

**AID FOR TRADE:  
ADJUSTING CAPACITY TO MAXIMIZE SUSTAINABILITY IN A LIBERALIZING GLOBAL ECONOMY**

*Setting an Agenda for Next Steps*

1. A group of trade delegates, joined by analysts and observers from developed, developing countries, international organizations, advocacy groups, industry and labour movements, met in their personal capacity from 13-15 November 2006 in Glion, Switzerland, to discuss adjustment challenges that developing countries face as a result of trade liberalization and global production trends. The dialogue specifically set to examine the role that an Aid for Trade (A4T) initiative, as now agreed at the WTO, could play in providing effective support to developing countries to cope with those challenges. The dialogue, an initiative of the Ministry for Foreign Affairs of Finland as President of the European Union, was co-hosted by ICTSD.

2. **The exceptional significance of the A4T initiative is now broadly recognized and implementation deemed urgent.** The decision to insert a far-reaching notion of A4T at the Hong Kong WTO Ministerial Conference in December 2005 and the subsequent Task Force's recommendations, prepared in record time, include all the elements needed to move A4T to the next stage - implementation. The recommendations are broadly praised as comprehensive and insightful. A4T is important in its own right as vast investments in developing countries are necessary to make trade an engine of growth, development and poverty reduction. Even though a renewed and massive initiative on A4T could constitute a valuable complement to the Development Round, its fate should be separated from that of the Doha negotiations. Indeed, there is no need to wait for the resumption of negotiations for the Task Force's recommendations to be put in place. As now agreed by all WTO members it would be better to not consider A4T as a substitute for enhanced agricultural and industrial market access, the core expected deliverable of the Doha negotiations. Similarly, using A4T to induce developing countries to open their markets or to divert attention away from the crafting of better trade rules would be adverse to their interest. The need for in-country co-ordination in developing countries plus co-ordination between donor countries (in line with the Paris Declaration on Aid Effectiveness) was emphasized at the dialogue, although the need for a certain healthy competition among donor countries was also seen as necessary. Clear calls were made on all WTO members to act on the urgency to move into implementation.

3. **The scope of A4T**, as defined by the Task Force was found to be wide enough to include all major concerns of developing countries. A4T is seen as a continuum of the more general Aid for Development. In this context, "trade-related adjustment" seems to spur a variance in interpretation.

For some, it refers in particular to balance of payment shortages resulting from loss of tariff revenue or from the erosion of preferential treatment in export markets. For others, such connotation is ruled-out as they would rather point out to the Task Force's definition stating: "accompanying measures that assist [developing countries] to benefit from liberalized trade" rather than "compensation for losers". Cross-border financial support for adjustment costs is deemed a challenging matter, intricate as to its estimation and, hence, still thorny to articulate in A4T debates. For its part, the nature of preferential treatment and the eventual erosion of preferences ensuing from multilateral liberalization is another notoriously contentious issue and one that many believe may not be appropriate in a multilateral package of A4T. Given that current privileged arrangements are derived from special relationships between provider and recipient, many deem this to be better addressed bilaterally between concerned parties. Indeed, an A4T mechanism is expected to go beyond support which could be construed as compensation or limited to adjustment and in addition rather promote adaptation and capacity-building, through venturing in business development and human capital to ensure long term benefits for developing countries. A4T is also expected to not just bring in foreign aid, but to also contribute to development and supply capacity through domestic governance, investment, technology, and management advancement.

4. Whether the new thrust for A4T will result in "**additional financing**" remains unclear. Vagueness with respect to the freshness and additionality of funds announced towards A4T at the Gleneagles G-8 Summit and the Hong Kong WTO Ministerial Conference seems to be --for the moment-- dispelled by a generally held view on prospects of growth of trade-related financing in the context of the overall increases expected in official development assistance (ODA). But matching developing countries' needs and A4T funding would promptly require devising a mechanism or agreeing on modalities to do so. Whether to create a new instrument or fund for A4T or make better use of existing means is still unresolved. In this respect, some argue that A4T is too critical and complex a matter to be left to trade negotiators only. A successful initiative and its implementation device would benefit from effective involvement of other actors, namely development agencies, non-trade ministries, civil society organisations and the private sector.

5. **Learning from current experiences.** Specific cases in which individual developing countries have had to cope with dramatic changes in multilateral rules negatively impinging on their trading environment may offer lessons and experience, particularly as to the development of coherent policy strategies and the assessment of needs. Changes driven by liberalization in the past few years affecting regulatory frameworks in highly critical sectors for many developing economies such as textiles and clothing and sugar, have evidenced the inadequacy for long-term success of relying on trade preferences and/or managed trade schemes to build productive capacity and derived sustained welfare. Preparedness to adjust to liberalization trends in international regulatory frameworks requires sound understanding of countries competitive prospects within the new organization of production and trade under globalization. It also makes it imperative to design active policies to adapt to knowledge and services intensive economies and drive investment in human capital and infrastructure. In this context, A4T is expected to become a vehicle to mobilize sufficient resources for these purposes. The Mauritius experience underlines the importance of making trade a mainstream factor in the competitive strategies of developing countries.

6. The **costs of adjustment** cannot be underestimated. In most cases trade liberalization leads to a reshuffling of economic activity and employment with winners and losers across various sectors. As economies are progressively more integrated into global markets, trade and investment become more ostensible determinants of allocation of resources and the relative use of factors of production. For trade liberalization to work to all intents and purposes, sizable internal streamlining is required, both of institutions as well as of trade and investment patterns. This can be expected to result in distress in labour markets and the relative and qualitative use of natural and man-made resources. Adjustment would not only be limited to consolidating, re-defining or building competitive advantages but would also require adaptation of social and environmental underpinnings and mitigation of extraordinary stress and burdens placed on them. Most of these responses will demand explicit policy interventions and financial support, and some can be expected to benefit from intrinsic features of change, such as technological advancement. Recent experiences related to the phase-out of the Multi-Fibre Agreement and the European Union's Sugar Protocol, demonstrate how response packages centred on competitive policies, including policies to encourage innovation and learning, can be framed in strategies for development and geared towards strengthening developing countries' national capabilities. In this respect, A4T designed to help developing countries to better participate in the world economy could well complement, not substitute policy reforms, above all if not used to impose any particular economic strategy.

7. **Learning from past experiences** on aid delivery as we move into implementation of A4T is critical. Some past devices and mechanisms that seem fit to offer lessons include primarily the Marshall Plan and the organising principles that governed its successful implementation through a coherent model. Also, the Integrated Framework for Trade-Related Technical Assistance to the Least Developed Countries (IF), and its shortcomings as highlighted in the 2006 Report of IF Task Force, including shortages of financial and human resources, low levels of implementation, disjointed governance structures, inadequate donor responses and particularly weak country ownership. The Paris Declaration on Aid Effectiveness already collect and codify some of these learning, provides some valuable guidance in terms of donor co-ordination, needs assessment, and country ownership. Therefore, the principles laid out in it are expected to be at the core of any A4T mechanism.

8. **Indicative spheres for action in which an A4T approach could clearly make a difference.** A few specific issue-areas were brought up at the dialogue: trade facilitation and regional integration in general, and more specifically in Africa - branding the African value chain. **Trade facilitation and regional integration in the context of multilateral liberalization** engulfs a set of challenges requiring a decisive and integrative approach indicative of what could be conceptualized in an A4T approach. Trade facilitation is of high importance in the reduction of transaction costs with the aim of enhancing general welfare and can be determinant of success or failure of any integration effort. The challenges are many and remain intricately elusive, relating at the international level mostly to overlapping, inconsistent and complicated trade agreements; at the institutional level, include corruption, bureaucracy, and customs rules; at the technical level, multiplicity of, inadequacy of and/or unattainable standards; and there are other convoluted challenges with respect to physical infrastructure, as well as cultural and political obstacles that aggravate the flows of trade. In the case of **creating and capturing value through branding and upgrading participation in value**

**chains** it was suggested that African products could be differentiated in the world market by branding the African value chain. In this respect, in the textile and clothing industry initiatives are in place geared towards combining use of environmentally friendly organic cotton, ensuring observance of labour rights and establishment of good environmental standards. Again, an A4T approach has the potential to support components of such initiatives in various geographical sub regions and countries, and diverse actors and activities. Also, by ensuring positive linkages between such schemes and market access objectives.

#### **9. Adaptation and adjustment challenges requiring cross-border or regional responses**

continue to be elusive to current schemes of funding and support. This issue was included in the A4T Task Force Recommendations and was also the subject of consideration at the September 2006 meeting of the IFM/WB Development Committee in Singapore. Regional, rather than national initiatives could make more sense for many developing countries, in particular for small and landlocked countries. Trade facilitation measures, transport infrastructure, transfer facilities, simplifying custom procedures, standards and export promotion activities, risk management infrastructure and upgrading of end-product or input standards are some of the areas identified as requiring cross-border or multiple-country participation and implementation and A4T support could have a significant impact in making them happen. The means for doing so remain a question that needs further work.

**10. Mutual accountability.** In fact, key players in global trade liberalization, such as the US and EU, are expected to deepen their own internal reforms with respect to policies that are clearly hindering advancement of WTO's Doha Development Agenda (DDA). These reforms underlie any major eventual further liberalization of international trade and will be necessary to make any A4T effort effective and durable. For their part, recipient countries of cross-border assistance are expected to mainstream trade in their development strategy, strengthen domestic governance and investment, improve the domestic business environment and effectively act towards mitigation of social and environmental impacts resulting from policy changes. As for the role of the WTO - participants suggested the WTO's responsibility should be focused for the moment on advocacy and monitoring, neither managing nor distributing aid beyond its traditional activities in trade-related technical assistance. In this respect, setup of a monitoring mechanism is expected as soon as possible. This mechanism would undertake a periodic global review to ensure that commitments are delivered upon, that additional funds are forthcoming, and that implementation is effective.

**11. Next steps.** In addition to actions identified above, and with care not to pre-empt the urgency to move immediately into implementation of the Task Force's Recommendations, some further work would involve: a) definition of practical institutional arrangements needed to foster an efficient and rapid implementation of the Recommendations; b) fostering the devise of cross-border and regional responses to liberalization and addressing the organizational issues involved therein, including definition of effective roles of relevant actors (regional and sub regional banks and institutions) and the examination of practical experiences with regional projects in the various developing regions; c) exploring optimization of private sector involvement in the design and financing of development projects in developing countries, including identification of

mechanisms that would be required to enhance such contribution; d) fostering better understanding, including through cross-fertilization of experience between OECD and developing countries, in particular with respect to tackling hard issues of labour market adjustment; adaptation to re-organization of production in international supply networks and upgrading of participation and entering into established value chains; mitigation of social and environmental costs ensuing from changes in international regulatory frameworks and multilateral rules and liberalization efforts at all level.

12. Participants at the Glion dialogue are committed to continue working on the above issues in their various capacities and to enhance participation of stakeholders globally in innovation, design and implementation of responses to the challenges posed by liberalization and current trends in the global economy. This document is intended to serve as an aide-memoire of priorities and issues and to be built upon.