganda too, did not have a more sustained approach to including trade issues in the articulation of overall development strategies. This might perhaps be due to the nature of trade issues and the political economy of trade policy making.

In terms of the costs involved in administering the IF, Uganda may have saved some resources by including the IF in the CG process. In the case of Bangladesh, however, there were two separate efforts, namely the CG process and the IF process. One discussed overall development strategies and resource availabilities while the other discussed trade policies and trade-related technical assistance with little or no reference made to resources. More resources could have been saved by Bangladesh through including the discussion of the IF in the CG. But this knowledge comes from hindsight and it does not appear to have been considered by many national authorities who could have included IF discussions in the CGs but chose not to do so, since they considered the two forums as separate, as did few donors.

The two experiences reinforce the decision by the core agencies to mainstream the IF process, and the folding of the IF into PRSP seems, in retrospect, a logical and appropriate step when these two national experiences are examined. In terms of bringing trade-related technical assistance to the fore, in making it easy to coordinate the trade and the overall development strategy formulation and in terms of cost saving, these two experiences have provided valuable lessons.

## **VI. BUILDING A DOMESTIC CONSTITUENCY FOR MAINSTREAMING**

The PRSP and UNDAF processes that lead to the articulation of country strategies for economic development and poverty reduction have to be participatory processes. This is the consensus that has been reached among all the stakeholders in economic development. The process by implication must also apply to the formulation of trade policies, trade-related technical assistance, institutional development and trade facilitation. Consequently, it becomes necessary to re-double efforts to increase the awareness and national consciousness about trade issues in the LDCs themselves. One weakness in the past IF process was that it did not involve large constituencies in the economy. This can now be rectified through the PRSP process.

However, participation processes also entail bringing into the debate and conflict with powerful domestic constituencies that have a stake in the existing trade regime. New constituencies have to be developed that would support trade reforms. As has been clearly recognized in the academic literature, policy studies and policy formulation, there are powerful domestic constituencies that oppose reforms. A given regime of protection has constituencies that support that regime, because it serves them by providing rents. Equally, there are important gains to be realized from trade reforms that would bestow economy wide benefits. In the near term, the benefits of a trade reform are not only uncertain but limited for each individual because they are spread among large segments of the population. On the other hand, powerful constituencies could lose rents they have enjoyed through protection. They would oppose reforms and lobby to prevent them from taking place. To

counterbalance this opposition, there needs to be groups that would benefit from trade reforms such as present and potential exporters. They would comprise the constituencies that support reforms.

Since some segments of the society could lose out during a trade reform, it is necessary to provide targeted safety nets to tide over the short term costs such as higher consumer prices that may result from trade reforms. There is no clear single approach to building of constituencies to support trade reforms, since the impact of a trade liberalization will differ according to the activity and the sector-wise composition of foreign trade. The effects of a trade reform need to be studied in different country settings and safety nets designed to fit each situation. For instance, if the poor produce exportables, they will benefit from trade liberalization. On the other hand, if they produce an importable or have maintained their food consumption by subsidies that may be eliminated in a reform, they would lose out. Special assistance measures are needed in the form of safety nets. These would help to build an important element of the domestic constituency to support reforms. However, it is also important to consider that the short-term accommodations do not become long-term entitlements, since that would defeat the purpose of a trade liberalization which is to improve resource allocation in the first place.

Given the nature of the participatory process of the PRSP, there is the danger that trade issues could be relegated to the background since the benefits of trade liberalization on the poor may neither be perceived as such nor experienced immediately. Direct methods of intervention through transfers, improvements in access to health, education and nutrition are more closely associated with poverty reduction in the public mind than with trade reforms, trade facilitation and institution building. The latter may also not bring visible and immediate benefits. Hence a special effort is needed to build domestic constituencies for mainstreaming by dissemination of the likely benefits of trade reforms and building wide constituencies to counterbalance the narrow interest of those who are benefiting from the existing regime of protection. The main contribution of trade reforms arises from better resource allocation and increased investment (including foreign investment as resources are allocated to activities in which the country has a comparative advantage) in the tradable sectors over the medium and the long term. This fact needs to be disseminated in the LDCs and safety nets have to be provided at the time of reforms. They could be so designed to have sunset provisions, such that when the benefits of reforms begin, the safety net can be withdrawn. Arguably, this is not an easy task. It needs careful analysis of poverty profiles and study of the impact of reforms on different segments of the population.

Domestic constituencies may need to be built up to overcome the classic problem of trade reform. Funding for these efforts can be provided by the IFTF. There is little work done in LDCs at present on the impact of overall reforms on the poor. The PRSP process would create the incentives for the stakeholders to help LDCs undertake these efforts. A special provision would be needed in the IFTF window to undertake such studies. They could be aimed at (a) raising public awareness on trade reforms, particularly on their long-term benefits in relation to short-term costs (b) identifying the segments of the poor who may be adversely effected in some instances (c) designing ways of targeting assistance to them through safety nets during a trade reform (d) examining the best forms of providing adjustment assistance and safety nets in a specific country setting. (e) analysing the issues arising from poverty as a result of isolation and lack of access to world markets.

The leadership to mount these efforts has to come from the key Ministry that is responsible for the preparation of the PRSP. However, as discussed above, the Trade or Commerce Ministry can provide necessary support for this work with the help of core agencies. In the preparation of the IF in the past, many countries had gone beyond government agencies to undertake analysis of trade-related issues. They had also consulted widely with private sector groups, some of whom in the export sectors would be powerful allies for reform. The import substitution industries could also help, if they see that input prices could be lower due to a reduction in trade barriers and that they could compete with imports on an equal footing with incentives created to realize greater efficiencies.



## VII. BEST PRACTICES IN MAINSTREAMING

The above sections have identified various implications of mainstreaming the IF and folding it into the PRSP process. This would be done by including a chapter on trade issues in the PRSP and by having a special session in the CG or RT on trade policy issues in general and on the IF in particular. Since country circumstances differ, there cannot be a single formulaic approach to best practice - what works in one country may not work in another. This is also the spirit of the PRSP preparation process, as articulated by the World Bank. Insofar as the IF is concerned, much depends on the trade leadership at the country level and the understanding of the trade issues by a wider audience. Funds available under the ITTF can be used to develop consensus via studies and seminars to disseminate the link between trade reforms and poverty alleviation.

Some common elements of best practice can be identified that could apply to different country circumstances.

First, by folding the IF into the PRSP, the IF is put into the same practices as the PRSP. This implies that the IF like the PRSP is country-driven, with broad participation of elected bodies, civil society and development partners. The IF should reflect the special circumstances of the country's trade-related technical assistance needs. This can be best defined by starting with a prioritization of the NA elements or starting afresh, if in the judgment of the lead Ministry the NA that had been prepared in the past was not sufficiently focused or prioritized to lead to a meaningful programme of action.

Second, given the new and participatory processes that are to be put into effect, it is crucial to have a good dissemination of trade issues based on analytical work that traces the relationship of trade to poverty reduction. The analytical work needs to be presented to public forums in a manner that is easily understood, so that all the stakeholders would be able to appreciate the short and long run effects of trade reforms, the effects on different sectors and segments of the population, especially on the poor. Such an "educational" process is necessary because the IF needs to build domestic constituencies that counterbalance the inherent inertia present in a protectionist trade regime. The political economy aspect of trade reforms demand that this effort is, presently needed more than ever before, given the likely bias in the public mind that poverty reduction is more concerned with public transfers and the development of specific sector such as health and education, rather than with trade reforms. The method transfers to help the poor, is certainly necessary but it cannot improve resource allocation, lead to higher growth and poverty reduction over the long term. The indirect methods such as improving the policy environment need emphasis to win support for trade reforms.

Third, the ITTF can be used to finance studies, to prepare feasibility studies for projects to support trade facilitation, institutional development including customs reforms and similar activities. These funds could be made available to the countries in terms of two windows. A general fund to support all activities associated with mainstreaming as the preparation of studies and dissemination. A second window could be set up to finance identifiable programmes within the IF such as training for specific activities such as customs administrations or to prepare projects to improve trade facilitation.

Fourth, trade policy issues could be included in the PRSP as a chapter, which could be called the Trade Integration Strategy Chapter where trade issues are examined in general the IF related capacity building are addressed in particular. The trade chapter in the PRSP could analyse the link between trade and poverty reduction, the likely impact of trade reforms on different sectors and segments of society, constraints to trade development including market access and capacity constraints on trade development including institutional, manpower and physical constraints such as

transport, telecommunications and port facilities. The chapter and related issues could be discussed in a special session of the CG or the RT to disseminate the issues to all the stakeholders.

Fifth, along with the PRSP the issues identified in the chapter could be monitored and evaluated on a regular basis. As currently planned, PRSP related issues will be evaluated in CASS and in some cases updated in an annual basis. Progress achieved can be monitored and evaluated and discussed at the IAWG and submitted to the IF Steering Committee which represents all the stakeholders. This feedback could help to keep IF related objectives on track.

Finally, it would be necessary to create incentives for closer coordination of the activities related to the IF at the country level. This would mean closer coordination between the lead Ministry which would implement the PRSP and the Ministry of Trade or Commerce. The Trade Ministry must have access to the IFTF and procedures need to be developed in concurrence with the lead Ministry to access these funds and hire expertise including those outside the core agencies. It would be the joint responsibility of the relevant Ministries to prepare the PRSP with a trade component, present trade issues in CG and RT forums, have access to funds to undertake feasibility studies and articulate national strategies for trade and trade-related technical assistance and monitor them at the country level.

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