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To: Members of the Executive Board

From: The Secretary

Subject: **Coping with New Strains in the Global Trading System—Doha Round, Food Prices, and Aid for Trade**

Attached for the **information** of Executive Directors is a paper on coping with new strains in the global trading system—Doha Round, food prices, and aid for trade, prepared by the staffs of the Fund and the World Bank.

It is intended this paper will be published on the Fund's external website after Monday, October 13, 2008.

Questions may be referred to Mr. Dorsey (ext. 38375), Ms. Asmundson (ext. 36763), and Mr. Sadikov (ext. 37984) in SPR.

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Coping with New Strains in the Global Trading System: Doha Round, Food Prices, and Aid for Trade

Prepared by the Staffs of the IMF and the World Bank

October 3, 2008

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Coping with New Strains in the Global Trading System: Doha Round, Food Prices, and Aid for Trade

Executive Summary

The multilateral trading system has come under heightened strains in 2008 amidst a world economic slowdown, decelerating international trade, and continued financial turmoil in some major markets. Anti-trade sentiments—and even outright calls for trade protectionism—have erupted in many quarters, although so far without any serious policy backsliding. The Doha Round of multilateral trade negotiations suffered another major setback. Soaring commodity prices, particularly food prices, triggered a wave of trade-distorting measures as many countries restricted food exports. Meanwhile, the Aid for Trade agenda, whose purpose is to support developing countries in reaping the benefits of more open global trade, has been expanding. Looking forward, a major challenge is to maintain the Aid for Trade momentum regardless of the vagaries of the Doha negotiations and the emergence of important new assistance needs, such as those stemming from the recent spike in food prices.

Seven years into the Doha Round, trade negotiators have remained unable to reach agreement on modalities to further open markets for goods and services and strengthen the rules of the multilateral trading system. Yet trade negotiators have never been so close to an agreement. In the thorny agriculture negotiations, gaps have been significantly narrowed on a number of critical issues, including key parameters for cutting tariffs and trade-distorting subsidies. The IMF and the World Bank have called on all parties to compromise and revive the significant package that was on the table in Geneva in July 2008. After years of valuable technical work, there is a Doha deal to be seized. It would be a mistake for the world economy and harmful for developing countries not to retrieve it.

As the Doha negotiations reached an impasse, the multilateral trading system has been further strained by some of the policy responses to the rise in global food prices. The introduction of export restrictions on agriculture products by many large net food exporters has compounded the crisis. Although the product of many proximate causes, including weather-related supply disruptions, the crisis itself has deep roots in decades of trade-distorting policies—most recently bio-fuels. The IMF and the World Bank have urged developing countries to remove all bans and restrictions on food exports—especially those directed towards least developed and vulnerable countries—and developed countries to curb their subsidies on bio-fuel production and their tariffs on imports. Updating the Doha mandate to the economic realities of 2008 and completing the negotiations would be important steps to create a more transparent, rules-based, and predictable food trading system.

Pending the strengthening of the multilateral trading system, Aid for Trade remains a key initiative to help developing countries benefit from existing trade opportunities, including through trade facilitation measures. The World Bank—already one of the largest providers of assistance to low-income countries—has launched a multi-pronged trade strategy to further scale-up its Aid for Trade work, including to support country programs on trade and competitiveness, trade-related infrastructure, trade finance, trade facilitation, training and capacity building, and knowledge and research. Implementation of the new strategy over the last year has been promising, starting with Sub-Saharan Africa, which perhaps more than any other region, needs a trade push to integrate the world economy. Yet more can be done, and the World Bank Group is looking at additional ways to strengthen the delivery of assistance and projects to support trade facilitation in developing countries. Meanwhile, the IMF continues to actively support for trade-related reforms and adjustment to other trade policy changes through technical assistance, financial support, and policy advice.

Coping with New Strains in the Global Trading System: Doha Round, Food Prices, and Aid for Trade[1]

Background

1. Since 2005, the staffs of the International Monetary Fund (IMF) and World Bank Group have regularly reported to the Development Committee (DC) and International Monetary and Financial Committee (IMFC) on the status of the World Trade Organization (WTO) negotiations under the Doha Development Agenda (DDA) and implementation of the Aid for Trade initiative. This report is the latest of such series. It takes stock of the new strains in the multilateral trading system and Doha negotiations following the WTO mini-ministerial meeting in July 2008, and reviews progress made by the World Bank and IMF in the implementation of their Aid for Trade programs since the last report.[2] It responds to the call of Ministers in the DC communiqué at the 2008 Spring Meetings for integrating trade and competitiveness within national development strategies, while stepping up support for Aid for Trade.[3]

2. This year's report takes place against the background of a weakening world economy. In 2007, weaker demand in developed countries provided a less favorable framework for the expansion of international trade. According to the 2008 World Trade Report,[4] world merchandise exports grew in real terms by only 5.5 percent in 2007, compared to 8.5 percent in 2006. Lower import growth than in the preceding year was observed in North America, Europe, Japan and the net oil importing developing countries in Asia. This downward trend outweighed the higher import growth observed in Latin America, the CIS countries, sub-Saharan Africa and the Middle East and North Africa. Developing countries as a group accounted for more than one half of the increase in world merchandise imports in 2007.

3. In 2007–08, international trade was disturbed by large terms of trade shocks as a result of surging prices for minerals and various food products. Oil prices have more than doubled since January 2007. Grain prices have also more than doubled since January 2006, including dramatic surge in the case of staples such as wheat, rice, or soybean oil. A large number of developing countries that are net importers of food and fuel have been adversely affected by the surge in the prices of these commodities, while vulnerable groups in all countries have been negatively affected by the global rise in food prices.[5] Although prices have retreated from their recent peaks, they remain well above previous levels.

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[1] Questions on this document may be addressed to Jean-Pierre Chauffour (Jchauffour@worldbank.org) or Tom Dorsey (Tdorsey@imf.org).

[2] See background report entitled "Aid for Trade: Harnessing the Global Economy for Economic Development" submitted to the Development Committee at the 2007 Annual Meetings.

[3] http://siteresources.worldbank.org/DEVCOMMINT/Resources/Communiques/Apr_2008_DC_Communique_E.pdf

[4] 2008 World Trade Report, WTO, Geneva, Switzerland.

[5] Addressing the Food Crisis: The Need for Rapid and Coordinated Action, World Bank Note to the G8 Meeting of Finance Ministers, Osaka, June 2008 and IMF, Food and Fuel Prices – Recent Developments, Macroeconomic Impact, and Policy Responses – An Update (SM/08/307).

4. Trade ministers meeting in Geneva in July 2008 were unable to conclude an interim agreement on the DDA, despite closing significant gaps. Detailed proposals offered significant gains in security of market access in goods and substantial progress in binding services trade policies, as well as new market opening, but divergences between some major developed and developing countries on the extent of flexibilities remain. Notwithstanding this setback, a recent World Bank study indicates that a deal based on the broad parameters discussed in Geneva would have compared favorably with the Uruguay round in terms of market access, and would have surpassed it in terms of breadth of coverage and tangible benefits for developing countries.[6] The technical work emerging from years of complex negotiations as well as the convergence emerging in a number of negotiating groups should be preserved and then built upon when the time comes to bring the Doha Round to a successful conclusion. Staffs of the IMF and World Bank Group will remain vigorously engaged in support for the Doha Round.

5. Meanwhile, global Aid for Trade remains a critical complement to help developing countries benefit from an ever-expanding world economy. Whatever the fate of the Doha Round, the accelerating pace of global integration and erosion of preferences for poor countries associated with the expanding web of preferential trade agreements make improving domestic competitiveness imperative. In particular, efforts in the area of trade facilitation could do a lot—and perhaps even more—than further reductions in tariff rates to increase global trade flows.[7] The ease of moving goods internationally has become a key determinant of export competitiveness and diversification. The Bank has remained the largest multilateral donor to low-income countries in the provision of Aid for Trade, including in support of trade facilitation reforms aimed at reducing transportation and logistics-related costs and connecting countries to global supply chains in an effective, reliable, and timely manner.

New Strains in the Multilateral Trading System

6. Following the sudden and sharp drop in market valuations of U.S. mortgage-backed securities in mid-2007, global markets have entered a phase of heightened uncertainty, with increased volatility in equity markets, commodity prices, and exchange rates.[8] In the international trade arena, this turmoil has been mainly reflected in the continuing back-and-forth in the Doha Round of multilateral trade negotiations and the trade tensions brought about by the global rise in food prices, including on issues that have received little attention in the Doha negotiations such as disciplining the use of export restrictions.

[6] Martin, Will, and Aaditya Mattoo, 2008, "The Doha Development Agenda: What's on the Table?", Policy Research Working paper 4672.
[7] See Wilson, John, Catherine L. Mann, and Tsunehiro Otsuki, 2004, "Assessing the Potential Benefit of Trade Facilitation: A Global Perspective", World Bank Policy Research paper 3224; Djankov, Simeon, Caroline Freund and Cong Pham, 2006, "Trading on Time," World Bank Policy Research Working Paper No. 3909. Ikenson, Daniel, 2008, "While Doha Sleeps: Securing Economic Growth through Trade Facilitation", Trade Policy Analysis 37, Cato Institute; and Hoekman, Bernard and Alessandro Nicita, 2008, "Trade Policy, Trade Costs and Developing Country Trade", forthcoming.
[8] See World Bank, 2008, Global Economic Prospects: Technology Diffusion in the Developing World.

Strains in the Doha Round

7. The Doha Round has proceeded unevenly since the July 2007 resumption of formal negotiations in Geneva. New negotiating texts have been released and revised in several areas in an effort to bridge differences among members' positions. Progress on reducing the number of outstanding issues paved the way for Ministerial-level discussions in July, aimed at reaching a tentative deal through tradeoffs within and across non-agricultural market access (NAMA or industrial tariffs) and agriculture.

8. The Ministerial discussions held in Geneva on July 21–29, 2008 failed to achieve a breakthrough, even though compromise appeared within reach. The tentative agreement on NAMA and agriculture reached an impasse in country positions on the provisions governing the new agricultural Special Safeguard Mechanism (SSM) for developing countries.[9] Other areas of disagreement that were not addressed or resolved included domestic subsidies for cotton, tariff-cutting sectoral initiatives in NAMA, and protections for food products with geographical names.

9. While an opportunity has been missed, the very substantial progress achieved over the past year and at the meeting should not be overlooked or wasted. The compromise package on the tariff and subsidy reduction parameters in agriculture and NAMA circulated during the meeting attracted broad support. Progress was made in the dispute over fisheries subsidies. The long-standing issue of the EU banana regime and the margin of preference for ACP producers had also nearly been resolved. The "Signaling Conference" on services held in the context of the mini-Ministerial to set out the possible scope and ambition of a services agreement was a success. Countries showed willingness to lock-in actual market access and make new or improved commitments in a wide range of services sectors.

10. The extent of progress toward the final agreement differs across negotiating groups (Annex I). Negotiations on agriculture and NAMA made the most progress toward the text of an agreement. During the negotiations, Director-General Lamy tabled compromise proposals that generally fell within the ranges put forward in the texts. In agriculture, developed countries would inter alia: (i) cut highest bound tariffs by 70 percent over 5 years, with an average-cut of not less than 54 percent; (ii) lower subsidy limits by 70 percent (United States) to 80 percent (European Union); and (iii) eliminate all export subsidies by 2013. Developing countries' bound tariffs would be cut by somewhat less than two-thirds of the cuts required of developed countries, and these countries would be able to designate certain "special" products for differential treatment, exempting them fully or partially from tariff cuts. In NAMA, developed countries' average bound and applied tariffs would be cut by roughly a third over four or five years, with highest cuts in peak tariffs, while developing countries would be subject to little or no cut in applied tariffs. "Rules" negotiations on revisions to the antidumping and subsidies and countervailing measures agreements have also produced a draft text, with the U.S. practice

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[9] The SSM allows developing countries to raise tariffs temporarily to deal with import surges and price falls. The blockage in the July 2008 negotiations was only about import surges in the particular instance where the SSM raises tariff above commitments made in the Uruguay Round. A number of countries opposed breaching the pre-Doha Round commitments, while others insisted on being able to do this.

of “zeroing” remaining the primary source of disagreement.[10] Notwithstanding the “Signaling Conference,” the services negotiations still remained at an early stage. Negotiations in the area of trade facilitation continued to proceed satisfactorily.

11. There is too much at stake to let the Doha negotiations fail because of differences over a special safeguard for agriculture. The July 2008 package would expand economic growth and opportunity by cutting subsidies drastically, lowering tariffs significantly, and opening up services markets. It would be a mistake for the world economy and harmful for developing countries not to retrieve it. There are certainly ways to solve the SSM problem and to establish a user-friendly safety net against import surges of agricultural products to protect fragile farming systems while, at the same time, agreeing on disciplines so that it is not abused and does not hamper normal trade flows.[11] The major players have all indicated their resolve to not lose momentum. The WTO's current plans are to pursue discussions in the fall among senior officials to try to overcome the SSM issue and other remaining hurdles with a view to reconvening ministers in the not-too-distant future.

12. Pending the resumption of negotiations, there is much that developing countries can do in the area of trade facilitation to expand trade by reducing transactions costs for their firms and farmers, and integrate further into the world economy. High trade transactions costs and lack of capacity to rapidly move goods and services across borders prevent many developing countries from taking advantage of existing trade opportunities. In particular, outdated and inefficient border processing systems, problems associated with inefficient logistics services, and gaps in the trade infrastructure all result in higher transaction costs, delays, and unreliability of supply chains. The high returns to action in this area are increasingly recognized, as reflected in increased levels of investment in trade facilitation-related reform by governments and the development community. Trade facilitation represents a major opportunity for countries to advance an inclusive and sustainable agenda for development. The World Bank Group is currently examining possible modalities to further increase its trade facilitation activities, including provision of support for regional, multi-country projects.[12]

13. Much progress has been made in nearly seven years of Doha Round negotiations, but a final Doha Round agreement needs to be reached to realize its potential economic gains. A successful Doha Round would help to ensure that the benefits of trade liberalization are realized, ease protectionist pressures, and strengthen the rules-based multilateral trading system. A prompt Doha Round conclusion could also provide a much needed boost in confidence to the global economy experiencing economic slowdown, financial uncertainty, and high food prices. It is particularly needed as the challenges

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[10] In calculating the dumping margin of a product (that is the average of the differences between the export prices and the home market prices), the practice of zeroing consists in putting a value of zero on instances when the export price is higher than the home market price.

[11] See Statement of World Bank Group President Robert B. Zoellick on Doha WTO Negotiations, August 18, 2008 http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21874660~pagePK:34370~piPK:34424~theSitePK:4607,00.html

[12] Trade Facilitation at the World Bank: Moving the Agenda Forward, August 2008, Mimeo, World Bank.

facing the world economy in 2008 are different from those in 2001 when the Round was launched. As the global trade environment is evolving so must the multilateral trade agenda. This is nowhere better illustrated than in the trade tensions brought about by soaring food prices.

Strains from high food prices

14. The current global food price crisis has deep historical roots in the distortions of the world trading system (Annex II). While several factors beyond trade have combined to produce an upward global food price spiral (including high energy and fertilizer prices, depreciation of the U.S. dollar, biofuel production, changes in food buffer stocks, droughts, and increased world demand), the origins of the current spike in global food can be traced back in decades of trade-distorting policies that have encouraged inefficient agricultural production in rich countries and discouraged efficient production in developing countries.[13] High-income countries have historically protected their domestic producers and subsidized inefficient production—most recently biofuels—and dumped surpluses onto global markets. In turn, developing countries have often used trade and other domestic policies to simultaneously tax and protect their agricultural sector, with the net effect in many countries of taxing farmers. Overall, the world has suffered from declining agricultural prices, overproduction in high-income countries, and underproduction in poor countries.

15. The rapid rise in food and fuel prices has led to diverse reactions in affected countries. Along with protests and riots, higher prices have put macroeconomic stability in jeopardy. The impact of the food crisis across a significant share of the population in many developing countries has generated social demands for broad-based action. Governments have been under pressure to reduce food prices through administrative measures, including lower import tariffs or taxes, subsidies and price controls.[14] In some countries, the policy response reflected the lack of more targeted mechanisms such as conditional cash transfers or food-for-work programs, which require substantial preparation time and implementation capacity. The fiscal cost of broad-based measures may also have reduced the fiscal space needed to fund targeted program in a number of countries. Many poor countries have narrow tax bases and rely on tariffs and other trade taxes for a large part of government revenue. In such countries, it is important to ensure that the revenue losses from tariff or tax reduction can be accommodated without destabilizing macroeconomic policies. Tariff reductions can also have adverse effects on poor farmers who previously had a protected market, particularly if the tariff reductions are unanticipated. Such farmers may need targeted assistance. In turn, direct price controls or untargeted subsidies typically tend to be disincentives for producers, do not concentrate help on the poorest, and drain scarce fiscal resources.

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[13] See Chauffour, Jean-Pierre, 2008, Global Food Price Crisis—Trade Policy Origins and Options, Trade Note 134, World Bank. http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1126812419270/Trade_Note_34_Jul_24_08.pdf

[14] Additional information on food and fuel price impacts on individual countries is available in International Monetary Fund, *Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses,* June 2008 at http://www.imf.org/external/pubs/ft/survey/so/2008/NEW070108A.htm

16. In addition, some large food-exporting countries have imposed export taxes, quotas, or outright bans.[15] While it can be difficult for countries with abundant supplies to allow international prices to filter through to consumers, especially when a large majority of the poor are urban, and there is temptation to keep food prices down by reducing exports, such measures reduce production incentives and can have a number of unintended economic and social consequences. In particular, export restrictions tend to: distort prices and the allocation of resources (therefore impeding investment and the supply-side response); prevent local farmers from receiving the higher world market price for their production (therefore slowing the reduction of poverty in rural areas where most poor people live in most of the countries involved);[16] displace local production to crops that are not subject to export restrictions (therefore aggravating the very food security and price concern that justifies the measure in the first place); cut local production from global buyers and distribution chains (therefore jeopardizing future reentry in once-secure markets); create space for illegal trade (therefore fuelling corruption and other governance malpractices); exacerbate the rise and fluctuations of global food prices (therefore creating a vicious incentive for trading partners to follow suit, curb exports, and hoard); and more generally hurt trading partners and the multilateral trading system (therefore weakening the security of poor and vulnerable countries).[17]

17. Trade policies that could help address high global food prices involve correcting historical distortions in agriculture trade. Priority areas for action include: (i) disciplining export controls; (ii) reversing biofuel subsidies; (iii) lowering production subsidies; (iv) facilitating agriculture trade; (v) investing in trade-related infrastructure; (vi) completing the Doha Round; and, in the longer run, (vii) further liberalizing agricultural trade on a multilateral basis. While all of these steps would lead to more efficient and robust agricultural markets, the complex web of policy distortions to agriculture has many cross-cutting effects, and it is difficult to precisely predict the impact unwinding these policies will have on food prices over time.

- **Disciplining export restrictions** would be beneficial both from a global and domestic perspective and would help address the complex political economy of rising food inflation.[18] At present, the WTO provides only minimal disciplines on export restrictions, mainly a notification requirement regarding the nature and

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[15] The world's major non-OECD exporters of wheat (Argentina, Ukraine, Russia, and Kazakhstan) and rice (Vietnam, India, and China) have introduced various types of temporary export restrictions in an attempt to decouple domestic markets from global markets and rein in domestic food prices.

[16] In the case of large exporters, this impact may be less significant as agriculture export is often carried out by large scale commercial farms that have little linkage to the rural poor.

[17] Export restrictions had a particularly strong impact on the rice market, for which global trade is less than ten percent of total production. After India, China, Vietnam, Egypt, and Pakistan (among others) restricted exports, small countries that relied on imports were unable to ensure adequate supplies. Subsequent bilateral agreements between important trading partners, such as between Bangladesh and India, were insufficient to alleviate this problem.

[18] The need to discipline export restrictions is all the more important as the prospect of being confronted with them perversely bolsters the argument that net food importers need to have the ability to support farmers through restrictive trade policies. In the absence of reliable world markets for food products, a country cannot help but self-insure and support its own farmers.

duration of such restrictions.[19] In the context of the Doha Round, WTO members have been negotiating more precise disciplines on export prohibitions and restrictions, including an obligation to notify them within 90 days from the entry into force and a 12-month time limit on the duration of any new restrictions. Japan and Switzerland have recently made additional proposals. The Japanese proposal calls for ex ante notification, with consultations among interested WTO members before measures could be implemented. Where there is disagreement, binding arbitration would be used. While some countries have been cautiously receptive to the idea, others are more skeptical. Enforcement would be an issue, and there are often significant political pressures in favor of export restrictions. On the other hand, both importers and exporters would benefit if such policies were not used.

- **Phasing out biofuel policies** that subsidize production based on food crops, such as corn and vegetable oils, and reducing tariffs that restrict imports from lower-cost producers would promote biofuels that are both more efficient and less competitive with production of staple foods. It would remove pressure from food prices and allow the potential benefits of biofuels to be gained with fewer negative consequences. However, all biofuel production inevitably competes with food for agricultural land and resources. There are indications that some developed countries are beginning to reexamine their biofuel policies, but it remains a contentious issue. In the longer run, second-generation biofuels may be more benign in their spillover effects, but these sources are far from commercialization.

- **Cutting production subsidies** should be easier when producer prices are high. When prices are high, farmers make more money and subsidies that are structured as minimum guaranteed prices for a commodity decline, and may even disappear. However, food security has become a political issue that works in the opposite direction. The rapid increase in food prices and the subsequent disruptions in trade have increased political pressures for countries to be able to guarantee supplies. Proponents of subsidies argue that it is worth it to pay higher prices over many years in return for preserving domestic production. Unfortunately, such measures are costly to implement, and further distort global trade by lowering market prices and concentrating production in the richest countries, not the most efficient ones.

- **Trade facilitation measures** could help many developing countries reduce the price of imported agricultural products. For many low-income countries, especially net-food importing countries, transport and logistics costs are often a more important component of total trade costs than tariff barriers. Their logistics costs can amount to up to 50 percent of the import value, compared with the OECD benchmarks of around 9 percent. The situation is particularly severe in landlocked countries, notably in Africa, where land transportation adds significantly to logistics costs. While countries can do little to reduce ocean shipping costs, or the impact of fuel prices on trucking costs, they have substantial margin for improving

[19] Existing WTO disciplines set no time limit and even notification provisions have not been enforced.

the efficiency of their supply chain and addressing the broader facilitation issues that affect the price and timeliness of food deliveries.[20]

- **Investments in trade-related infrastructure** may help mitigate the effects of higher food prices, as would policy and regulatory reforms that increase agricultural productivity, link rural communities to markets, and ensure that poor producers benefit from trade liberalization. Higher food prices should provide an incentive to increase agriculture production, and hence farm incomes, but only if farmers can get their crops to markets. While varying from country to country, policy priorities usually include ensuring an adequate investment climate as well as making specific investments in agriculture, such as market extension, rural roads and other infrastructure, and agricultural technology.[21] In an era of climate change, investments in agricultural security through improved weather forecasting, monitoring, and preparedness are also required to avoid catastrophic losses. Innovation in financial markets, such as catastrophe bonds, can also help countries cope with increased risk.

- **A Doha agreement** can help provide medium- to long-term solutions.[22] A Doha deal is unlikely to have much, if any, impact on food prices in the next two or three years because implementation of its provisions will be gradual and because the long-run impacts on prices of staple foods would be modest since many countries have now reduced applied rates below the bound rates being negotiated in the Doha Round. Nonetheless, a successful Doha Round would place important disciplines on the use of agricultural subsidies and tariffs if and when prices eventually do come down and the temptation to revert to the distorting policies of the past reemerges. Tariff bindings, even if above applied duties, would allow cutting tariff peaks, which are often the most costly, while reinforcing predictability of the trading system. Completion of the round would help create a more transparent, rules-based, and predictable food trading system. As noted above, a Doha Round agreement could also add some disciplines on the use of export restrictions.

- **The long-term trade policy agenda** to make agriculture more efficient involves greater agriculture liberalization around the world and commitment to multilateral trade rules that allow supplies to emerge. Progressively curbing the use of trade policy to interfere with market signals—on both the export and import side—is the most sustainable and inclusive policy option available to trade policy makers to create more efficient and resilient agricultural markets. Trade policy is not the appropriate instrument to pursue equity objectives or to attain goals such as food security and rural development. This is not just because trade policy distorts consumption and production decisions but also because the distributional

[20] According to the World Bank's Logistics Performance Index (LPI), customs clearance, logistics, service efficiency, and timeliness are particularly poor in LICs, in particular net-food importing countries. In many LICs, food products are often subjected to repeated delays, unnecessary overhead costs, and loss and damage that further tax consumers.
[21] World Bank, 2008, World Development Report, Agriculture for Development, World Bank: Washington
[22] Statement by the Director General of the WTO at the Rome Food Summit, June 3, 2008.

consequences of protecting agriculture may be harmful to many poor households, especially those that are net consumers and do not derive income from agriculture. Other policy instruments that are aimed at increasing productivity or linking rural communities to markets are much superior to trade policy in helping the poor benefit from trade opportunities. Trade liberalization therefore needs to be complemented by other domestic policies to put in place such productivity and income-enhancing policies. This is where Aid for Trade can also be instrumental to help overcome policy, institutional and supply-side obstacles.

Progress in the Bank and IMF Aid for Trade activities

18. Since the launch of the Doha Round in 2001, the Bank and the Fund have been active advocates of an ambitious outcome to the negotiations and, in parallel, have supported various Aid for Trade initiatives to help countries address adjustment costs and take advantage of opportunities of more open global trade. Looking forward, a key challenge is for all actors to sustain the global effort at mobilizing, implementing, and monitoring the effectiveness of Aid for Trade, regardless of the fate of the Doha negotiations.

Global Aid for Trade Activities

19. The rationale for Aid for Trade is clear and has been elaborated in previous Bank/Fund Aid for Trade reports.[23] Although trade is an important engine of growth, many poor countries face considerable infrastructure and other supply-side constraints to participating in global markets. Trade reform is also a "global public good" in that all countries generally benefit from one country's policy reforms (e.g., lowering of tariffs and other trade barriers) and investments in trade infrastructure (e.g., customs reforms and ports), and benefits are increased when reforms are undertaken by a number of countries concurrently. As the benefits of reform are not fully captured by the reforming country itself, there is potentially "under-investment" in reforms. Aid for Trade can thus be an important complement to trade reform and global market opening.

20. To set in motion a process to help provide more and better Aid for Trade, Trade Ministers at the 2005 Hong Kong Ministerial called on bilateral and multilateral donors to increase the resources for Aid for Trade, endorsed the enhancement of the Integrated Framework for least developed countries, and established a Task Force on Aid for Trade. The Aid for Trade Task Force recommended among other things, improvements in global monitoring efforts to ensure that pledges on Aid for Trade were fulfilled.[24] As part of this effort, three regional Aid for Trade reviews took place in 2007 to take stock of progress in the delivery of Aid for Trade and a first WTO Global Aid for Trade review was held in Geneva in November 2007 to exchange about best practices and to facilitate collective action to maximize the benefits of Aid for Trade.

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[23] See Doha Development Agenda and Aid for Trade prepared by the staffs of the IMF and World Bank, August 9, 2006.

[24] Monitoring takes place at three levels: (1) global monitoring, carried out by the OECD; (2) donor monitoring, in the form of self-evaluations; and (3) in-country monitoring, also in the form of self-assessments.

21. Common themes that emerged from the first Global Review included the importance of (i) leadership in developing countries to mainstream trade in national plans; (ii) priority setting in deciding on the projects that deliver the biggest return on investment; (iii) thinking regionally since many capacity and connectivity problems—especially for small or landlocked countries—are regional in scope; (iv) ensuring increased and predicable financing—by following through on the Monterrey, Gleneagles and Hong Kong pledges; and (v) mobilizing the private sector since it is business—not governments—that trade. This first Global Review also highlighted the importance of improving data on aid flows and performance indicators (outcome) for both donors and recipients, as well as increasing country, regional, and sector focus.

22. In February 2008, the WTO announced an Aid for Trade Roadmap aimed at monitoring overall Aid for Trade aggregates with a view to evaluating the initiative, and mobilizing support for the trade agenda through sub-national and national conferences.[25] The WTO is also working with the regional development banks to organize a limited number of National and Sub-Regional Aid for Trade Reviews. Possible candidates include the COMESA region, Central America, Peru, the Philippines, Bangladesh and the Mekong Region. These reviews would be reported back to the next WTO Global Aid for Trade review, tentatively scheduled for mid-2009.

23. Progress has been made in trade-related technical assistance for the least developed countries (LDCs) with the establishment of the Enhanced Integrated Framework (EIF) in May 2007, a new executive secretariat and a trust fund to support its operations (Annex III).[26] The new EIF governance structure will emphasize country ownership by reinforcing and enlarging the involvement of the EIF national bodies at the country level, linking the WTO-based EIF secretariat to in-country processes, and encouraging recipient countries to lead projects. In September 2007, a pledging conference was held for the EIF Trust Fund in Stockholm, where 22 donors pledged US$170 million over a five-year period. Since then, a further US$3 million has been pledged. The Trust Fund Manager for the EIF Trust Fund was selected in April 2008. An Executive Director to head the EIF Executive Secretariat, which is to be administratively housed by the WTO, was selected in July 2008. The EIF should therefore be fully operational by the autumn 2008.

24. To complement the EIF, the Bank launched in November 2007 the Multi-donor Trust Fund for Trade and Development (MDTF-TD) to provide additional resources in support of the Bank's trade strategy at the country, regional, and global levels.[27] In its first

[25] For an update of the ongoing work, see WTO, 2008 Aid-for-Trade Roadmap, Annotated Update, July 23, 2008 at http://www.wto.org/english/tratop_e/devel_e/a4t_e/a4t_roadmap_feb08_e.doc

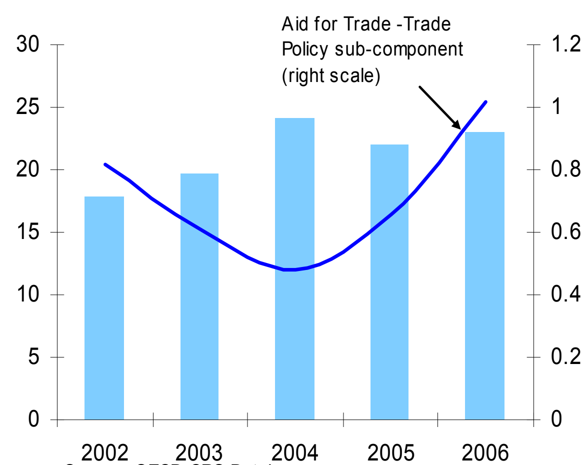
[26] The Integrated Framework (IF) is a multi-agency (IMF, ITC, UNCTAD, UNDP, the World Bank, and the WTO), multidonor program to assist LDCs in addressing national competitiveness priorities through trade diagnostic. The enhancement of the IF was recommended by the WTO Task Force to improve governance as well as communication and coordination between Geneva-based trade representative, country-based trade and customs officials and experts, private sector stakeholders, and officials within the finance and planning ministries.

[27] The current donors to the MDTF are Norway, Sweden, and the United Kingdom for a total contribution of approximately $30 million over three years (2007–10).

year of operation, the MDTF-TD has supported work in many low income countries and regional projects, and enhanced the Bank's capacity to: (i) respond to client demand for trade-related technical assistance and capacity building; (ii) develop analytical tools to assist countries to define trade policy strategies; (iii) expand research and datasets on trade topics of importance to developing countries; and (iv) diffuse knowledge on international trade to developing countries (Annex IV). Some examples of work include a comprehensive program on trade in services in the Africa region, mainstreaming trade and competitiveness in Cote d'Ivoire, Tanzania, and Madagascar, technical assistance for trade policy reform and export promotion in North Africa, a regional study on service trade in South Asia, an assessment of trade facilitation and logistics in Mongolia, and new research on agriculture and poverty with a focus on gender.

25. Notwithstanding the difficulties of monitoring donor pledges and the methodological weaknesses of current measures of Aid for Trade,[28] the OECD/WTO estimated that between 2002 and 2006, donors committed on average US$21.3 billion per year to low-income countries on the aid categories more closely associated with Aid for Trade (Figure 1). This included US$11.5 billion to build economic infrastructure, US$9.1 billion to promote productive capacities, and US$0.7 billion for increasing the understanding and implementation of trade policy and regulations.[29] While global Aid for Trade assistance to low-income countries has tended to plateau during 2004–06, the trade policy sub-component has increased sharply in recent years.

Figure 1. Total Aid for Trade Commitments, 2002-06 Constant 2005 US$, Billion



Source: OECD-CRS Database

26. The World Bank Group is one of the largest providers of Aid for Trade.[30] Using the Bank and IFC sectors more closely related to the OECD/WTO broad definition of Aid for Trade,[31] the World Bank Group provided an average of almost US12$ billion per year

[28] The WTO/OECD database uses a broad definition of Aid for Trade and, in particular, includes all investments in transport, energy, and telecommunications infrastructure as trade-related and therefore Aid for Trade. For a detailed discussion of methodological issues to measure Aid for Trade, see IMF/World Bank, 2007, "Aid for Trade—Harnessing Globalization for Economic Development."

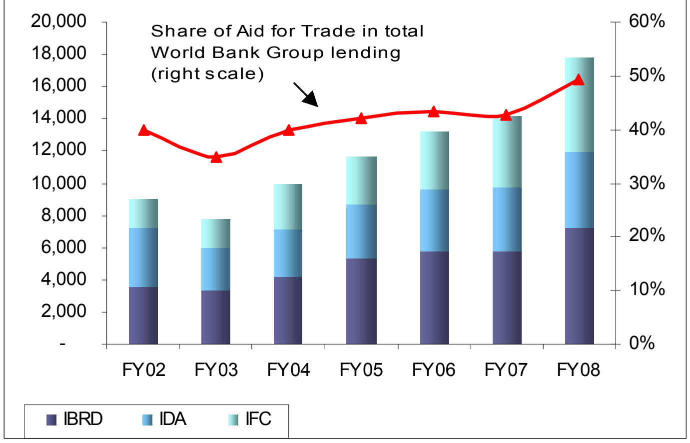
[29] See OECD/WTO, 2007, "Aid for Trade at a Glance—First Global Review."

[30] According to the WTO/OECD database, through IDA, the Bank was the fourth largest provider of concessional Aid for Trade in 2006, and the largest multilateral provider of such assistance during 2002-06.

[31] For IBRD/IDA, the list of sectors comprises: Agriculture, Fishing, & Forestry; Information & Communication; Energy & Mining; Transportation; and Industry & Trade. For IFC, the list comprises: Agriculture & Forestry; Information; Oil, Gas & Mining; Chemical; Utilities; Transportation &

in Aid for Trade to low-income and middle-income countries over 2002–08 to assist in building productive capacity and infrastructure, some substantial portion of which helped promote trade directly or indirectly (Figure 2). This included: (i) an average of US$3.6 billion to low-income countries through the IDA concessional window; (ii) US$5 billion in IBRD nonconcessional lending to middle-income countries; and (iii) US$3.3 billion of trade-related commitments by IFC to both IDA and non-IDA clients. After a certain deceleration in FY07, total aid for trade commitments picked up in FY08, both in absolute amounts and as a share of total World Bank Group lending. In FY08, total Aid for Trade lending grew by more than 26 percent to reach US$17.8 billion or almost 50 percent of total Bank/IFC commitments. As already emphasized, this broad definition of Aid for Trade may be misleading as many activities covered under the WTO/OECD classification may not primarily focus on trade or trade-related objectives.

Figure 2. World Bank Group Aid for Trade Commitments in US$ millions, 2002-08



Source: Business Warehouse and iDesk

27. The rest of the paper will discuss in greater detail the Bank and IMF Aid for Trade activities, but will use the Bank more narrow definition of Aid for Trade based on the "themes" classification (as opposed to the above "sectors"). While the WTO/OECD reporting system uses a broad Aid for Trade definition in an effort to capture the elements identified by the WTO Task Force on Aid for Trade,[32] the Bank Aid for Trade database does not include all investments that improve the productivity of the tradable sectors as Aid for Trade. It involves some discretion in selecting among non-mutually exclusive "themes" (e.g., poverty reduction or trade expansion); and it records only that portion of an individual project that is specifically trade-related.[33] Unsurprisingly, this method shows a much smaller amount of concessional resources devoted to trade.[34] The rest of this

Warehousing; Construction & Real Estate; Food & Beverages; Nonmetallic Mineral Product Manufacturing; Primary Metals; Pulp & Paper; Textiles, Apparel & Leather; Plastics & Rubber; Industrial & Consumer Products; Wholesale and Retail Trade; Professional, Scientific and Technical Services; and Accommodation & Tourism Services.

[32] This comprises: (i) trade policy and regulations; (ii) trade development; (iii) trade-related infrastructure; (iv) building productive capacity; (v) trade-related adjustment; and (vi) other trade-related needs.

[33] The OECD/WTO reporting system is being fine-tuned to better reflect the trade component of aid and to include suitable proxies for the categories "trade-related adjustment" and "other trade-related needs".

[34] For a detailed account of the large and numerous discrepancies between the WTO/OECD and Bank methodologies in measuring Aid for Trade flows, see IMF/World Bank, 2007, "Aid for Trade–Harnessing Globalization for Economic Development".

section will provide an overview of (i) Bank activities in Aid for Trade; (ii) the strategies and implementation in the Bank Regions; and (iii) IMF Aid for Trade activities.

Overview of the Bank Activities in Aid for Trade

28. The Bank's Aid for Trade work is organized around the seven main areas of the trade strategy announced by President Zoellick at the WTO Global Aid for Trade Review in Geneva in November 2007.[35] These areas include:

- Increased support to country programs on trade and competitiveness, including policy analysis, lending and technical assistance.
- More resources for trade-related infrastructure.
- Expanded programs for financing trade through IFC.
- Expanded assistance in trade facilitation.
- More investments in training and capacity building for policy-makers.
- Greater work on tools and indicators to help countries analyze trade obstacles.
- Further development of knowledge to inform key trade policy debates on how to harness globalization for growth and poverty reduction.

29. Progress in implementing the new trade strategy has proceeded at different rates across the seven areas.

- In the area of **trade and competitiveness programs**,[36] lending activities have leveled off in recent years mainly as a result of a decline in trade-related commitments in middle-income countries. Technical assistance programs have continued to perform strongly (Box 1).

[35] Remarks by President Zoellick, WTO Ministerial Meeting—Global Review for Aid for Trade, November 20, 2007.
[36] This encompasses: offering support for countries wishing to improve their incentives for private investment in trade; helping countries reduce the costs of trading; and helping governments to play a more active role in supporting trade through export promotion, and information and help on meeting standards in export markets.

Box 1: Bank Support to Trade and Competitiveness[37]

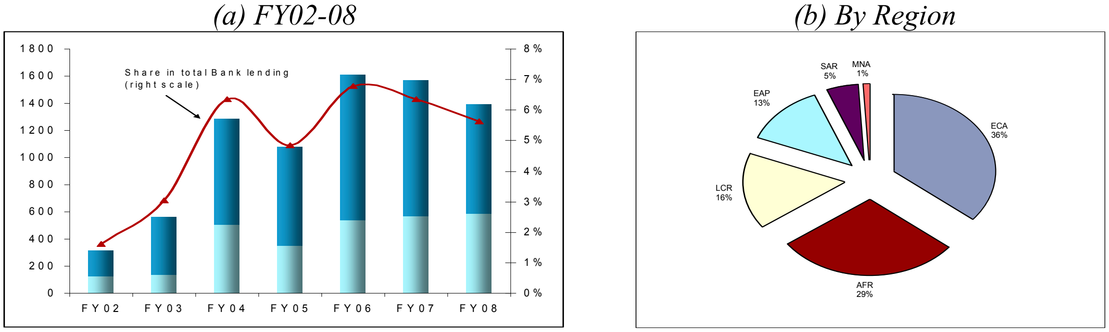
To increase support to country programs on trade and competitiveness, the Bank aims at scaling up its trade-related (i) lending, (ii) technical assistance, and (iii) analytical work.

Contrary to the trend in Aid for Trade emerging from the OECD/WTO broad definition, **trade-related lending** using the narrower "themes" definition tapered off in FY07 and slightly decreased in FY08 to around $1.4 billion (Figure 3). This was attributable to a decline in non-concessional trade lending. Concessional lending has continued to grow steadily, and more rapidly than total Bank concessional lending. With about $590 million in FY08, the share of concessional trade-related lending in total Bank concessional lending has increased from 4.8 percent to 5.3 percent between FY07 and FY08. As in previous years, the bulk of this lending was driven by projects in Africa, and by trade-related infrastructure in support of regional integration and trade facilitation. As a result, the stock of concessional trade-related lending has continued to increase surpassing $2 billion in FY08 and representing about 5 percent of total Bank concessional lending, twice the level in FY02.

In FY08, Bank trade-related lending involved 51 projects, including 12 regional. Lending was driven by projects in ECA and AFR with 36 percent and 29 percent respectively. Loans were the smallest in SAR and MENA. Lending was driven by export development and competitiveness reforms in ECA and LAC, and by trade-related infrastructure in support of trade facilitation and regional integration in ECA, EAP, and AFR.

Figure 3: Total Trade-related Lending (IBRD and IDA), Flows, US$ million

(a) FY02-08 *(b) By Region*

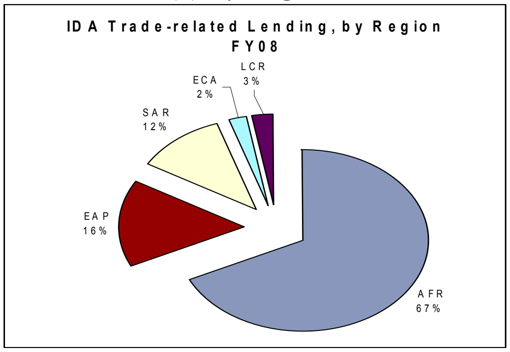


Efforts to integrate trade issues into lending operations have shown results in particular in Africa (Figure 4). Trade related lending increased from an annual average of $50 million over FY02-03 to an annual average of about $390 million over FY04-08. The share of Africa in *concessional* trade-related lending increased over time to represent about three-quarter of concessional trade-related lending. In FY08, Africa was followed by East Asia and South Asia with respectively 16 percent and 12 percent.

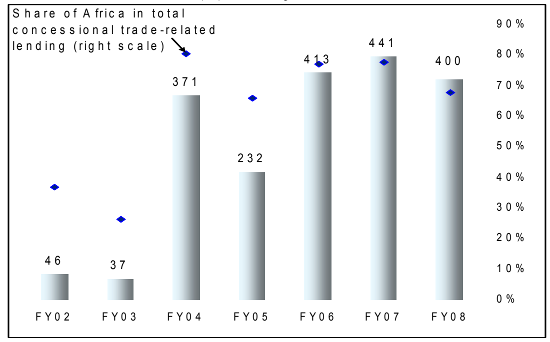
[37] Source: Business Warehouse (July 08)

Figure 4: Concessional Trade-related Lending flows, million US$, FY02-08

(a) By Region



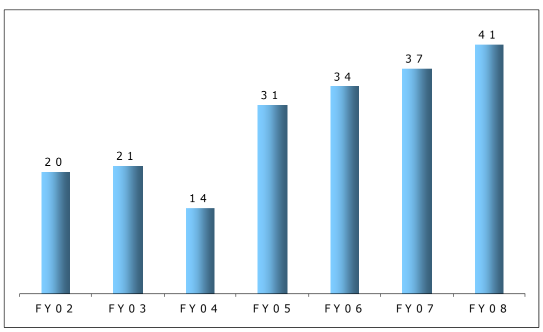
(b) In Africa



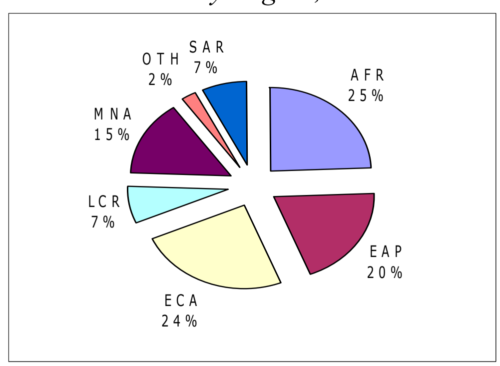
The Bank has also been providing a growing number of trade **related technical assistance (TA)** over the past several years (Figure 5). Their number doubled between FY02-03 and FY07-08 from an annual average of 20 to 39. In FY08, most assistance was provided to AFR and ECA, followed by LAC. It covered 16 regional/multi-country projects and 24 countries.

Figure 5: Trade related Technical Assistance

Number of pieces, FY02-08



Breakdown by Region, FY08

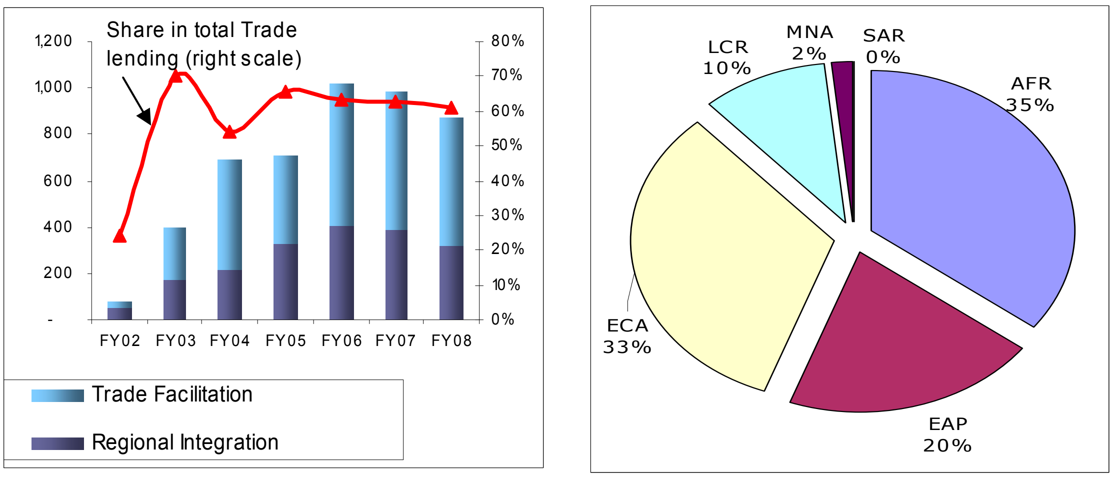


In the area of policy analysis, excluding research, the number of trade-related **analytical economic and sector work (ESW)** has somewhat receded after the big effort made in FY03-04 to mainstream trade into country programs (e.g., through DTIS). In FY08, the Bank undertook 74 pieces of ESW focusing on trade, slightly more than in FY07. Most ESW were conducted by AFR, ECA and LAC, and covered 46 countries and 14 regional or multi-country.

- In the area of **trade-related infrastructure**, IBRD/IDA resources in support of regional integration and trade facilitation (using the narrower “themes” classification) have tapered off in recent years after a strong expansion during 2002–06 (Figure 6). In FY08, total lending amounted to about $870 million, representing about 60 percent of total trade-related lending. These investments included regional projects in Africa such as Central Africa Transport and Transit Facilitation and Mozambique-Malawi Transmission Interconnection. At the country-level, projects included the Second Central Transport in Tanzania (AFR), the Northern Delta Transport Development in Vietnam (EAP), Highway Improvement in Georgia (ECA), and Road Reconstruction and Improvement in Honduras (LAC). In Africa, the pipeline also continues to be driven by large infrastructure projects.[38]

Figure 6: IBRD/IDA Commitments to Trade-Related Infrastructure

(a) US$ million, FY02-08 *(b) Regional breakdown, % in FY08*



Source: Business Warehouse

- In the area of **trade finance services**, the IFC Global Trade Finance Program (GFTP) launched in 2005 has been supporting specific trade transactions via the provision of guarantees covering the payment risk of banks in emerging markets for trade-related transactions. Agreements that allow IFC to cover payment risks in trade transactions have been signed with 144 international banks and 114 local banks across 57 emerging market countries. Since 2005, GTFP has issued US$2.5 billion in guarantees in support of over 3,400 individual trade transactions. More than 50 percent of the transactions have supported trade with IDA countries. The GFTP also offers benefits for small banks in the middle income emerging markets, a segment which is traditionally underserved by the international banking community. The program has had a particularly strong development impact in countries where no documentary credit was previously available and where trade lines with international banks were insufficient to support the growing demand for imports and exports (e.g., Sierra Leone, Liberia, DRC and Haiti). The flexibility of the GTFP to support sectors of growing priority has been shown by the increasing flow of food products and related agricultural inputs supported by the Program.[39] The focus for this critical sector going forward will be to activate the pre-export financing product in other regions with a focus on client banks in IDA and frontier

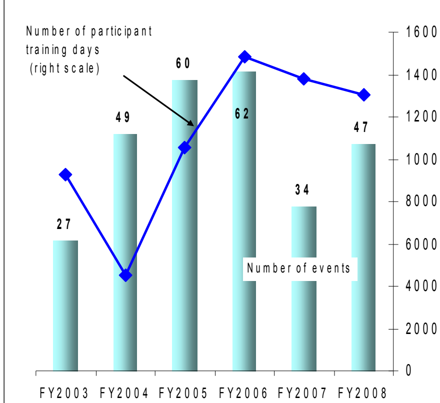
[38] Forthcoming operations include, for example the Abidjan-Lagos Transportation and Transit Project, the Kenya Northern Corridor Supplemental, the Ethiopia and Kenya Regional Interconnection Project.
[39] In FY08, the Program booked US$414 million in agricultural trade, with two-thirds of it mainly related to pre-export financing in Latin America focused on local banks in Brazil and Argentina with clients selling a variety of processed and non-processed food products worldwide.

countries. Under the program, IFC also provides advisory services and training aimed at helping banks build capacity and improve in the areas of trade finance and operations.[40]

- In addition to the above mentioned hardware trade-related infrastructure, the Bank has developed the "software" part of its **trade facilitation and logistics** activities, including border processing and clearance systems and procedures (e.g., customs modernization and other border management institutions) and logistics services (e.g., regulatory reform to increase competition and reduce costs). The Bank has promoted new knowledge by: (i) preparing a series of reform toolkits (customs, port reform, transit trade and landlocked countries); (ii) undertaking global advocacy and supporting constituencies for reform in key areas (Global Facilitation Partnership for Transport and Trade); (iii) conducting research (particularly in respect to trade costs and economic impact of reform); (iv) producing data on trade facilitation and logistics performance (Logistics Performance Index); and (v) providing advisory work to assist client countries. The Bank has also developed close working relationships with other international organizations and donors to better coordinate trade facilitation-related advice and operations particularly in respect to multi-donor financed activities including trade corridor and regional projects (notably in Africa and Central Asia), customs modernization projects, gateway projects (ports and airports) and Competitiveness Development Policy Loans (notably in LAC).

- The World Bank Institute (WBI) has recently reinvigorated its **trade-related training and capacity building** activities in strategic areas.[41] The number of learning events increased by 38 percent between FY07 and FY08, reaching about 2,700 participants (Figure 7). In an effort to improve the quality and impact of its offerings, WBI has also been offering more focused and customized training and capacity building activities targeted at policy makers in low-income countries.[42] In FY08, WBI activities covered a wide variety of topics including services trade, agricultural trade, regionalism, trade and standards, quantitative tools for trade analysis, Intellectual Property Rights, trade and poverty, and export development and diversification (Box 2). In FY09, WBI will continue to expand its trade

Figure 7: WBI training FY03-08



[40] IFC advisory services and training programs have reached over 600 bankers from 250 banks in 22 developing countries. In such post-conflict markets as Liberia and Sierra Leone, extended, on-site advisory services have been provided as a way to improve the handling and the volume of trade transactions.
[41] WBI trade program aims at (i) enhancing the capacity of developing countries to put in place sound trade policies and institutions and (ii) helping them participate effectively in multilateral and regional trade negotiations. It targets government officials, researchers and private sector and civil society stakeholders.
[42] This has resulted in a five percent drop in the number of participant training days (Figure 7)

program along the same lines. Moreover, it will expand Geneva-based partnerships on trade learning programs for negotiators and policy makers in cooperation with the WTO and other UN agencies and regional development banks.

Box 2. Selected Examples of WBI activities in FY08

- In Madagascar, WBI supported the development of a coherent national trade strategy through workshops and other learning events.
- In WTO accession and post-accession countries such as Russia, Vietnam, and China, the integration of WBI learning and research capacity building activities with Bank analysis and lending has been instrumental in improving the quality of domestic trade liberalization, supporting accession to WTO.
- In Bolivia, Indonesia, Madagascar, and Zambia, WBI trained government staff on market access modeling tools.
- In Madagascar, Nigeria, and Zambia, WBI offered a course on regional integration and EPA trade negotiations.
- In Africa, WBI offered courses and workshops in services trade, agricultural trade, regionalism (including EPAs), trade and standards, trade and poverty, and export development.
- WBI contributed to the WTO global and regional Trade Policy courses.
- WBI offered its flagship course "Trade Policy for Development Executive Course" jointly offered by Columbia University and WBI.

- The Bank has developed a number of new **tools and indicators for trade and competitiveness** to help inform policy makers on how their policies stack up against others and encourage trade reforms. In FY08, the Trade department launched the Logistics Performance Index (LPI);[43] and the WBI launched the World Trade Indicators (WTI) to benchmark countries' trade policy and trade outcomes. These new indicators were designed to complement the trade-related indicators in the Doing Business Reports. The existing World Integrated Trade Solution (WITS*)* database and simulation tool is being upgraded and a number of customized user-friendly simulation tools to assess the impact of trade reforms, including on revenue, trade protection, and employment, has been developed. The Bank will continue to invest in gathering better trade data on barriers to trade in services and non-tariff barriers, including developing further the overall trade restrictiveness index (OTRI).

- The Bank is continuing to invest in developing **research and knowledge** on how to harness globalization for growth and poverty reduction. The Bank's trade-related research is an important source of information and analysis, helping to inform developing countries of the implications of trade policy choices and options—on such themes as trade and poverty, trade costs and facilitation,

[43] The LPI ranks 150 countries on seven key components in trade logistics performance. It is being used as an indicator in Bank analytical work and advisory services and as an input into the design and implementation of Bank projects.

agriculture and impacts of food price increases, foreign direct investment and growth, export diversification, and trade in services and trade agreements, both WTO/Doha and regional integration. The Bank is also working with research networks and institutes based in developing countries, such as the African Economic Research Consortium (AERC) and the Economic Research Forum (ERF) for the Arab countries, Iran, and Turkey. Furthermore, the independent Commission on Economic Growth under the co-chairmanship of Nobel Laureate Michael Spence and Danny Leipziger, Vice President of Poverty Reduction and Economic Management in the World Bank, released its report in May 2008 on policies to promote high and sustainable growth for future generations—including harnessing trade and technology transfer for growth.[44]

Bank Activities in Aid for Trade in the Regions

30. While a common objective of the Bank's Aid for Trade strategy in all regions is to support global and regional integration as a means to accelerate and sustain economic growth, Aid for Trade programs also reflect specific regional strategies based on the level of development and integration.

31. Perhaps more than any other region, **sub-Saharan Africa (AFR)** needs a dynamic trade push to integrate the world economy. As noted by the Growth Commission Report, "*sustainable, high growth is catch-up growth. And the global economy is the essential resource.*" However, until now, despite the existence of trade preferences, such as those provided under the Cotonou agreement/European partnership agreements (EPAs), Everything But Arms (EBA), or the African Growth and Opportunity Act (AGOA), supply-side and competitiveness problems have often prevented the African continent from taking full advantage of global markets. Although this lack of competitiveness reflects a myriad of factors, a weak investment climate and high transactions costs are usually perceived as dominant factors. The Bank's Aid for Trade strategy in sub-Saharan Africa aims at tackling these trade and investment-climate related impediments. While reform priorities are necessarily country specific, they generally involve improving trade facilitation mechanisms and infrastructure, enhancing domestic competition, liberalizing services sectors, fostering labor market flexibility, and improving the overall investment climate. This Aid for Trade strategy is pursued at both the country and sub-regional level (Box 3).

[44] Commission on Growth and Development, 2008, The Growth Report: Strategies for Sustained Growth and Inclusive Development, Conference Edition (p. 2).

Box 3. Sub-Saharan Africa: Implementing Aid for Trade

At the **country level**, the Bank has strengthened its body of trade-related analysis and technical assistance. Diagnostic Trade Integration Studies (DTIS) have been completed in 25 sub-Saharan African LDCs and four are ongoing. A key Lesson from these DTISs is both the importance and challenge of integrating trade diagnostic into the national development and growth strategies. Investment Climate Assessments (ICA) have been completed in over 20 countries and have identified a wide range of needs, from a technology promotion center in Ghana, pilot programs to build technical capabilities in export industries in Kenya and Senegal, and improved ways to acquire technology in Zambia. Trade and competitiveness issues are featuring in a growing number of Country Economic Memorandums (CEMs).

At the **regional and sub-regional level**, Bank analytical and TA activities in sub-Saharan Africa have focused on the EPAs with the European Union. A technical study of the EPAs and related trade and regional integration issues, which has already provided a platform for technical assistance to countries during EPA negotiations, will be completed early in FY09. Over the past year, support to Regional Economic Communities (RECs) has included analysis and TA: (i) for COMESA on expanding the free trade area and moving towards a customs union, including analysis of the revenue implications; (ii) for SADC on regional trade performance, the Trade Protocol, and rules of origin; and (iii) for EAC on trade policy harmonization. There has also been sector-focused support to RECs. For example, the Africa Agriculture Market Program partnership with COMESA has just been launched with the core objectives of (i) strengthening the institutional capacity of COMESA to implement a regional marketing and trade program for food staples and inputs; (ii) enhancing knowledge of national decision makers by providing analysis on issues facing agricultural input and output markets, and (iii) creating a regional network for dialogue.

32. While the **Middle East and North Africa (MENA)** region has seen its share of global trade increase to almost 5 percent, this increase is mainly attributable to petroleum products, which represent about 80 percent of the region's merchandise exports. At 1.8 percent, MENA's share in global non-oil merchandise exports is small. A few countries such as Jordan, Egypt and Tunisia have seen emerging signs of diversification in both products and markets but the pace of change is slow. Despite a large number of bilateral, sub-regional, intra-regional and inter-regional trade agreements,[45] the MENA region remains poorly integrated.[46] In that context, the Bank Aid for Trade strategy aims to a large extent at (i) strengthening domestic trade institutions, including through WTO accession, trade facilitation diagnostics, and a focus on key trade-related service sectors

[45] There has been a proliferation of FTAs in the region over the last 15 years or so, including several FTAs with the US; the Agadir Agreement among Egypt, Jordan, Morocco, and Tunisia; the PAFTA agreement among 17 Arab states; and the Euro Med agreements between the EU and most Mediterranean countries. Following the establishment of a customs union, the GCC countries have made progress towards the creation of a trade union and eventually monetary union by 2010.

[46] Interestingly, MENA is more integrated through labor mobility than through trade: one sixth of all remittances paid out to migrants in the world originate in the MENA region, essentially the GCC countries, and one tenth of global remittances are received by residents of MENA countries.

such as finance, transport and telecommunications; and (ii) reinforcing regional integration and institutions (Box 4).

Box 4. Middle East and North Africa: Implementing Aid for Trade

At the **country level**, trade policy notes proposing measures to improve exports performance and diversification have been discussed in a number of countries, including Algeria, Iran, Morocco and Yemen. Trade-related analytical work and technical assistance have been provided to Saudi Arabia, Yemen, and soon Libya in the context of their WTO accession; to Tunisia on international integration and private sector competitiveness; to Morocco and Tunisia on impact of various tariff reform scenarios, and on trade facilitation and logistics; to Egypt on supply chain integration to better link farmers to markets; and to Lebanon on trade facilitation and infrastructure.

To foster **regional integration**, the Bank has provided knowledge and technical assistance, including in the context of (a) the 2008 MENA Economic Development Prospects and related conferences, including that recently held in Muscat on Strengthening the Pan Arab Free Trade Area; (b) a regional study on export diversification, which discusses the constraints to the innovation process and to export diversification in five MENA countries; and (c) a report on strengthening MENA' s trade and investment links with China and India. Trust fund resources supported several technical assistance activities in Morocco (tariff analysis, safeguards, antidumping, and port facilitation); Egypt (services training and workshops) and the West Bank and Gaza (passages and trade facilitation). The Bank has also been active in the context of the Arab World Initiative to achieve faster growth, better jobs, lower social disparities, greater social inclusion, and better management of natural resources – especially water.

33. Nearly two decades after the collapse of the Soviet trade bloc, **Eastern Europe and Central Asia (ECA)** has successfully reintegrated into the global market place. Many of the countries in the region adopted liberal import policies in the early years of transition and, as a result, the ECA region performs relatively well on most trade policy indicators, including a low trade weighted tariffs of 5.2 percent on an MFN basis. Since most countries in the region have already mainstreamed trade in their development strategies, the Bank's Aid for Trade strategy is mainly organized around promoting behind the border structural and institutional reforms, especially for the transition economies in the CIS, and furthering trade integration. These include enhancing domestic competition and market flexibility, strengthening basic market institutions and incentives for good governance, developing trade-facilitating infrastructure, deregulating services sector, and attracting cutting-edge foreign direct investment. While most new EU member states have caught up with OECD countries with respect to trade related business environment, institutional and logistic performance, many CIS countries are still facing important behind the border constraints to improve competitiveness (Box 5).

Box 5. Eastern Europe and Central Asia: Implementing Aid for Trade

At the **country level**, the Bank has supported Government efforts (e.g., Armenia, Macedonia, Moldova, Georgia, Tajikistan, and Russia) at reducing the barriers to business entry and exit, cutting the regulatory and administrative costs of business regulation, and improving the enforcement of contracts and property rights. The Bank has supported efforts in southeastern Europe, Kazakhstan, Moldova, and Russia to strengthen trade and transport facilitation institutions, improve coordination among government agencies, and, in particular, make customs codes and regulations more transparent and commercially oriented. In Moldova and the Kyrgyz Republic, the Bank has supported efforts to modernize outdated and inadequate standards and conformity assessment regimes inherited from central planning. Among new EU members, the Bank has provided TA to Poland, Romania and Croatia to reform their veterinary and phytosanitary policies. The Bank has also supported the deregulation of the services sector in the region, including financial services (Turkey), telecoms (with the introduction of multiple cell operators in a number of countries), road (Azerbaijan and Moldova), civil aviation (Tajikistan), and rail transportation (Macedonia).

To further **trade integration**, Bank activities in the region have focused on EU accession, WTO membership, and other regional integration initiatives. The Bank has assisted 10 countries in preparing for EU membership and continues to support these new member states with loans and advisory services. Outside the context of EU membership, the Bank is advising and supporting a number of countries (e.g., Ukraine, Moldova and Georgia) in their discussions with the EU on an enhanced trade agreement. On the WTO membership, the Bank has assisted 19 countries in the region—most recently Ukraine—in acceding the WTO and is currently supporting most of the remaining countries in their WTO negotiations, including Russia. Outside the EU and WTO accession processes, the Bank has promoted deeper integration among the Southeastern European (SEE) countries by bringing the existing network of bilateral agreements into a new multilateral framework (Central European Free Trade Area or CEFTA 2006) aimed at reducing market segmentation (i.e., customs clearance requirements, competition policy, FDI policy, sector-specific policies, barriers to trade in services). In Central Asia, the Bank has supported the Central Asia Regional Economic Cooperation (CAREC) initiative through its analytical work covering cross-border trade and its implications for employment and growth. The Bank has also provided support for the establishment of the regional energy market for gas and electricity, which culminated in the signing of the Energy Community Treaty (ETC) between the EC and the SEE countries.

34. The **East Asia and Pacific (EAP)** region has been the fastest growing region in the world for the last 40 years. It is also the region—and this is no coincidence—with by far the lowest tariff trade restrictiveness among developing countries. Since the region has largely completed the first generation of trade reforms, the Bank' s trade strategy essentially aimed at providing advisory service, disseminating knowledge, and facilitating capacity building on emerging trade topics, and promoting regional integration (Box 6).

Box 6. East Asia and Pacific: Implementing Aid for Trade

At the **country-level**, the Bank has provided advisory services, knowledge, and capacity building, including the Beyond WTO program (BTWO) in Vietnam to supervise impact assessment studies on horizontal issues relevant to WTO implementation. Under this program, the Bank is sponsoring capacity building initiatives across several ministries and provinces in Vietnam. In support of China's participation in regional and multilateral institutions, the Bank has prepared 20 policy notes and reports on the impact of the Doha Round and regional agreements, including on agriculture trade, services trade; and investment regimes. In Cambodia, the Bank has built on the 2007 DTIS to assist the government in developing a Trade Sector Wide Approach (SWAP). In Lao PDR, the Bank has designed a trade development facility program to support the Government's capacity in the areas of regional and global integration.

The most significant development in **regional integration** is the Greater Mekong Sub-region (GMS) Trade and Transport Facilitation Project supported in cooperation with the Asian Development Bank and other donors, and involving Cambodia, China, Lao PDR, Thailand, Vietnam. This includes (i) the establishment of a regional trade related Information Platform; (ii) support for customs modernization at the country level and the development of an integrated approach to border management; (iii) support for an improved standards regime throughout the region; (iv) the development of a regional transit regime Action Plan; and (v) development and harmonization of business visa requirements. The Bank has been actively involved in the project in terms of technical support and coordination among country governments and donors. The Bank has also assisted Cambodia and Lao in streamlining border procedures and automating customs.

35. Notwithstanding rapid trade growth, **South Asia** continues to have a restrictive trade regime compared to other regions. Intra-regional trade between countries is less than 2 percent of GDP for South Asia compared to 40 percent for East Asia. South Asia's share of intra-regional trade as a share of total trade fell to 5 percent in 2000–2007, down from 18 percent in the 1950s. The cost of trading across borders in South Asia is high.[47] Against this background, the World Bank's Aid for Trade strategy in South Asia aims at (a) deepening regional integration, including improving market integration of landlocked countries (e.g., Afghanistan, Bhutan, Nepal) and lagging sub-regions; and (b) strengthening national competitiveness and promoting export diversification, notably trade in services (Box 7).

[47] For instance, at Petrapole-Benapole, one of the main borders between Bangladesh and India, cargo is transloaded from and to trucks on each side of the border and inspected, taking more than 100 hours to cross the border.

Box 7. South Asia: Implementing Aid for Trade

Bank analytical work (e.g., trade reports and policy notes), technical assistance, capacity building and training, and financial support in South Asia are largely targeted at regional integration. This includes addressing constraints, such as non-tariff barriers and transit restrictions, to the development of the main regional corridors, with special focus on the northeast sub-region (encompassing India, Bhutan, Nepal and Bangladesh) and the northwest corridor (Afghanistan, India and Pakistan). In the case of Pakistan, this includes for example the 2007 report on the Challenges and Potential of Pakistan-India Trade; the Trade and Transport Facilitation Project I; and the First National Trade Corridor Improvement Development Policy Loan. The Bank is also supporting regional integration by forming knowledge partnership with South Asia Business Conclave.

To improve **national competitiveness and diversification**, the Bank has undertaken a number of targeted competitiveness ESW and TA programs (e.g., Pakistan; Bangladesh). Efforts have been made to diversify exports and promote international integration of services markets – encompassing cross border trade in business and transport services, consumption by foreigners of tourism, health and education services, foreign direct investment in banking, communication, and distribution, and temporary migration of doctors, teachers and construction workers.

36. Since the 1980s, countries in **Latin America and the Caribbean (LAC)** have largely opened up both multilaterally and regionally. According to the Overall Trade Restrictiveness Index (which includes non-tariff barriers), the region is now more open than South Asia, Sub-Saharan Africa, and MENA; slightly less open than East Asia; and substantially less open than ECA and high-income countries. The region has also pursued an active regional agenda, with the signing of numerous regional trade agreements.[48] To improve further the region's competitiveness, greater attention has recently been paid to behind-the-border issues, including foreign investment policies, trade-related services, export promotion, standards, logistics and infrastructure, and the broader innovation and knowledge agenda. The Bank's Aid for Trade strategy has been implemented with a mix of (a) analytical economic and sector work, such as the lessons from NAFTA, the challenges of CAFTA to maximize the benefits for Central America, the Response of LAC to growth in China and India, and a number of country studies; (b) technical assistance, including on implementing public-private partnerships in Brazil and Chile; (c) lending operations in Argentina (modernization of trade-related institutions), Honduras and Peru (trade facilitation), and (d) guarantees, including for the private financing of infrastructure in Peru.

[48] Recent examples include: Chile's FTAs with the U.S. (2004), Korea (2005) and the EU (2005), Mexico's FTA with Japan (2005), and DR-CAFTA in 2005 (involving Central America, the Dominican Republic, and the US.)

IMF Activities in Aid for Trade

37. The IMF has continued its active support for trade-related reforms and adjustment to other trade policy changes through technical assistance (TA), financial support, and policy advice.

38. TA on trade, an important part of overall Fund TA, concentrates on tax, tariff, and customs reform. IMF TA in this area is provided through headquarters-based staff, regional TA centers (RTACs) and peripatetic and resident advisers.

- In 2008 fiscal year, TA related to strategic reforms in customs administration, which generally are closely linked to national development strategies, was provided to over 20 countries in Africa (notably the Democratic Republic of the Congo, Kenya, Liberia, Madagascar, and Mauritania), Asia (notably Cambodia and Nepal), and Central America and the Caribbean (notably Haiti, Honduras, Mexico, and Paraguay).

- In addition to bilateral TA, strategic assistance was also provided at a regional level, for example on aspects of establishment of a Central American Customs Union. The Fund participated in a number of joint workshops on trade facilitation with regional development banks such as the IADB. Additionally, RTACs delivered TA at the reform implementation level to a large number of countries in their respective regions, together with seminars, workshops, and training events organized on a regional basis.

- Some recent TA focused on broadening indirect tax base to compensate for lower trade-related revenue resulting from trade reforms—often related to the implementation of free trade and customs union agreements, and preference erosion. Recent examples include TA provided to the Maldives, Ethiopia, Burundi, Djibouti, Mauritania, and several Central American economies, the latter in the context of the Central America FTA (CAFTA-DR).

- The IMF has worked closely with the World Bank and other partners in support of the WTO negotiations on trade facilitation, the anticipated outcome of which is an agreement on minimum standards for many aspects of customs administration, and liaised with the World Customs Organization to ensure that its Framework of Standards to Secure and Facilitate Global Trade is appropriately reflected in the IMF's strategic advice to member countries engaged in customs reforms.

39. Fund financial support for trade liberalization: The Fund provides financing to help members to address their overall balance of payments needs, including those resulting from trade-related developments and shocks, as well as adjustment to trade-related reforms. Such assistance is available under the IMF's instruments including arrangements under the Fund's Poverty Reduction and Growth Facility, stand-by arrangements, and extended arrangements. Several recent PRGF arrangements with low-income countries have either been augmented to provide additional financial resources or have had initial access levels increased in response to higher food and fuel prices.

40. In addition, there are two instruments that allow the Fund to address specifically balance of payments impact of trade-related shocks and the necessary adjustments: the Trade Integration Mechanism (TIM) and the Exogenous Shocks Facility (ESF). The TIM was established by the IMF Executive Board in April 2004 as a policy to augment access to Fund resources under existing Fund facilities so as to mitigate short-term balance of payments pressures stemming from trade liberalization by other countries and support the related adjustments. Thus far, three countries (Bangladesh, Dominican Republic, and Madagascar) have activated this mechanism, with total approved financing amounting to SDR 141 million (about US$210 million) as of August 2008, of which SDR 55 million (about US$80 million) has been disbursed.

41. On September 19, the IMF's Executive Board approved changes to the ESF, which is designed to provide concessional financing to low-income members affected by sudden and exogenous shocks, including trade-related shocks. The amendments designed to provide financial assistance more quickly and with more streamlined conditionality will become effective upon consent of the contributors to the related trust. These amendments would introduce a rapid-access component in the form of an outright loan disbursement available under specified circumstances including the requesting member's stated intention to avoid exchange and trade restrictions in response to the shock. The amendments would also include a high- access component, available under an arrangement supporting a one-to-two year upper credit tranche-quality economic program.

42. Regular policy discussions and diagnostic analyses: Trade issues feature prominently in selected Article IV consultations, policy discussions surrounding Fund-supported programs, and Fund research.

- This includes consultations under bilateral and multilateral surveillance that cover members' own trade reforms, multilateral trade negotiations, and trade policy spillovers from actions of other economies and the appropriate adjustment of other policies to the trade policy environment.

- The Fund has been asked to facilitate discussions on regional integration in the Maghreb and on trade policy in the Central Asian Regional Economic Cooperation (CAREC) countries. It has taken the lead in organizing the work of CAREC's Trade Policy Coordinating Committee, and has organized, jointly with the ADB, two training workshops for the officials from CAREC countries on regional integration, multilateral trade liberalization, and trade in financial services.

- The Fund staff has presented to the Burundi, Tanzania, and Madagascar authorities a preliminary assessment of the fiscal implications for their countries of the customs tariff cuts under the Economic Partnership Agreements with EU. In addition, the Fund remains involved in the Enhanced Integrated Framework process in coordinating with bilateral donors and other international agencies to help least developed countries identify and implement policies and projects to facilitate their integration into the global trading system.

Annex I. Doha Negotiations: Evaluation of the Current Negotiating Texts

The July 2008 negotiating texts for NAMA and agriculture are sufficiently specific to permit a preliminary assessment of their implications if adopted. These texts have key parameters specified as ranges and other bracketed provisions. The compromise package proposed during the July 2008 ministerial was an attempt to resolve these uncertainties and settle on the final texts. Many of the parameters in the package were drawn from the July 2008 texts and represent a middle ground which attracted the support of many countries. However, at least some WTO members have not accepted that the final agreement should be constrained to fall within these parameter ranges and other elements of the current texts.

For NAMA (industrial tariffs), implementation of the July 2008 draft (factoring for the parameters in the compromise package) would include the following elements.

- A tariff-reduction formula would cut developed country average bound and applied tariffs by roughly a third over four or five years, with highest cuts in peak tariffs. As the peak tariffs tend to be on labor-intensive products, they are of particular interest to developing countries. The average bound tariff would be set at below 3 percent for all developed countries, with the maximum tariff on any item not exceeding 9 percent and possibly as low as 7 percent.

- A more generous (i.e., less liberalizing) formula would reduce tariffs of roughly 30 large or higher-income developing countries over eight to ten years. In many cases, a large gap between the WTO bound and the current applied rates would imply little or no cut in applied tariffs, notwithstanding the proposed large cuts in bound rates. Nonetheless, some advanced developing countries would have to reduce their applied rates on a significant number of industrial tariff lines, while, for others, the cuts would narrow the gap between bound and applied rates, limiting scope for any future tariff reversals. Developing countries would choose a combination of the formula parameter (depth of tariff cut) and amount of flexibility according to the sliding scale. These options would allow them to exclude, fully or partially, some goods from tariff cuts or opt out of such exclusions in exchange for shallower cuts across all tariff lines.

- Most developing countries (82 WTO members) would not be subject to either tariff-cutting formula. Least developed countries (32 WTO members) would not be required to make any cuts in bound tariffs. A further 50 small vulnerable economies, very recently acceded WTO members, and other groups of developing countries would also be exempt from the formulas, although some would have to increase the scope of tariff bindings and reduce binding levels closer to applied rates. Little, if any, reduction in applied tariffs is expected from these groups.

The draft modalities text on agriculture (with the parameters from the compromise package substituted for the bracketed ranges) currently includes four key elements.

- A formula would reduce bound agricultural tariffs. Developed countries would cut bound tariffs by about 50–70 percent over 5 years, with an average-cut of not less than 54 percent. Developing countries' bound tariffs would be cut by somewhat less than two-thirds of the cuts required of developed countries. Developed countries would be able to designate as "sensitive" about 4 percent of tariff lines (and developing countries a somewhat higher proportion), for which tariff cuts could be as little as one third of the formula amount. Since this might not lead to an opening of domestic markets for highly protected goods, countries would have to create new market access by expanding tariff rate quotas, which allow limited imports at lower tariffs.[49] Developing countries would in addition be entitled to self-designate certain "special" products for differential treatment (for reasons of food or livelihood security or rural development), exempting them, fully or partially, from tariff cuts. Furthermore, they could invoke the new SSM to impose temporary additional duties on any agricultural product. The SSM could be triggered if import price were to fall below or imports volume were to surge above certain thresholds.[50] Market access created through cuts in tariff bindings would vary across developed countries (large in the EU, significant but not dramatic in the United States), but be limited in most developing countries because of the existing gap between bound and applied tariffs and wide flexibilities.

- It would sharply reduce the developed countries' scope to provide domestic subsidies to agriculture. The subsidy limits would be lowered by 50 to 80 percent, with deeper cuts by countries with higher absolute levels of support (the EU, United States, and Japan in particular). While actual spending in many countries might not be seriously affected by the cuts—it has been relatively low in recent years due to strong farm revenues—the new ceiling could become more binding if agricultural goods prices were to retreat to lower levels. For the first time, countries would be bound by strict subsidy limits on individual crops, preventing them from concentrating subsidies on a handful of commodities.

- The draft modalities would eliminate all developed countries' export subsidies by 2013 (developing countries by 2016). Non-emergency food aid would have to abide by strict requirements so as not to encourage commercial displacement, while rules on export credits would be tightened, and trade-distorting practices of state-trading companies would be eliminated.

- Finally, the draft provides for deeper and more accelerated liberalization in cotton. Developed countries' cotton export subsidies would be scrapped immediately, while substantial cuts would be made in actual domestic support spending.

Assessment of the impact of other negotiations in the areas of services, trade facilitation and trade and the environment, and rules is more difficult.[51]

- Services negotiations have not proceeded to the point where the outlines of an agreement can be discerned and it is too early to provide an assessment of the potential impact of such an agreement. The chairman of the negotiating group has released brief

[49] The additional quotas would be allocated on an MFN basis, (i.e. made available non-discriminatorily to all interested WTO exporters). This is an improvement relative to the existing tariff rate quotas, which are allocated on a preferential basis, often (but not always) to partners within regional trade agreements.
[50] The disagreements in the July 2008 Ministerial were on the level of these thresholds and the extent to which temporary SSM-invoked tariffs could exceed their existing (Uruguay Round) ceilings.
[51] Martin, Will, and Aaditya Mattoo, 2008, "The Doha Development Agenda: What's on the Table?", Policy Research Working paper 4672.

reports on the negotiations detailing the steps that would be needed to reach agreement. 31 WTO members participated in the Signaling Conference to exchange indications on their own commitment offers as well as contribution expected from others. While the conference was viewed as a success, the scope and level of ambition of a services agreement remain unresolved. Discussions on specific services commitments will continue once the Doha Round negotiations resume.

- Negotiations on trade facilitation and trade and the environment are at a more advanced stage, but any assessment of the impact of a potential agreement would be necessarily subjective. WTO Director-General Lamy reports that negotiations on these issues as well as on special and differential treatment for developing countries are advancing, although draft modalities texts have yet to be published. He notes that negotiations on Trade-Related Intellectual Property (TRIPs) have been lagging behind other areas, and negotiators have not yet engaged on the substance.

- Rules negotiations have produced a text, but were not part of the July 21–29 Ministerial discussions. The text proposing amendments to the antidumping (AD) and subsidies and countervailing measures (SCM) agreements was issued by the negotiating group chairman in November 2007, with a further compilation of proposals in May 2008. The main innovation in that text is the proposed addition of an annex on fisheries subsidies to the SCM agreement. The key stumbling block to a compromise in rules appears to be a disagreement on the provisions governing antidumping measures, particularly the US practice of “zeroing”.[52]

[52] In calculating the dumping margin of a product (that is the average of the differences between the export prices and the home market prices), the practice of zeroing consists in putting a value of zero on instances when the export price is higher than the home market price.

Annex II. Trade Policies: A Taproot of the Global Food Price Crisis

The global food price crisis had deep roots in the distortions of the world trading system. Historically, agricultural trade-distorting policies have taken the form of specific and ad-valorem tariffs that are sometimes linked to quantities of imports (i.e., tariff rate quotas); quantitative restrictions or prohibitions on imports and exports; and domestic producer supports and export subsidies for farm products. Countries have also availed themselves of additional restrictions in the form of safeguard protection in case of import surges. The trading system in agriculture is further distorted and segmented by the existence of trade agreements, whereby preferential tariff rates and/or market access conditions are offered on a reciprocal or nonreciprocal basis to a subset of partner countries. Overall, the trading system in agriculture is nontransparent, discriminatory, and highly distorted.

More recently, biofuel policies in high-income countries, which consist of import duties, subsidies, tax credits and legislative mandates, have had the effect of further distorting global agricultural trade and contributing to the global food price crisis. Biofuel production in the United States from food crops such as maize and soybean oil and in the EU from rapeseed and sunflower seeds oil have fuelled the rise in food prices by increasing the demand for these food crops and shifting land out of other crops. In the last three years, 5 million hectares of cropland that could have been used for wheat have gone to rapeseed and sunflowers for biofuels in major wheat producers, including Canada, the EU, and the Russian Federation. Increased demand for biofuels is estimated to account for 70 percent of the increase in corn prices and 40 percent of the increase in soybean prices.[53] Though oil prices may have been somewhat higher in the absence of biofuels, these subsidies do not promote economic efficiency as an offset to their inflation impact.

The combined impact of these trade-distorting agriculture policies has been to displace and reduce the efficiency of agriculture production globally. While trade measures are introduced for a wide range of domestic motives (e.g., economic, social, environmental, security), they are mostly welfare-reducing—both in the country applying them and in the rest of the world—relative to direct first-best policy instruments for achieving those domestic objectives.[54] In distorting the incentives producers and consumers would otherwise face, they are also welfare-redistributing and inherently discriminatory. By promoting less efficient production in developed countries at the expense of investment in generally more efficient production in developing countries, world food prices have been kept artificially low, and domestic food prices in protected markets have been kept artificially high. Policies in developing countries have, until recently, generally taxed agriculture to channel resources into manufacturing, with the result that investment in increasing supply has not been adequate to provide for rapid responses to global price spikes. Furthermore, because agricultural production has taken place in relatively inefficient, thin, and insulated markets, global trade in food products is less resilient to exogenous shocks and less able to handle volatility in terms of trade and output.

[53] IMF, 2008. Remarks by John Lipsky, First Deputy Managing Director, International Monetary Fund, at the Council on Foreign Relations, Commodity Prices and Global Inflation, New York City, May 8, 2008.
[54] Bhagwati, J. N. 1971. “The Generalized Theory of Distortions and Welfare.” In Trade, Balance of payments and Growth, ed. J. N. Bhagwati et al. Amsterdam: North-Holland.

Annex III. A Brief History of the Integrated Framework

The Integrated Framework (IF) for Trade-Related Technical Assistance to least-developed countries (LDCs) is a process that was first established in 1997 to support LDC governments in trade capacity building and integrating trade issues into overall national development strategies.

Through the IF, the participating agencies (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) combine their efforts with those of LDCs and their other development partners to respond to the trade development needs of LDCs so that they can become full and active players and beneficiaries of the multilateral trading system, thereby enhancing their economic growth and poverty reduction strategies.

Drawing from its experiences in its first years, the IF was first restructured in 2000 with a view to better (i) mainstream trade into the national development plans such as the Poverty Reduction Strategy Papers (PRSPs) of LDCs; and (ii) assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified by the LDCs. Other key elements for the revamped IF were (i) improved governance structure with the establishment of the Integrated Framework Steering Committee (IFSC) and the expanded IF Working Group (IFWG) for better coordination amongst donors, beneficiary LDCs and the agencies; (ii) the establishment of the IF Trust Fund, which finances mainstreaming work, led by the World Bank but also follow-up activities from the studies; and (iii) improved coordination of the delivery of trade-related technical assistance amongst bilateral and multilateral donors within a coherent policy framework.

In September 2005, the Bank and Fund presented the Development Committee and the IMFC, at their request, with a paper proposing enhancements to the Integrated Framework. Subsequently, in June 2006 an IF Task Force formulated a set of recommendations for addressing these shortcomings and laid the groundwork for a new Enhanced Integrated Framework. At the Hong Kong Conference, WTO Ministers welcomed the establishment of a Task Force by the IFWG and IFSC as well as an agreement on the three elements, which together constitute an enhanced IF: (i) increased, additional, predictable financial resources to implement Action Matrices; (ii) strengthened in-country capacities to manage, implement and monitor the IF process; and (iii) enhanced IF governance.

In May 2007, the two IF governing bodies (i.e., the IFWG and IFSC) adopted a package of recommendations to start the implementation phase of the enhanced Integrated Framework (EIF). The package, comprising a compilation of working documents setting out the terms of reference and procedures to access funding and of the bodies that constitute the EIF, was the fruit of 19 months of intense work in the Transition Team and its three clusters, which were set up to operationalize the recommendations of the Task Force on an enhanced IF. The recommendations also include, inter alia, a road map outlining the next steps in order to ensure a smooth transition from the current IF to its enhanced phase.

Since May 2007, the IF interim Board has taken up the work from the IFWG and driven the enhancement of the IF forward. In September 2007, a pledging conference was held for the enhanced IF Trust Fund, and 22 donors present in Stockholm pledged US$170 million for the five-year tenure of the EIF. Since then, a further US$3 million has been pledged. Further work of the IF interim Board included the selection of a trust fund manager (TFM) for the Enhanced

IF Trust Fund (EIFTF). A call for proposals was issued in December 2007, and the UN Office for Project Services (UNOPS) was selected as TFM in April 2008. Currently, provisions for the operationalization of the TFM are under way with a view to have the EIF operational by the fall of 2008. In July 2008, the IF interim Board selected Dorothy Tembo, the director of foreign trade in Zambia's Ministry of Commerce, as the IF Executive Director (ED) and head of the IF Executive Secretariat (ES), which is to be administratively housed by the WTO.

The Bank and the Fund have participated actively in the development of the EIF, presenting its views and working with others in an effort to make the new structures as effective as possible. The Bank's main role in the new structure will be to act as technical advisor and to provide other forms of support as needed; it is no longer responsible for leading the DTIS process. There remains scope for the Bank to be engaged with the EIF at the country level in case where the government has made trade a priority in its national development strategy and seeks Bank involvement. As has been the case under the IF, the Fund's main role will continue to be acting as a technical advisor.

Annex IV. The Multi-donor Trust Fund for Trade and Development

In November 2007, the World Bank's Trade Department launched the Multi-donor Trust Fund for Trade and Development (MDTF-TD) to provide additional resources in support of the Bank's trade strategy to (i) make the world trading system more conducive to development; and (ii) help countries benefit from increased globalization. The trust fund is financing trade-related activities that contribute to growth and poverty reduction at the country, regional and global levels. It enhances the Bank's capacity to:

- respond to client demand for trade-related technical assistance and capacity building;
- develop analytical tools to assist countries to define trade policy strategies;
- expand research and datasets on trade topics of importance to developing countries;
- diffuse knowledge on international trade to developing countries;

The MDTF is an important resource for implementing the expansion of the World Bank's trade program that President Zoellick announced in November 2007 at the WTO. It also supports and complements other major trade-related efforts, especially the Enhanced Integrated Framework for Trade-Related Technical Assistance (EIF) and the Aid for Trade initiative.

The current three contributing donors to the MDTF-TD—Sweden, the United Kingdom, and Norway—have agreed to contribute approximately $30 million over three years (2007–10). Approximately 70 percent of funding provides direct support for country and regional programs through a programmatic approach based on client demands on trade: Currently sub-Saharan Africa receives 55 percent of funds allocated to the Regions, and the other five Regions each receives 9 percent. The remaining 30 percent of resources supports a multi-year program of public goods (e.g., benchmarking, research, and developing new training programs), which are undertaken by the Bank's Trade Department

The MDTF-TD supports wide range of trade-related activities, including diagnostics, project preparation, capacity building, and technical assistance. Although it does not have sufficient resources to finance the investments needed to build trade-related infrastructure and supply-side capacity as discussed in the context of the Aid for Trade initiative, it can finance the full range of advisory and technical inputs needed to make such investment projects effective.

In its first year of operation, the MDTF-TD has supported work in many low income countries and regional projects. Some examples of work include a comprehensive program on trade in services in Africa, mainstreaming trade and competitiveness in Cote d'Ivoire, Tanzania, and Madagascar, a regional study on service trade in South Asia, an assessment of trade facilitation and logistics in Mongolia, and new research on agriculture, poverty with a focus on gender. Technical assistance on trade policy reform in the MENA Region has helped provide the impetus for new trade-related lending, e.g., in Tunisia. The trust fund has a strong results focus and within the three-year timeframe activities are expected to inform Bank policy dialogue and provide lessons for pipeline lending operations.