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Fit for Purpose?

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Abstract

In 2011 the World Bank Group (WBG) issued a new trade strategy. This identifies the primary axes for WBG engagement and support activities and areas where action is likely to have the greatest positive impact in terms of helping developing countries to integrate further into the world economy and to benefit from global trade opportunities. This paper briefly discusses the rationale for the development of a strategy and some criticisms that have been directed at it, in particular the view that the strategy neglects to prioritize trade liberalization and as a result is less effective.

Keywords

World Bank, trade, development, strategy, economic development, policy advice, development assistance.

JEL codes: F13; O19; O24

Introduction*

In 2011 the World Bank Group (WBG) issued a new trade strategy (World Bank, 2011). This lays out some of the major trends and developments that have affected global trade flows and the main challenges confronting developing countries in the trade area, and identifies the primary axes for WBG engagement and support activities. The trade strategy seeks to identify areas where action is likely to have the greatest positive impact in terms of helping countries to integrate further into the world economy and to benefit from global trade opportunities, and more specifically to ensure that what the WBG offers in terms of products and services is responsive to the demands of its clients. The strategy is a product of extensive external consultations (with governments and civil society groups in developing countries, development partners, other international organizations, business associations, etc.) as well as internal deliberations within the institution.

An important rationale for developing a trade strategy was to hear from governments what they are looking for in terms of support from the WBG and to determine whether the services that the Bank was providing were appropriate. An equally important motivation was to use the process to identify potential efficiencies – both internally (e.g., overlaps and redundancies as a result of different units in the WBG providing very similar services and products) and externally (e.g., overlaps with what other IOs do). One result of the trade strategy was to propose the establishment of new coordination mechanisms within the WBG to improve communications and cooperation across different groups within the institution that work on trade issues. For example, one such entity that was created after the trade strategy was approved by the World Bank’s Board of Executive Directors was a Global Expert Team on trade facilitation and logistics, spanning expertise drawn from different units in the WBG networks, with the mandate to cut across the various organizational silos that exist to become the focal point for operational expertise and assistance in this area.

This note discusses the WBG trade strategy from the perspective of someone who was closely involved in its development.¹ It is inspired by the article by Mike Finger (Finger 2013), who argues that the strategy potentially does harm to developing countries by neglecting to prioritize trade liberalization. The discussion is limited to a number of the specific issues raised by Finger.

The world has changed – and so has the World Bank

Finger (2013) argues that “the World Bank Trade Strategy provides no strategy for how developing country trade restrictions will be further reduced and an accepting attitude toward institutional structures in which protection-seekers have enjoyed the advantage in the past.” It is somewhat disturbing that such a conclusion could be drawn, as much of what is proposed in the trade strategy aims at reducing the trade constraints that firms and farmers in developing countries confront daily. However, these constraints go beyond those that result from trade policy instruments such as tariffs and quotas. In most countries today the average applied import tariff is 10 per cent or less. There are of course tariff peaks for some “sensitive” products, and these can generate significant distortions (Laborde et al, 2011), but in many (most) countries traditional trade policy is no longer a key source of anti-trade bias. Finger is fully aware of this and notes that an implication is that it becomes more important to “maintain sufficient momentum so as not to slide back – to manage pressures [for] “exceptions” to a generally liberal regime.” He argues that the Bank does not see this as a priority.

* Robert Schuman Centre for Advanced Studies (Global Governance Programme). I am grateful to Mike Finger for several discussions on the World Bank’s trade activities and to Sebastian Saez and Alan Winters for comments on an earlier draft.

¹ The author was Director of the World Bank’s International Trade Department until February 2013.

The statement in the trade strategy that the WBG is moving away from programs *anchored* (emphasis added) on trade liberalization is simply factual and reflects the extensive liberalization that has occurred since the mid-1980s. It often will not make sense to seek to anchor WBG support programs (i.e., loans or technical assistance) on trade liberalization as traditionally defined because the average level of protection is low. Instead, the focus is increasingly on other sources of anti-trade bias – such as high transactions and operating costs that are due to inefficient Customs and border management; dysfunctional international transit regimes; (internal) chokepoints along transport corridors; high cost (or non-availability) of services inputs; etc. Such factors negatively affect the competitiveness of firms and can generate large anti-trade biases. This is why the trade strategy emphasizes them.

This does not mean that tariffs and their distorting effects are ignored. They are not. Nor does it mean that the Bank shies away from doing analysis on the structure of protection across countries or advocate for reforms that would enhance the contestability of markets for foreign firms. A quick look at the Policy Research Working Papers on trade, the publications in the World Bank's Trade and Development series and the outputs of recent projects that focus on trade policy – defined to include services trade and investment – should lay to rest any notion that staff ignore the incentive effects of trade policy measures taken by developing countries.² The WBG continues a long tradition of generating information on – and analysis of – trade-related policies, which has been extended in recent years to go beyond measures affecting trade in goods to include services trade restrictions.

Extensive research by the Bank in the last decade has pointed to the importance of trade and investment in services as a mechanism to lower the cost and increase the variety of producer services (see Francois and Hoekman, 2010, for a survey). A new Services Trade Restrictiveness Indicators (STRI) database measures the extent to which governments discriminate against foreign suppliers of services (Borchert et al. 2012). A massive project completed in the late 2000s measures the magnitude of agricultural market distortions around the world (Anderson 2009). These products are complemented by an international effort to improve the quality of data on nontariff measures – the Transparency in Trade Initiative (a joint venture with the AfDB, ITC and UNCTAD; see e.g., Cadot et al., 2012) – and the inclusion in the annual *Global Monitoring Report* of measures of the overall trade restrictiveness of countries (Kee et al., 2009). All these projects and products aim to increase information on the level of prevailing trade barriers and to support analysis of their effects. They also feed into the Country Policy and Institutional Assessment (CPIA) indicators that play a role in determining access to the Bank's concessional resources. The restrictiveness and more generally the “quality” of a country's trade regime is one determinant of CPIA scores.

Among the priorities for Bank activities/support identified in the trade strategy are (i) helping firms in developing countries improve their trade competitiveness, and (ii) focusing on trade facilitation and transport/logistics improvements. Both involve complex, multi-dimensional challenges that include but go beyond trade policy. The impact of the trade regime is considered explicitly in the Bank's competitiveness diagnostics (see Reis and Farole, 2010), as trade policy can be a major source of distortions. Trade policies also figure in WBG activities that centre on trade facilitation/logistics. An example is improving border management – which includes a focus on streamlining nontariff measures and reducing the trade-impeding effects of product regulation and revenue collection (McLinden et al., 2010; Cadot et al., 2012).

The increasing recognition of the importance of reducing the costs of accessing and transiting neighbouring markets helps to explain why developing countries have become much more active in participating in regional integration agreements. The greater prominence of regional integration in the trade strategy reflects this – one recurring theme in the consultations that were held was the call for the

² See, e.g., Anderson (2009), Bown (2013), Bown and Crowley (2013), Bruckner and Lederman (2012), Cadot and Malouche (2012), Datt et al. (2011), Hoekman and Nicita (2011), Laborde et al. (2011), World Economic Forum et al. (2013).

WBG to provide more support in this area. Regional integration is one instrument to lower the costs of transport for land-locked countries—e.g., by making transit regimes more effective (Arvis, Raballand and Marteau, 2010). That said, while regional integration is becoming more prominent in WBG trade activities, as in the past, the main focus is on autonomous, unilateral reforms.

Integrating trade policy into national development strategies

Finger argues that the call in the trade strategy for integrating trade policy in national development strategies is a mistake. He argues that “the success of the GATT system to support a country to reduce and to discipline its trade barriers is often attributed in its separating trade policy from the general politics of social and economic policy.” The GATT (and the WTO) rules do not extend to non-trade policies and this is argued to be a good thing insofar as it implies that the redistributive dimensions of trade policy do not enter into the equation. This is certainly a feature of the WTO and of any trade agreement – in that the focus is on trade policy commitments and disciplines, leaving it to governments to use other instruments to achieve distributive objectives. This is also the premise of the WBG trade strategy, which does not argue that trade policy should be designed to achieve such goals. But does it make sense to conclude from this that trade policy should not be part of a national development strategy? A premise of the Bank’s trade strategy is that it is important that trade issues figure in the process of determining the priorities of a government as this defines how public resources are allocated to different sectors and activities. The absence of a national trade strategy that defines objectives and priorities could result in trade-related investments and desirable trade reforms not being given the attention they deserve from a national growth and development perspective.

Does an emphasis on partnerships imply disengagement?

The Bank trade strategy puts emphasis on partnerships as one instrument of implementation. This does not imply disengagement by the WBG as suggested by Finger – to the contrary. Nor is it the case that partnerships mostly involve bilateral development agencies. While Bank trade staff certainly are in regular contact and work with donors, the partners that are alluded to in the trade strategy are very diverse, and include other international organizations such as the World Customs Organization, the International Trade Centre, UNCTAD and other specialized UN agencies, the regional development banks, policy research institutes and networks in developing countries, regional economic communities and their secretariats, and the business community. The Bank has no monopoly on expertise and has finite resources. It is common sense to interact and work with other institutions in the delivery of assistance and the pursuit of projects and programs.

Managing openness and pressures for protection

In contrast to what is argued by Finger (2013), the strategy does not take the view – implicitly or explicitly – that import policy is the appropriate instrument to deal with shocks.³ That said, I would agree with Finger that the trade strategy does not accord enough attention to managing pressures for

³ I will not address Finger’s views on the informal discussion note prepared as background for an off-the-record brainstorming discussion at the World Bank on what, if any, might be the implications for trade work of adoption of a possible “shared prosperity” performance target for the institution. Finger’s inferences regarding the relationship between that background note and the WBG trade strategy are misplaced as the premise of the trade strategy is not that trade policy is seen by World Bank staff as an instrument of redistribution; the premise is that trade expansion is part of the growth agenda by enhancing access to goods, services and technology (knowledge) and encouraging the allocation of resources to more efficient firms. Equity measures beyond an overall poverty reduction goal – in line with the WBG’s overall objective – do not figure in the results matrix of the trade strategy, reflecting the view that trade policy is not an effective instrument to achieve distributional objectives (Winters et al. 2004).

protection. There are two issues here – the form that such pressures are likely to take (i.e., the type of instruments that may be requested by petitioners for assistance), and the identity of the groups that are affected by international shocks and/or liberalization of goods and services markets.

Traditional forms of contingent protection (safety valves) – such as higher tariffs (when permitted given commitments made in trade agreements), antidumping and safeguards – are increasingly less effective instruments of support for import-competing industries as a result of international supply chains. The fragmentation of production – driven in part by FDI into developing countries, in turn facilitated by advances in ICT services and the associated reduction in communications and coordination costs – implies that the incentives to maintain high tariffs on imports have fallen. This does not mean that governments will not pursue nationalist economic policies – to the contrary.

But the type of instruments that traditionally have been used – import protection – often will have little useful role to play unless a country does little in the way of vertical intra-industry trade.⁴ What this suggests is that the focus should be on other instruments that governments may use and the degree to which these are distortionary. This is not a major focus of attention at the moment; arguably it should be.

The second dimension of managing the adjustment pressures associated with openness concerns the groups that are affected. These extend beyond import-competing firms and industries. Certain groups in society may be more vulnerable to external shocks or have a greater stake in ensuring access to world markets (e.g., to ensure continued access to lower cost food). The discussion in the Bank trade strategy of the need to take into account the needs of vulnerable groups is intended to flag the importance of complementary policies to assist such groups – it is not intended to imply that trade policy should be designed or used to shelter such groups or to improve the distributional consequences of trade reforms. Instead the aim is to ensure that more attention is given by other parts of the WBG to supporting the trade agenda: through, e.g., the design of complementary measures such as safety nets by those who work on social programs; by recognizing the role that trade liberalization can play in achieving greater food security and reducing the volatility of world food prices; or by paying more attention to gender-specific constraints that have detrimental impacts on competitiveness and trade performance and the role that trade facilitation can play in creating economic opportunities for women.

Can the World Bank do better?

Any organization like the WBG that pursues a very large number of disparate activities can always do better. This was in fact a major motivation for drafting a trade strategy and the various initiatives that have subsequently been put in place to implement it – especially internal measures that aim at creating incentives for staff across the WBG to work together more effectively in responding to government requests for assistance. My take is that the WBG is doing better than it was a decade ago in providing support in the trade area. In the late 1990s, the only dedicated unit working on trade matters was a small team in the Development Research Group (the WBG's research department). Since then the magnitude of Bank lending for trade projects has more than tripled (World Bank, 2011) and there is today a vibrant portfolio of trade projects and activities in all of the Bank's regions, supported by a central trade department.

⁴ Argentina is a noteworthy example. The 2008 financial crisis and subsequent global recession illustrated the change in the incentives to use traditional import protection instruments. Unlike what happened during the global recession of the early 1980s when there was widespread resort to 'voluntary' export restraints and quantitative restrictions for products such as cars, textiles and steel, the 2008 crisis did not lead to widespread protectionism. Gawande, Hoekman and Cui (2011) show that the intensity of vertical specialization helps explain this. Bown (2011) provides a detailed overview and analysis of the use of contingent protection post 2008, using the World Bank's Temporary Trade Barriers database – which is another example of an on-going WBG effort to monitor and analyse trade policy developments around the world.

The focus of the WBG, whether in trade or other areas, is closely centred on responding to requests from governments, i.e., they are “demand driven.” This contrasts with so-called “supply driven” activities that are initiated by staff, a label that increasingly has strong negative connotations inside the institution. Clearly it is desirable that any activity undertaken by a public international institution address priority issues, and requiring that specialized staff such as the Bank’s trade economists respond to explicit requests from country teams is a straightforward way of ensuring that what is done is relevant. But it does have potential downsides: (i) it may result in insufficient attention being given to areas of economic policy – including trade policy – that are politically sensitive or controversial at country level; and (ii) it makes it more difficult for the institution to generate public goods.

Fewer internal resources are being allocated by the WBG to the types of activities that were more prominent in the 1990s and early 2000s, such as global analyses and advocacy for policy reforms that would improve global welfare. In part this is a reflection of the necessity to demonstrate tangible impacts of development assistance activities. The “demand test” that determines what staff work on – the need to have a “client” who asked (and paid) for a specific piece of work or service – implies not just less supply of global analysis (“public goods” that country teams are not inclined to allocate resources for) but may also reduce the supply of country-specific analysis and policy dialogue on national trade regimes than was the case in the past – the type of work where “the Bank used to be big,” to paraphrase Finger.

What this points to is a need by management to balance responding to requests from countries with “supply driven” initiatives that generate public goods and specific analysis of national policies in instances where this is not requested (and may not be desired) by governments. I am in full agreement with Finger that it is important for an institution like the WBG to “be useful” by pointing out hard truths as regards the distortive and growth-impeding impacts of prevailing and proposed trade policy measures in countries. An important role central units in the WBG can and should play is to put such hard truths on the table. Governments – the primary clients for World Bank services – are not omnipotent, unchanging or unbiased. A willingness to support reformers in a country, whom incumbent governments might not like, and, more generally, those who are harmed by distortive trade-related policies can only be useful from a development perspective.

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